

## **The Social Market Economy Model in Africa: A Policy Lesson in the Pursuit of an Inclusive Development**

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### **Abstract**

*A contextually rethought coexistence of capitalism and socialism, particularly, the 'Third-Way' politico-economic framework is a contemporary dominion in the pursuit of prosperous and inclusive development. Regarding the third-way position, however, there is a dearth of theoretical framework in African studies. Hence, this article aimed at exploring the theoretical significance of ordoliberalism and its social market economy model that is often praised as the secret(s) in the wake of the 'Wirtschaftswunder', meaning the 'economic miracle', of Germany. In so doing, the article has sought the common conceptual ground between the notions of the social market economy and inclusive development through the extensive review of theoretical evidence available in the secondary sources of data. The review of literature has revealed that unlike the German experience, the policy choice among the African countries, in the post-colonial era, was never consistent with ordoliberalism or social market economy. However, the post-2000 economic trajectory of Africa has shown the coexistence of the welfare state and coordinated market thereby creating a convenient condition to implement the lessons learned from the development path of Germany. Besides, the prevalent socio-economic problems in most of the Sub-Saharan African countries including demographic bulge, abject poverty, high levels of income inequality, extractive/rent-seeking institutions of governance, brain-drain, and aid/loan dependency syndrome are the major factors that underline the urgency for policy reforms geared towards an Afro-centric social market economy. Yet, the levels of economic development, historical, cultural, and geopolitical differences need to be taken into account to effectively implement the policy instruments of the social market economy in Africa.*

**Keywords:** *Ordoliberalism, Freiburg School, Welfare State, Coordinated Market, Third-Way*

### **Introduction**

Following the waning of the communist ideological camp globally, the western socialism (Marxist-Leninist) and Pan-African socialism<sup>1</sup> could not sustain their ideological hegemony in their original version in Africa especially after the 1980s. Consequently, as the first generation of African leaders, after liberation, had a shortage of finance and capital, the African governments had to approach the Bretton Woods institutions in the 1980s (Heidhues & Obare, 2011; Stein & Nissanke, 1999; Hope, 1997). The neoliberal institutions, on their side, came up with a policy remedy in the form of the structural adjustment program (SAP). Subsequently, there emerged scholastic critic asserting that the reform profoundly wrecked the state instruments swiftly (*Ibid.*). The following critics are, *inter alia*, a few. The Guardian (2003)

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<sup>1</sup>According to the Encyclopaedia Britannica, African socialism is composed of socialist doctrines adopted by several African leaders in 1950s and '60s to free themselves from colonialism and revitalize African Traditions at state level (Source: <https://www.britannica.com/topic/African-socialism>)

released the summary of the United Nation's report about the SAP failure stating that "they were promised a brighter future, but in the 1990s the world's poor fell further behind." There are also robust claims that the 1990s was the "African's lost decade". In this article, the author claims, however, that Sub-Saharan Africa's lost decades were from 1980 to 2000 (see pieces of evidence presented in Figures 4 and 5 below). Then, it is legitimate to argue that *laissez-faire* capitalism and communism are "dead ends" in the continent. The World Bank argues that the failure of SAP was due to lack of good governance in the continent but the role of the state is deliberately reduced as per the policy proposal (Kingston, 2011; Mkadawire & Soludo, 1998; World Bank, 1994).

Thus, there are apparently robust claims evident in the post-cold war literature that contextually applicable "third-way" polity is indispensable (Giddens, 1994, 1997, 1998, 1999). Accordingly, the question should be where exactly across the continuum? Middle way? Middle left? Middle right? Or elsewhere in between? This appears open for the context and political philosophy of policymakers. As political positions are the guiding philosophies of diverse development policies and other institutions, the issue is less discussed in the African context. Subsequently, there are inconsistencies of policy choices (Mkadawire & Soludo, 1998).

