

## Economic Systems in Comparison: Free Market versus Social Market Economy

**Event:** Regional Workshop

**Date/Place:** March 13th and 14th 2010, Talal Abu Ghazaleh College of Business - Amman

**Concept:** Dr. Peter Uecker, Dr. Talah Arabiyat, Dr. Martin Beck

**Organisation:** KAS Amman, Talal Abu Ghazaleh College of Business, German Jordanian University

### 1. Program Overview

**Saturday, March 13th, 2010**

**Opening: Welcome Speech and Introductory Note**

*President, German-Jordanian University*

*Dr. Labib Khadra*

*Resident Representative KAS Amman*

*Dr. Martin Beck*

**Session I:**

**Comparison of Social Market Economy and Free Market Economy  
Jordan's Transition to Market Economy: Prospects and Challenges**

*General Director,*

*Deposit Insurance Corporation*

*Dr. Mohammed Ja'fari*

**Social Market Economy: German Experience and Perspective**

*Professor of International and Monetary Economics*

*University of Applied Sciences Kaiserslautern*

*Dr. Marc Piazzolo*

*Chair / Moderator*

*Dean, Talal Abu Ghazaleh College of Business*

*Dr. Hesham Gharaibeh*

**Student Working Groups**

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**Sunday, March 14th, 2010**

**Session II:**

**Comparative Economic Systems in the Context of National and International Challenges**

**Competing Economic Systems:  
From Planned Economy to Market Economy**

*Vice President, German-Jordanian University*

*Dr. Peter Uecker*

**The German Social Market Economy: Is it an Option for Jordan?**

*Assistant Professor,  
American University of Beirut*

*Dr. Marcus Marktanner*

*Chair / Moderator  
Jordan Investment Board*

*Dr. Awni Mufleh*

**Student Working Groups**

**Closing Session and Students' Presentation on the working groups**

*Vice Dean,  
Talal Abu Ghazaleh College of Business*

*Dr. Talah Arabiyat*

*Resident Representative  
KAS Amman*

*Dr. Martin Beck*

## **2. Objectives**

The German concept of Social Market Economy carries a great inherent opportunity also for the economic policies of the Near East. The idea of preserving a free market mechanism while offering a social balancing system provides a shining example for countries like Jordan to model itself on a possible economical and social basis. The transfer of the social market economy to countries of the MENA-region is, however, quite difficult. Cultural, Historical and socio-economic differences as well as institutional path dependence are strong parameters which could shape decisively the transitional process. During the two days lasting work-

shop of March 13<sup>th</sup> and 14<sup>th</sup>, 2010, organized by the Amman office of the Konrad-Adenauer-Foundation, the Talal Abu Ghrazaleh College of Business (TAGBC) and the German-Jordanian University (GJU), over 50 participants from the private, scientific and education sector discussed the concept of social market economy. One important question which aroused in this regard was whether this German economic concept could be regarded as a suitable model for the Jordanian economy.

Four keynote speakers introduced on both workshop days the students of GJU's faculty of Economics into the topic of social market

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economy in comparison to the Jordanian market economy. Subsequently some selected trainers like **Dr. Markus Marktanner** or **Dr. Ghazi Samawi** led discussions on topics such as "Social Market Economy – A Model for Jordan?" or "General Characteristics of the Jordanian Economy" in different working groups. The students presented at the end of the workshop their independently compiled work results and discussed these with the participating experts.

### 3. Details

**Dr. Labib Khadra** underlined in the opening session of the workshop the essential role of universities in imparting knowledge on democratic and social values. He considered the workshop of KAS, TAGBC and GJU as crucial for enhancing a cross-cultural awareness of the social market economy in the Arab World. **Dr. Martin Beck**, resident representative of the Konrad-Adenauer-Foundation in Amman, adverted the participants, after a general welcoming and acknowledgement to GJU and TAGBC, to the "Guidelines for Prosperity, Social Justice and Sustainable Economic Activity" and highlighted the role of the subsidiarity and solidarity principles.

**Dr. Uecker** dealt with the participation of the GJU students at the workshop. Contrary to the previous events with KAS, this time the students were granted the opportunity to participate actively in the workshop "as a suitable preparation for their future professional live".

**Dr. Al-Ja'fari** discussed various aspects of Jordan's transition to a market economy. Tough economic, political and social reforms had initiated this transition in recent years, the Jordanian socially responsible economic system faces huge challenges due to the global financial crisis. In exemplifying the critical economic situation of the Jordanian economy during the 1970ies and at the beginning of the 1980ies, **Dr. Al-Ja'fari** explained the structural and politico-economic problems of the country, which decisively affected the economic growth throughout the year 2009 negatively.

At the beginning of the oil crisis in the 1970ies and after the seconded shock caused by the Iranian Revolution in the 1980ies the Jordanian economy has gone through hard times. Jordan witnessed the devaluation of the Jordanian Dinar by 50%, real GDP contracted by 13%, while inflation jumped to over 25%. Unemployment nearly doubled to about 20%. The most damaging impact was on poverty: the percentage of the population below the poverty line increased to 14.4% in early nineties. This slowdown in economic activity and the significant macroeconomic instability were dragged by the International Monetary Fund's stabilization programs which focused mainly on the demand side and managed to restore and maintain the fiscal and monetary stability. However, these measures did not manage to build a solid foundation for sustainable economic growth. Only after institutionalizing a cooperation agreement between the private and public sectors in the 1990ies and the formation of the Economic Consultative Council has the transition to social market economy in Jordan started thanks to liberalization plans, free trade agreements and privatization programs.

