

explainity explains: social market economy

The economy is all about selling and buying goods. Just like in soccer, there are game rules, except that here, we call it “economic order”. That’s a social and an economic policy system. The State acts as the referee. Often the question arises, in what way and how much involvement it should have in the economy and in society. Just like in soccer: If the referee constantly intervenes, it disturbs the flow of the game. If he doesn't do enough, then the game will be unfair.

And it's the same in some national economies. In countries where it only matters what the State dictates, the economic order is a “centrally planned economy”.

In other systems, people sell and haggle like crazy. Sure, there's the State referee, but decisions are left up to the market when possible. This is called “free market economy”.

And in other models, the State consciously intervenes. This system is called a “social market economy” and that’s what we’ll be looking at now.

The social market economy was developed at the end of World War II in Germany. Today, many countries, especially European ones, have adopted this principle too.

The idea is that a balance is achieved for those who are less well off, while also giving the economy a boost and stabilizing prices where possible.

This also includes many freedoms. Companies, for example, can freely decide which products they produce and what price they charge. And everyone decides for themselves which job to do and what they buy. The prices are set through supply and demand. Learn more about that in our “equilibrium price” clip.

But: In order for the system to function and remain fair, intervention of the State in certain issues is necessary, even heavy intervention. This includes things like:

- creating a legal framework with rules and laws
- stabilizing the economic situation
- keeping competition protected and supported, and preventing monopoly, corruption and price fixing
- supporting weaker regions and economic sectors, as well as organizations in research, education, technology, health and culture
- - ensuring security for citizens through the police, fire department, military and courts
- development of infrastructure such as roads, plus water supply and *sometimes things like* Internet and electricity
- but mostly, ensuring the safety of all citizens. This includes the administration of social benefits and the collection of taxes. Those who earn well have to pay more fees and taxes.

One new thing being considered is the ecological aspect. This is called the eco-social market economy.

But why does the State do all that? If everyone is secured and has enough work, then the system works; citizens buy more and national finances rise. That’s how everyone ultimately benefits.

In the social market economy, just like in soccer, there are fouls and penalties, but the referee at least makes sure the game runs smoothly.

And: as you know, his decisions can always be challenged.

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