There are also other critical apprehensions claiming that the economic growth in Africa has not yet created enough economic dividends to ensure inclusive development for all. For instance, Beegle *et al.* (2016) argue that the share of Africans who were poor, shrunk from 56% in 1990 to 43% in 2012, but due to population growth, there are more poor people today than in 1990, two in five adults are still illiterate, and violence is on the rise. Furthermore, by 2030, if the current trends continue, Sub-Saharan Africa will be the home to 90% of the world's children living under the poverty line (Watkins & Quattri, 2016). Beegle *et al.* (2016) further note that in Sub-Saharan Africa, the number of people living in extreme poverty has grown substantially since 1990. On top of that, according to the World Bank database, the share of export of goods and services to GDP in Sub-Saharan Africa declined from 30.03% in 1980 to 25.37% in 2017 which caused the depreciation of local currencies and triggered rampant inflation.

Corresponding to the above figures, the non-monetary welfare indicators are weaker in resource-rich countries of Africa. The assertion resembles the typical allegation in African studies *viz.* "a natural resource has been a curse not a bless" (Mkadawire & Soludo, 1998). Consequently, without a consistent and viable development path, Africa may face more profound challenges of inclusiveness in the next decades which may leave a significant

proportion of its population behind. Thus, to resolve the challenges sustainably, a coordinated market, more human, egalitarian, and consistent long-term development path is imperative (Mulwa & Mariara, 2016; Acemoglu & Robinson, 2012; Stiglitz, 2012). In sum, the presence of severe inclusiveness and policy consistency challenges in Africa inspired this article.

In this article, therefore, the SME model is presented as it has a ‘ready meal’ from its consistent track record in the pursuit of inclusive development in the post-WWII period in Germany and West Europe. Prudence must, however, be taken from the very outset that the article is not meant for transplanting a development policy to Africa nor is intended to prove how the policy affects inclusive development statistically.<sup>2</sup> Instead, the body of knowledge around SME, along with the discussions supported by the empirical facts and figures, is organized and presented due to its theoretical significance for inclusive development, which overall makes this work rather a review article.

### **Rationale and Objectives of the Study**

Given the robust economic growth in the recent two decades, Africans have been demanding political-economic reforms in pursuit of inclusive development. For instance, as ignited in Tunisia in 2010, there have been vigorous political uprisings in North Africa and the Middle East. Since then, the revolution has viciously<sup>3</sup> spread to Sub-Saharan Africa. It resulted in a series of coup trials on the continent. The consolidated data compiled by Bennett *et al.* (2019) shows that, between 2010 and 2019, there were about 28 coup attempts in 20 countries of Africa (Bennett *et al.*, 2019). Besides, the fragility of the African economy is often associated with a paucity of long-term coherent development path, and inclusiveness bottlenecks (Mesfin, 2020; Acemoglu & Robinson, 2012; Osaghae, 2007).

Accordingly, the extractive institutions are, *inter alia*, mainly responsible for the weak achievement in inclusive development. For the economically dependent countries of Africa, following a consistent long-term path and policy have not been easier, for the fact that “he who pays the piper calls the tune”. This depicts external challenges and internal ones as best dealt with in the Buckminster Fuller’s excerpt “you never change things by fighting the existing

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<sup>2</sup> For further readings on the econometric regressions study relating to inclusive development and institutional quality in Africa, see Mesfin, 2020.

<sup>3</sup> The term ‘vicious’ might be controversial because, on the one hand, the coups, humanitarian and political crises and the consequences thereof, might be bad signals for the sustainability of the economic growth. On the other hand, denouncing the misguided kleptocrats, robust demand for democratization and inclusive development might be a good start for a positive change in the continent.

reality” and “to change something, build a new model that makes the existing model obsolete”. In successful countries, the post-WWII witnessed the long-term development path that is well-defined and the role of state and market is clearly delineated. For instance, in Germany (social market economy), Japan (state capitalism), China (China Model or “Beijing Consensus”), North Europe (Nordic welfare state), and United Kingdom (“third-way”) are a handful of cases. In this regard, the question remains: what are the policy choices of Africa and its member states?

