

**Speech by**

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**On the occasion of the conference**

**Walking the Tightrope: Balancing State, Market and Society**

**Tuesday, September 20<sup>th</sup>, 2011**

**Accra, Ghana**

1. I am delighted to be back in Accra and I am honoured to speak to you on the occasion of the official inauguration of the John A. Kufuor Foundation.
2. In its 2011 Report the Africa Progress Panel, chaired by former UN Secretary General Kofi Annan, made the following statement "What was termed 'the hopeless continent' ten years ago has now unquestionably become the continent of hope." And according to this report Ghana is expected to be among the world's ten fastest-growing economies. I was glad to hear about this and I would like to congratulate you and your country.
3. Of course those high expectations for Ghana are partly due to the newly acquired oil revenues – and I will get back to this later – but also to remarkable steps towards a sound economic development which had been undertaken by Ghanaian governments and to the creativity and diligence of the Ghanaian people.

Dear John, although it has been now for more than two years that you are out of office, we know that a lot of the progress which Ghana is making today still goes back to wise decisions under your leadership. I just would like to highlight the intense discussions we had on debt relief when I was still the Managing Director of the International Monetary Fund. The measures that you implemented to that end were not always easy – actually rather controversial - but I think that the course of events has shown that it was the right thing to do at that time.

4. Today here in Accra, I want to seize the opportunity of this conference to report to you about some of Germany's experiences with the concept and practice of the Social Market Economy. But I don't understand what follows as a blueprint for a Ghanaian Social Market Economy. Circumstances differ obviously between Ghana and Germany. And whatever decisions Ghana takes regarding the economic and social development it should be based on your own roots and ideas.

As a matter of fact, over the last years I got more and more humble, when I was learning about the rich and diverse African traditions which determined political, social and economic rights even centuries ago. For example, most recently I had become aware of the Kurukan Fuga which served as a kind of constitution of the Mali Empire going back to the 13<sup>th</sup> century and which has been preserved through oral tradition. It afforded uniform

rights for all citizens including women and slaves, for example protecting the right to life and preservation of its physical integrity, as well as stressing the importance of children's education.

I would like to see Germans and Europeans to know more about these ideas and cultural roots of African Peoples. Then it might happen that we detect and appreciate even more how much we have in common and what Europeans can learn from Africans. We all know that Africa was the cradle of mankind and the history of civilisation has always been a history of migration – until today. Europe and Africa are well-advised not to disregard their strategic common ground and develop it in the 21<sup>st</sup> century vigorously and in a spirit of true partnership.

Thus, when reporting about the German Social Market Economy, don't take it as a prescription which should be followed to the letter. The time that Africans have been lectured by others is definitely over. However, it might be helpful and inspire your own debates on how to achieve economic and social prosperity to take into consideration some of those ideas which proved to be successful elsewhere.

Moreover, my optimism that this might be useful also stems from the fact that you, John, have already devoted a lot of time and effort thinking about a suitable economic and social model for Ghana. And I know that you have shown some interest in the ideas of the 'Guidelines for Prosperity, Social Justice and Sustainable Economic Activity' which had been formulated upon the initiative of the Konrad Adenauer Foundation in the year 2009. These guidelines lay out basic features of the Social Market Economy in today's world, i.e. the importance of a legal framework, competition, the private sector, social security and the role of the state.

5. So let me first of all stress that there will never be *one* International Social Market Economy. Depending on history, culture and the level of development there will always be different interpretations and implementations of the concept of Social Market Economy not only with regard to Africa but also on a worldwide scale. Moreover, the Social Market Economy is not a static concept. It is open to new challenges and it is the best basis to respond to them as it relies on the freedom and creativity of the people.

6. The Russian author Leo Tolstoy began his novel "Anna Karenina" (1878) with a famous sentence: "Happy families are all alike; every unhappy family is unhappy in its own way." That observation holds some truth for nations as well, if one will allow the notion of a happy nation. Happy nations, to offer a working definition, are at peace with themselves, they enjoy a sense of belonging and togetherness, they feel they are getting ahead towards better living conditions for all; they share convictions of justice and fairness. In all that, they are very much alike, however much their histories and accomplishments may differ. Their happiness, scientific research suggests, does not mainly depend upon the level of material wealth they have reached, although economic progress is an important factor in the equation. A nation's happiness rather mirrors the quality of life as a complex social mixture of material and immaterial goods, it mirrors the moral tonus of the society, its openness for talent and initiative, the reliability of its institutions and laws and whether the weak and disabled are cared for in decent ways.
  
