# Markets, state and social opportunity

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## Abstract

There was a time – not very long ago – when every young economist "knew" in what respect the market systems had serious limitations: all the textbooks repeated the same list of "defects". The intellectual rejection of the market mechanism often led to radical proposals for altogether different methods of organizing the world (sometimes involving a powerful bureaucracy and unimagined fiscal burdens), without serious examination of the possibility that the proposed alternatives might involve even bigger failures than the markets were expected to produce. Albania, as a small country and Westen Europe should aim at building economic system according to the requirements of an economy open to European and global market. This should be the economic system that creates a suitable environment for the integration of the Albanian economy in the region and beyond, stimulating economic cooperation and to encourage joint investments with foreign partners. Role of the state should focus on contemporary macro-economic regulation that ensures economic stability and building development policy.

From the above, this paper, in addition to focusing on market analysis, the principles on which it is based, its relations with the state, the society, will also reflect the national strategy for development and integration, which sets priorities and strategic goals government policy, where a prime spot them occupy the economic and social development as a market economy or social policy. In this paper will be also addressed such as:

1. Markets, liberty and labor
2. Markets and disadvantages and inequality of freedoms
3. Coupling of disadvantages and inequality of freedoms
4. Financial prudence and need for integration

The end of this paper you will find a summary of conclusions, which represent not only theoretical but also practical value in terms of well – functioning market, its cooperation with state institutions and its integration in the European and global market.

***Keywords:*** *market, state, integration, social justice, liberty, rule of law*

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## The social market economy

This concept stems from the Ludwig-Erhard, who in the years 1949-1963 was the first Minister of Economy of the Federal Republic of Germany. The central idea of the social market economy is to protect the freedom of all market participants in terms of supply and demand, while at the same time ensuring social equality. Erhard's colleague, Alfred Muller-Armack, who led the Council of Directors General of the Ministry of Economy to fundamental issues of economic policy starting in 1952 and later became Secretary of State for European policies in 1958, was the first who used to write the term "social market economy".

Markets balance supply and demand through the price mechanism. When reduced much sought after items, their prices rise. This reduces demand, while creating opportunities for the benefit of other bidders. Bidders will try to keep as low cost of production. This process promotes the effective use of the means of production and lower prices for consumers. For this system to work effectively, it is essential to ensure competitiveness in the context of open markets and to prevent the exercise of market power. In this way, market mechanisms expand consumer options, motivate bidders to make innovations and technological advances, and to distribute the income and benefits in accordance with individual achievements. One of the primary responsibilities of government is to create the framework for effective competition policy. At the same time, the state should encourage the desire and ability of individuals to own innovations and independent activity.

As a complementary part of the free market principle, the concept of the social market economy contains a second principle: the principle of social equality. This means creating an effective level of social security for people who can not take advantage of market income due to age, illness or unemployment. However, in order to put an emphasis on social equality not restrict the freedom of the market, the main task is to find the right balance between the two principles. Social benefits and programs financed through tax collection. But taxes are a burden for those people whose income generating welfare. For this reason, the aim is to achieve a sustainable level of social security in parallel with providing welfare level as high as possible. Ludwig-Erhard himself saying it is the most successful economic policy of a country, the less the need for social assistance.[2]

## Albania and the social market economy

[2] Albanian institute of public affairs, scientific research " The social market economy"

Albania was the last country in central and eastern Europe undertook democratic reforms and free market. Reforms began the transition from a position of disadvantage, because Albania was a completely planned economy, was isolated from the outside world and one of the post-communist countries less developed. Despite a very difficult transition to a market economy grows rapidly and in 2010 the private sector contributes more than 80% of GDP. Since 2000 the average annual growth was 4 to 8%. Over the last decade, per capita income has grown steadily, going to $ 4.070 in 2009, ranking Albania in the category of income level mesëm.Por real economic growth has brought a higher level of living, ensure the welfare and sustainable development. Most of the population remains excluded from the benefits of growth. The level of poverty is high, while unemployment is expected to go from 13.75% to 24% by 2010. a pronounced social inequalities separating urban and rural areas, where 50% of the population lives. Informal economy in Albania is still important, with an activity rate of 34.1% of GNI (Gross National Income - Gross National Income). Trade balance recorded an average deficit of 25% of GDP in 2001-2010. Product structures are still weak and the trade deficit financing depends largely by significant inflows of remittances.Albania has achieved success in creating the basic conditions for market competition. However, still lacks a strong institutional framework. Poor administrative capacity, or lack of interest by political forces, slow progress in market regulation, the fight against corruption (often caused by the close links between politics and business) and market integration in existing informal economy. Consequently, market competition takes the form of exchange of capitalism, marked by the gap between populist political discourse and the real possibilities of socio-economic development. Two decades after the transition, Albania still has no clear pattern of socio-economic development. The impact of neo-liberal policy, which is applied during this period, should be evaluated and reviewed. Taking into account the structural, social and economic sustainable development of the country set, we think that the model of social market economy may well be the ultimate alternative economic policy in Albania. Almost non-existent organizations that can protect the most vulnerable social groups, poor organization and lack of support for unions, has created an environment at risk, which can lead to economic and social instability. A wild market economy usually not based on law and order, but in most cases the interaction of factors to extra-Economics and where the role of the state is almost ephemeral, or at best create clienteles networks. In addition, a court system criticized for corruption extremely ill has failed to ensure a sound support for the Albanian economy, to work within a standardized legal framework of international acceptance. The lack of democratic culture within the society, lack of knowledge on the role of the state in the economy and the importance of protecting the fundamental interests of the public, the Albanian economy has pushed more towards the anarchic development trends.[3]