Without Afro-pessimism or Afro-euphoria, at this moment, it can be argued that in African development studies, the third-way literature is almost missing and, yet, practically almost all member states mix the state and market instruments in “their ways”. Consequently, the functions of the state are almost everywhere across sectors but not always efficiently. Inclusive development strategies like social securities have been overlooked and markets are overregulated or under-regulated which resulted in, *inter alia*, vast informal market, fiscal inefficiency, and extractive institutions (Acemoglu & Robinson, 2012; Giddens, 1994, 1997, 1998, 1999). Without comparing with the other third-way models, the German SME is the mainstay of this article, for a series of literature about the content of the model, are accessible. To this effect, this article is basically intended to trigger further discourses about the SME as a policy path to inclusive development in Africa. In so doing, however, it also aims at exploring the historical trajectory of policy inconsistency and consequences in Africa, analyzing the theoretical significance of the SME for inclusive development, and scrutinizing the potential merits and hurdles of adopting the SME model to African countries.

### **Materials and Methods**

This work is a review article; hence, theoretical where a sophisticated statistical analysis is not of much interest. A description of the German SME model and lessons to be learned as a policy option is the bastion of this article. Even if there is diverse literature about the model in various countries like the USA, UK, Canada, Japan, China, and Sweden, the Germany SME scenario is found to be appropriate to start with due to its originality, clarity of the idea, success story, well-documented literature but most importantly due to its content relevance to inclusive development notion. Accordingly, to establish the theoretical and philosophical foundation, the literature related to the Freiburg School of Ordoliberalism, Social Market Economy, welfare economics, and the new institutional economics is particularly consulted. Supplementary facts and figures are amassed from the United Nations, World Economic Forum, African

Development Bank, International Monetary Fund (IMF), World Bank, and policies of the leading political parties in the selected 21 African countries. The selection of the countries is not subjective in the sense that all the countries are those for which the World Economic Forum produced an inclusive development index in 2017 that are considered in the study. However, any policy recommendation at the continental level might be too hasty while 54 independent African states have their “own-way” of policy choice. Thus, the selected 21 countries scenario cannot depict the full picture of Africa. Nevertheless, as a benchmark, the significance of this article is enormous.

## **Results and Discussion**

### **Post-colonial Policy Choices and Inconsistencies in Africa *vis. the ‘Third-Way’***

The ‘third-way’ is a political-economic position which is a third alternative to right-wing and left-wing politics. The centrist, center-right, and center-left are common examples of the third-way position containing different degrees of the coordinated market<sup>4</sup> and social policies of a state. As Giddens puts it, “the overall aim of third-way politics should be to help citizens pilot their way through the major revolutions of our time: globalization, transformations in personal life and our relationship to nature” (1998, p. 64).

On the contrary, African countries, in the post-colonial period, have adopted various ideologies such as feudalism, Marxist communism, African socialism, and even two decades of *laissez-faire* capitalism during the structural adjustment program (SAP). In the post-2000, however, the North and Southeast Asian ‘developmental state’ model has been attracting the attention of many politicians in Africa (Maphunye, 2011; Mkandawire, 2001; Noorbakhsh & Paloni, 1999). Later, international cooperation, through the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs), has played a significant role in the local and global governance coordination (Durokifa & Ijeoma, 2018; Noorbakhsh & Paloni, 1999). Apart from the exogenous and endogenous factors, the discrepancy among policy choices extends from the stages of development to the contentious stages of history. For instance, Karl Marx identified five consecutive stages of history, namely: the Primitive Communism, Slavery, Feudalism, Capitalism, and Socialism (Konstan, 1975). In Africa, it appears that African socialism is pseudo socialism that evolved before capitalism. Moreover, the prevailing extractive institutions and political positions are having backward linkages to the history of feudalism,

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<sup>4</sup> In the earlier literature, it is common to come across “free market”, whereas in recent literature a “coordinated market” has received more attention.

slavery, and colonization (Acemoglu & Robinson, 2012; Mkandawire, 2001). Some of these extractive institutions in Africa have taken the following forms.