7. This may seem somewhat elusive and atmospheric rather than dry-bone-economical. But it is precisely this moral and psychological dimension of a nation's wellbeing that the concept of the Social Market Economy presupposes and aims to strengthen. That approach is, by the way, far from original. It is, after all, no coincidence that Adam Smith, *before* he turned to his famous "Inquiry into the Nature and the Sources of the Wealth of Nations", wrote a "Theory of moral Sentiments". And it was not by chance that Ludwig Erhard, first Minister for Economic Affairs of the Federal Republic of Germany and political founding father of the German Social Market Economy, named his bestseller "Prosperity for All" (Wohlstand für Alle), and that in the public perception the words "for All" counted at least as much as the promise of "Prosperity".
  
8. Mentioning Adam Smith indicates: The Social Market Economy is no purely German invention. Many thinkers from many nations contributed to its theoretical insights, and many governments heeded them. Consequently, there are several practical variations of the Social Market Economy and different traditions of thought about it. Still, the German example may be especially instructive, perhaps mainly for two reasons:
  - (1) The apparent success in reconstructing a devastated economy and society after World War II and again - under completely different circumstances - after the German

reunification in 1990. Revitalizing the economically and ecologically heavily damaged East German region was a daunting task.

(2) I think the German reputation for pensiveness is also well-deserved in the field of studies on the Social Market Economy. Walter Eucken, Alfred Müller-Armack, Ludwig Erhard and the "Freiburg School of Ordoliberalism" are household names not only in our lecture halls, but in our parliamentary debates, in our party system and in our daily newspapers. The theoretical heritage of ordoliberalism is cherished, and that means: it is being fought over in practical politics almost all the time.

9. "Ordoliberalism" is the key word for the German understanding of the Social Market Economy. It unites the Latin words meaning "well-ruled order" and "strive for freedom". The name is program: Ordoliberalism addresses the question of how best to balance state and society, public policy and private enterprise, power of the state and freedom of the individual, general welfare and exclusive profit seeking. And ordoliberalism answers: The state must regulate the *forms* of the economical process, it must set the rules for competition and guarantee compliance and the state must provide public goods but should refrain from micro-managing the citizen's affairs. In other words: If one compares the economy to a ballgame, then the state must set its rules including incentives and disincentives and act as a referee, but it is mainly the citizens who shall play - and make - the game.

This ordoliberal concept is based upon assumptions and arguments so old and familiar they deserve to be called classical: The natural, decent self-interest of the individual makes him strive for improvement of his own situation. That brings about industriousness, inventiveness and cooperation - under the precondition, of course, that the individual can freely engage her talents and safely enjoy the fruits of her efforts, which presupposes education, professional freedom and private property. Decent self-interest also brings about division of labour, markets and competition.

Now, decent people will readily agree which forms of competition are licit and fair. Unfortunately, markets do not attract decent people alone. On the contrary: If markets are left to themselves, some individuals and groups will inevitably bend the rules, and their

avarice will destroy the necessary fairness and often enough the market altogether. We experienced this just recently during the financial crisis which is not yet over.

Therefore, the state has to furnish freedom of enterprise and private property, has to rule out cartels and monopolies and uphold the price mechanism, and therefore the state has to guarantee as much transparency of the economic activities as possible, free market entrance and the principles of accountability and liability.

10. In Germany 1945, a land devastated by war and faced with millions of destitute refugees and expellies, that position sounded originally somewhat academic. Men like Ludwig Erhard and Chancellor Konrad Adenauer agreed that the state had to achieve the core program of ordoliberalism, but they were convinced government had to reach beyond and engage in a host of policies for economic progress, for fair opportunity and for social welfare.