According to this hypothesis, we suggest that it is probably of interest from various parties to engage in such a discussion on theoretical and concrete model for social and economic development of Albania. It will be interesting to focus on the development of Small and Medium Enterprises, the effectiveness of the social assistance system and to the development of human capital. These actions will help to better define the role of the state in market rules in order to ensure a certain balance between private profit and public social development goals.

## Coupling of disadvantages and inequality of freedoms

[3] Albanian institute of public affairs, scientific research " The social market economy"

The basic result about market efficiency can, in this sense, be extended to he perspective of substantibve freedoms,. But these efficiency result do not say anything about the equity of outcomes, or about the equity in the distribution of freedoms. A situation can be efficient in the sense that no one's utility or substantive freedom can be enhanced without cutting into the utility or freedom of someone else, and yet there could be enormous inequalities in the distribution of utilities and of freedoms.

The problems of inequality, in fact , gets ,agnifies as the attention is shifted from income inequality to the inequality in the distribution of substantive freedoms and capabilities. This is mainly because pf the possibility of some "coupling" of income inequality, on the one hand, with unequal advantages in converting incomes into capabilities, on the other. The latter tends to intensify the inequality problem already reflected in income inequality. For example, a person who is disable, or ill, or old, or otherwise handicapped may, on the one hand, have problems in earning a decent income, and on the other, also face greater difficulties in converting income into capabilities and inti living well. The very factors that may make a person unable the person at a disadvantage in achieving a good quality of life even with the same job and with the same income. This relationship between income- earning ability and income-using ability is well know empirical phenomenon in poverty studies. The interpersonal income inequality in the market outcomes may tend to be magnified by the "coupling" of low incomes with handicaps in the conversion of incomes into capabilities.

The freedom-efficiency of the market mechanism, on the one hand, and the seriousness of freedom-inequality problem, on the other hand, are worth considering simultaneously. The equity problems have to be addressed, specially in dealing with serious deprivations and poverty, and in that context, social intervention including governmental support may well have important role. To a great extent, this is exactly what the social security system in welfare states try to archieve, through a variety of programs including social provision of health care, public support of the unemployed and the indigent and so on. But the need to pay attention simultaneously to efficiency and equity aspects of the problem remains, since equity-motivated interference with the working of the market mechanism can weaken efficiency achievements even as it promotes equity. It is important to be clear about the need for simultaneity in considering the different aspects of social evaluation and justice.[4]

## Financial prudence and need for integration

I turn now to the problem of financial prudence, which has become a major concern across the world in recent decades. The demands for conservatism in finance are very strong now, since the disruptive effects of excessive inflation and instability have come to be widely studied and discussed. Indeed, finance is a subject in which conservatism has some evident merit, and prudence in this field can easily take a conservation form. But we have to be clear as to what financial conservatism demands and why.

The point of financial conservatism is not so much the apparently conspicuous merit of "living within one's means," even though that rhetoric has much appeal. The analogy with personal solvency has been power-fully used by many financial conservatives, perhaps most eloquently by Margaret Thatcher. This arumet does not, however, provide a clear rule for state policy. A state can continue so spend more that it earns, through borrowing and other means. In fact, nearly every state does so nearly all the time.

[4] Amartya Sen,2000,pg.111

The real issue is not whether this can be done ( it certainly can be), but what effects of financial overspending might be. The basi issue to be faced, therefore, is the consequential importance of what is sometimes called “macroeconomic stability,” in particular the absence of serius inflationary pressure. The case for financial conservatism lies, to a great extent, in the recognition that price stability is important and that it can be deeply threatened by fiscal indulgence and irresponsibility.

What evidence do we have abput the pernicious effect of inflation? In a powerful critical survey of international experiences in this area, Michael Bruno notes that “ several recorded episodes of modernate inflation ( 20-40 percent{price rise per year} and most instances of higher rates of inflation ( of which there have been a substantial number) suggest that high inflation goes together with significant negative growth effects.” And, “ conversely, the cumulative evidence suggests that sharp stabilization from high inflation brings very strong positive growth effects over even the short to medium run.”