According to **Dr. Al Ja'fari** the Jordanian government should undertake measures to strengthen the political infrastructure, especially to improve the government functioning and the participation of the political community, in order to avert the impact of the global financial and economic crisis.

**Dr. Marc Piazo** revealed in his speech the historical development and the main objectives of the social market economy in Germany. On the basis of different graphs and statistics he showed that the social market economy enjoys high acceptance among the German population and that it performs well in the international comparison regarding the gross domestic product, the national debt, the unemployment rate, the social security services and the income inequality. In the following discussion participants and experts debated the question if a deregulation of the exchange rate could improve the stagnant economic situation in Jordan. According to the experts it is clear that the settlement of the exchange rate

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reduces speculation and stabilizes the exchange rate expectations. A controversy arose over the question whether the Jordanian economy was disadvantaged by the privatization process. **Dr. Al Ja'fari** was of the opinion that some privatization measures should be reconsidered and that the free trade agreements should be also opened to privatization.

Following the discussion, the students were divided into working groups and assigned to the trainers. Dr. Markus Marktanner worked with his student group on the concept of the Washington Consensus using the example of the transition from Arab socialism to free market economy. The outcome of the intergroup teamwork groups was summarized in a panel discussion. The students pointed out that a gradual stabilization of the economy, politico-economic liberalization, deregulation and privatization will lead to a sustainable economic growth and a consistent democratization process. They also highlighted the importance of social services for a sustainable societal development.

In the working group of Dr. Ghazi Samawi the students confronted the advantages and disadvantages of the Jordanian economy. The small, opened, mixed and state controlled economy is of best advantage for Jordan. The high state expenditures, the low demand, the export of skilled labour force and the lack of crucial resources affect Jordan's economy adversely.

After a short welcoming speech **Dr. Awni Mufleh** opened the second session on March 14<sup>th</sup>, 2010, with a statement on the different market systems which were discussed during the first day of the workshop.

He emphasized the importance of these comparisons between different market systems and said that they help understanding the concept of social market economy. **Dr. Uecker** addressed the specific social and political circumstances which led to the German *economic miracle* and the development of the social market economy. The transformation process of the German society and economic system, which destroyed the outworn political and economic struc-

tures, was the result of the consequences of World War II.

Following the description of his personal experiences with the transition from the national socialist economic system in Germany to the *economic miracle* in the 1950ies and 60ies and the development of the social market economy, the workshop was temporarily interrupted. The participants were granted the unique opportunity to assist the signing of a cooperation agreement between the Talal Abu Ghazaleh Organization and the World Trade Organization (WTO) in the presence of **Mr. Talal Abu Ghazaleh** himself.

**Dr. Marcus Marktanner** continued the workshop afterwards analyzing whether the concept of social market economy is a suitable model for Jordan's economic system. He gradually defined the principles of the social market economy and went on explaining the concept of Ordoliberalism. In the following he explored the question which sectors are regulated by the social market economy and how this economic order differs from others. He finished his lecture remarking that due to its low income inequality, the strong market openness, the high tax revenues and despite its difficult geopolitical and geo-economic position in the region, its high trade deficit and rate of inflation Jordan comes very close to the social market economy.

In the closing discussion the participants and experts discussed the reasons why Jordan showed such a positive economic progress over the past years. The experts identified the open political climate and the strong political will as chief causes for this change in economic policy structures. The reform process was not so much dependent on the form of government but rather on the articulation and implementation of the political will.

In the working groups the students completed their presentations and presented their results in the following discussion to the audience. The students were given on this ground a certificate with a grading for their active participation at the workshop.

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#### 4. Conclusion

The workshop showed that the exchange on the concept of social market economy requires substantial further discussions among students and experts in Jordan.

The group working revealed that the students appreciated the active participation at the discussions with the experts and that they gained new useful information.

Indeed, the presentation of the student's working results showed clearly that uncertainty persists among the students on the differences between social market economy and free market economy.

Further projects of KAS in cooperation with GJU and TAGBC should be organized in order to enhance the understanding of the concept of social market economy among the future decision-makers. The involvement of international experts and trainers is crucial in workshops on this subject as it is important to work out the differences between the German social market economy and other regional economic systems.

The mixed and committed audience of students, teachers and experts of the private sector contributed positively to the workshop atmosphere.

The topic of the social market economy meets a huge response in Jordan as it is considered a possible future model for the Jordanian economy and society. The participation of the president and the vice president of the GJU and the visit of **Mr. Talal Abu Ghazaleh**, one of Jordan's most important representatives of the private sector, have contributed to the workshop in underlining its importance. The outcome of the KAS-GJU-TAGBC workshop can be qualified as a huge success in terms of the active interest, the student working groups and the highly qualified discussion contributions by experts and participants.