Again, in itself, this was hardly new. When Adam Smith listed up what the state should see to and care for, his third count, after defence and a justice system guaranteeing the rule of law, was the following: "The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those publick institutions and those publick works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expence to any individual or small number of individuals, and which it, therefore, cannot be expected that any individual or small number of individuals should erect or maintain. (...) works and institutions of this kind are chiefly those for facilitating the commerce of the society, and those for promoting the instruction of the people. The institutions for instruction are of two kinds; those for the education of the youth, and those for the instruction of people of all ages."

So basically Adam Smith was referring to infrastructure and education, which in our day encloses the promotion of research and development. Add to that Smithsonian insight what had already been reached under Count Bismarck in Germany at the end of the 19<sup>th</sup> century: a compulsory system of worker's accident insurance, a compulsory national health insurance, and likewise insurance for old age and disability. Add the ideas of distributing the wealth harvested by productive gains more broadly and of giving workers more of a say in their factories' matters, and add the resolve to stimulate and cushion

structural change by state intervention and to insure those who lose their jobs against destitution. Finally: Add the resolve to be open-minded for new challenges, for example for finding market-based ways of internalising external costs like pollution of the environment and of finding the path to a "green", ecological Social Market Economy - and you have more than just the contours of the Social Market Economy Germany has arrived at today.

11. Germany did well with her version of Social Market Economy. It *did* provide prosperity for all. We embraced the world market - and it embraced us. We cooperated regionally, and the European integration has been – despite the current crisis - a success story ever since - good news for a world twice set in flames by European wars. We have had our share of folly and market failure, too - whenever the Wall Street wizards came up with a particularly foul credit default swap or collateralized debt obligation, they would say: the German\_Landesbanken [state banks] will buy it. And our Social Market Economy had its phases of governmental overreach, of political micromanagement coupled with the illusion that state bureaucrats could know and anticipate what only the free choices made by millions of customers and producers can settle. All that is on record, in the books, and even on debate now and then, for each new generation of citizens and politicians are entitled to their own mistakes, even if the latter are not that new. I don't want to dwell on this systematically. Let me just add some ad hoc observations regarding questions that I think might be interesting for you, as decision-makers in the Ghana here and now. There are *four* points I'd like to stress:

12. One: The rule of law is crucial for every Social Market Economy's success.

Your own people as well as foreign investors and customers will only plan and engage themselves and their talent and capital long term if they trust in the laws of the land and the enforcement of their observation. Rule of law means: a strong and beneficent government and a law-abiding civil service, i.e. honest judges and policemen and soldiers who serve the common good of the nation. They provide the people with the ability to make long-term contractual arrangements. Martin Wolf (Financial Times) has called it the "symbiosis between two cultures or moral syndromes - commercial culture and guardian culture." His description of both is worth citing: "The essence of the commercial syndrome is voluntary agreement, honesty in dealings, openness to strangers, respect for

contracts, innovation, enterprise, efficiency, promotion of comfort and convenience, acceptance of dissent, investment for productive purposes, industry, thrift and optimism. This is the attitude of the merchant through the ages. Guardians, on the other hand, shun trading, control territory, show obedience, bravery and discipline, follow precedent, respect tradition, are loyal, admire leisure and treasure honour. This is the ethos of the warrior. Today, guardians are servants of the state. Merchants are servants of the market. Because both are necessary and each is suspicious of the other, there is a permanent tension. But the symbiosis has proved fruitful." Therefore: No enduring prosperity without the rule of law and a fine civil service or to say it with another familiar expression, 'Good Governance' is crucial to reap the fruits of economic progress.

13. Two: natural resources can be a blessing but too often they turned out to be a curse.

Africa has a huge potential thanks to its natural resources. The demand for them has increased significantly over the last years. Old and new players like China and India are trying to secure them for their economic development and some even talk about a new 'Scramble for Africa'. This international demand can provide a great source of economic prosperity for Africa, but the crucial task will be to ensure that this fortune will benefit all people. In history, too often abundant natural resources didn't become a blessing but rather a curse. In economic history that was related to developments of the so-called 'Dutch Disease'. Or the reasons for a curse were very often corrupt leaderships which led the money rather into the private pockets of a few instead into investments for all. But also the industrialised countries had their share of responsibility as they seized the profits from unequal contracts and were too often involved in corruption as well. What do we learn from this?