The policy conclusion to be drawn here requires some subtlety. Bruno also finds that “ the growth effects of inflation are at best obscure at low rates of inflation (less than 15-20 percent annually).” He goes on to ask the question: “why worry about low rates of inflation, especially in the costs of anticipated inflation can be avoided ( by indexation) and those of unanticipated inflation seem to be low?

Bruno also points out that “while the root of all high inflations is a financial deficit ( and often, though not always, the monetary finance of it), this in turn can be consistent with multiple inflationary equilibria.” The real problem lies in the fact that “ inflation is an inherently persistent process and, moreover the degree of persistence tends to increase with the rate of inflation.” Bruno presents a clear picture of how such acceleration of inflation takes place, and makes the lesson graphic with an analogy: “ chronic inflation tends to resemble smoking: once you(are) beyond a minimal number it is very difficult to escape a worsening addiction.” In fact, “ when shocks occur(e.g a personal crisis for a smoker, a price crisis for an economy) there is great chance that the severity of the habit … will jump to a new higher level that persists even after the shock has abated,” and this process can repeat itself.

This is a quintessentially conservative argument, and a very persuasive one it is, based as it is on a rich set of international comparisons’. I have no difficult in endorsing both the analysis and the conclusions drawn by Michael Bruno. What is, however, important to do is to keep track of exactly what has been established and also to see what the demand of financial conservatism really is. It is, in particular, not a demand for what I would call anti-inf;ationary radicalism that is often confused with financial conservatism. The case made is not for eliminating inflation altogether-irrespective of what has to be sacrificed for that end. Rather, the lesson is to keep in view the likely costs of tolerating inflation against the costs of reducing it, or of eliminating it altogether. The critical issue is to avoid the “dynamic instability” that even seemingly stable chronic inflation tends to have, if it is above low figure. The policy lesson that Brunoa draw is : “ The combination of costly stabilization at low rates of inflation and the upward bias of inflationary persistence provide a growth-cost related argument for keeping inflation low even thought the large growth costs seem to be directly observed only at higher inflations, but-because of dynamic instability-even moderate inflation.

However, radicalism in the cause of zero inflation does not emerge here either as particularly wise, or even as the appropriate reading of the demands of financial conservatism. The “clouding” of distinct issues is seen clearly enough in the ongoing fixation with balancing the budget in the United State, which resulted not long ago in partial shutdowns of the U.S government (and threats of more extensive closure). This has led to an uneasy compromise between the White House and the Congress-a compromise the success of which is rather contingent on the short –run performance of the U.S. economy. Anti-deficit radicalism has to be distinguished from genuine financial conservatism. There is indeed a strong case for reducing the large budget deficits that are seen in many countries in the world (often made worse by huge burdens of nationat debt and high rates of its escalation). But this argument must not be confused with extremism of trying to eliminate budget deficits altogether with great rapidity (no matter what the social cost of this might be).

Europe has much more reason to be concerned about budget deficits than the United State has. For one thing, the U.S budget deficits have been, for many years now, moderate enough to be bolow the "norms" set up by the Maastrcht Agreement for the European Monetary Union ( a budget deficts of no more than 3 percent of gross domestic product). There seems to be no deficit at all , at this time. In contrast, most of the European countries had-and still have-rather substantial deficits. It is appropriate that several of these countries are currently making determined attempts to cut the levels of these large deficits (Italy has provide an impressive example of this in recent years). If there is question to be raised still, this concerns the overall priorities of European policies.

Financial conservatism has good rationale and imposes strong requirements, but its demands must be interpreted in the light of the overall objectives of public policy. The role of public expenditure in generating and guaranteeing many basic capabilities calls for attention: it must be considered along with instrumental need for macroeconomic stability . Indeed, the latter need munst be assessed within a broad framework of social objectives.

Depending on the particular context, different publick policy issues may end up being critically important. In Europe, it could be the nastiness of massive unemployment (close to 12 percent for several major countries). In the united State, a crucial challenge is presented by the absence of any kind of medical insurance or secure coverage for very large numbers of people ( the United States is alone among the rich countries in having this problem, and furthermore, the medically uninsured number more than forty million. In India, there is a massive failure of public policy in the extreme neglect of literacy (half the adult population-and two-thirds of adult women-are still illiterate). In East asia and southeast asia, it looks increasingly as if the financial system requires extensive regularization, and there also seems to be a need for a preventive system that can counteract sudden losses of confidence in a country's currency or investment opportunities (as is brought out by the recent experiences of these countries, which had to seek gigantic bailout operations by the International Monetary Fund). The problems are different, and given their complexity, each calls for a serius examination of the objectives and instruments of public policy. The need for financial conservatism-important as it is- fits into this diverse and broad picture, and cannot stand on its own-in solitary isolation-as the commitment of the government or of the central bank. The need for scrutiny and comparative assessment of alternative fields of public expenditure is altogether crucial.[5]

[5] Amartya Sen,2000,pg.120

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