You need to have a strategy in order to make best use of your natural resources. You need to develop a sustainable resource based African growth and development strategy. Its basic elements are the following:

First, as mentioned above, Good Governance is crucial. By having a strong and fair legal system, an effective anti-corruption policy but also free media and an active civil society corruption can be tackled effectively. Full transparency about where the money goes is needed. Second, only having an extraction industry which generates a steady flow of money into the state budget is not enough. Up- and downstream industries as well as infrastructure should be developed to create more value added. Third, sustainable growth



needs a culture of private entrepreneurship, in particular Small and Medium-Sized Companies are true engines for job-creation, especially for young people. In Germany for example more than 80% of all jobs are located in Small and Medium-Sized Companies. The report of the Africa Progress Panel underlines the importance of the private sector in the following words: "As businesses realize the commercial opportunities and benefits involved, they are increasingly willing to complement the development efforts of African governments and international donors, and bridge important gaps in a results-oriented (because profit-driven) manner."

A country like Norway has proven that natural resources can become a blessing. I think that Ghana can be an African success story by going rather the way of Norway than that of some other countries.

14. Three: The transition to a modern, successful Social Market Economy means nothing less than the transition to a new society.

This transition will take years, even decades, and permeate every aspect of life: the quantitative and qualitative supply of jobs, the differences in education and income rise, interfamilial and tribal ties get weaker. Many gain from these developments, but some will - or at least feel they will - be worse off.

To keep such a newly developing society together is a political challenge of the utmost importance and difficulty. The challenge: to give all citizens a credible perspective that their lives, or at least the lives of their children, will improve palpably, too. If people can be convinced that the political and social system they live in is so open and just that it will finally furnish them and their children with chances for advancement and a better life, then people will be prepared to meet hardships and tolerate inequality for that much longer.

The political economist Albert Hirschman once likened the situation in a developing society with still vast differences in living standards to the response of drivers stuck in a traffic jam. When, as typical, one of the lanes at last moves forward again, even those drivers still stuck in the other lanes are usually relieved, because they assume that soon their lane will start to move, too. Only if it doesn't and time passes further, their frustration doubles and their anger mounts.

For that reason, all matters concerning the reward for achievement, the openness for talent and the distribution of economic success and growing wealth deserve the keenest political attention. The temptation to hit and run - to make money and flee the country - must be ruled out. And neither will the opposite, the Robin Hood-approach – take thoughtless from the rich and give to the poor - do it, for it will sooner throttle the initiative of the productive than end the plight of the afflicted.

Much more promising is to aim at a virtuous circle that rewards good performance, opens the way for upward mobility, explains inequality that is well deserved and still lets all participate in the improvement of living conditions.

15. Four: All success-stories are written within globalization, not against it.

That does not mean that there is only one way of achievement. On the contrary, each nation should make its own way, just as each should find its own balance of Social Market Economy-principles and -policies. The Washington Consensus for example with its cocktail of prescriptions ranging from competitive exchange rates and hastily full-scale trade liberalisations to openness for any kind of foreign direct investment and privatisation of state enterprises was long believed to be the gospel of globalisation. Well, no more, as for example the more cautious and more successful approach of states like India and South Korea towards the financial markets has proven.

Even so, some lessons should be heeded: Regional cooperation pays off. State investments into infrastructure and education pay off. Diversification pays off - only to export oil, or coffee, or cocoa makes an economy all too sensitive for the mishaps of nature and the greed of speculators, for stock exchange manoeuvres and crop failure. Ecological thoughtfulness pays off. Africa still has much of the Garden Eden in which all people of good faith like to believe. To preserve Africa's natural beauty and richness by internalizing all cost to it caused by economic development will be a huge, long-term investment - for the African people as well as for all mankind. And it will pay off best in my view when it is done in accordance with the principles of a Social Market Economy. Ghana has all credentials for a good future.

16. Dear John, I am glad that you will continue to work on this kind of strategic questions through your new foundation. You will have a close look at the ideas of a Social Market Economy as well as other and in particular African ideas for development. And you will try to choose the best of all of them and put them to fruitful use for Ghana. And whenever you think that I myself or the Konrad Adenauer Foundation can be supportive please let us know. I wish you the very best for your endeavours and I wish the very best for the future of the John A. Kufuor Foundation.

Thank you for your attention.