### ***Feudalist Institutions in Africa***

Feudalism was one of the extractive (not inclusive) political ideologies against peasants. Under feudalism, peasants do not own the land, whereas landlords own it. In countries where the land is still owned by the state, numerous citizens remained landless. The following are some countries that passed through feudalism in the post-colonial period. These were monarchical states of Uganda, Burundi, Central African Empire, Congo, Egypt, Libya, Rwanda, Tunisia, Zanzibar, Ethiopia, Namibia, Chad, Gambia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Sierra Leone, South Africa, Morocco and Lesotho (Acemoglu & Robinson, 2012; Mkandawire, 2001).

### ***Socialist Institutions in Africa***

During the independence in the 1960s, most of the newly formed governments adopted the Afro-centric socialist economic model by rejecting the western capitalism (Kofi, 1981). Only a handful of them adopted the western communist model, but there are still different states in Africa that are guided by ‘democratic socialism’ such as in Zambia, Tanzania, Mauritius, Mozambique, Guinea Bissau, Ethiopia, Congo, and Angola. Algeria (Arab Socialism) and Namibia have also preferred socialist regimes. In the past, Somalia, Cape Verde, Sudan, Seychelles, and Madagascar also passed through different socialist regimes (Akyeampong, 2018).

### ***Capitalist Institutions in Africa***

There are still African capitalists, and capitalism has also been a leading political ideology for two decades. In the 1980s and 1990s, thirty-seven Sub-Saharan African countries adopted a *laissez-faire* capitalism in the form of structural adjustment program (SAP) (Noorbakhsh & Paloni, 1999). This is meant to replenish the economically rigged countries during colonialism, and the African liberators needed capital from the advanced countries. The two Bretton Woods Institutions, however, came up with prerequisites for loans. The programs principally urged, *inter alia*, deregulation, privatization of state-owned enterprises, avoiding trade barriers, and cutting government budget in the social sectors. Accordingly, the austerity stuck the economic growth especially pro-poor public financing. As stated above, the time between 1990 and 2000 is referred to as “Africa’s lost decade”. In Sub-Saharan Africa, the time between 1980 and 2000 could be named “Sub-Sahara’s lost decades” because there was the stagnation of economic

growth, aggravation of poverty, failure of the social sector, and disruption of politics. The New York Times magazine, in its issue of June 1994, with the headline “Lost Decade Drains Africa’s Vitality,” clearly stated that “you don’t have to be a detective to spot the decline in living standards in Africa.” Therefore, the *laissez-faire* policies adversely affected inclusive development at least during the initial years (Lensink, 1996; White, 1996).

### ***Developmental State Institutions***

There are governments like in Botswana, Mauritius, and Ethiopia that have officially adopted the developmental state model. However, there are critics if the states were truly in line with the model. The central idea is that the state is supposed to coordinate the market, select development priority, and benevolently guide the development process. As the approach is the “third-way”, it is quite relevant to acquaint with it from an inclusive development point of view.

The foundational literature of the East Asian developmental state (DS) model emanates from the four pioneer books contributed by Johnson (1982), Deyo (1987), Amsden (1989), and Wade (1990). They are often categorized as “institutionalists” (Öniş, 1991). Among them, Chalmers Johnson is the pioneer. Johnson drew up four policy priority areas that came to be named as the “developmental state”. These are: i) the presence of a small but professional and efficient state bureaucracy; ii) a political setting where the “bureaucracy has enough space to operate” and take policy initiatives independent of overly pushy interventions by vested interests; iii) the crafting of methods of state intervention in the economy without sabotaging the market principle, *i.e.* the concept of “market conforming” approach and iv) having a pilot organization such as MITI (Ministry of International Trade and Industry) in Japan (Johnson, 1982, pp. 38-39). Johnson further contends that:

*[...] the legislative’s and judicial’s more important function is to fend off the numerous interest groups in the society, which if catered would distort the priorities of developmental state. In case of interests that cannot be ignored, deflected or satisfied in symbolic ways –or upon which the perpetuation of the political system depends the political leaders must compel the bureaucracy to serve and manipulate them (parenthesis added) (1982, pp. 315-316).*

As it could be understood from the excerpt, in Japan the political space was narrow especially in engaging the civil society organizations (CSO). The narrowness was deliberate to create a wider playing field for the government not to be interrupted in selecting mega capital projects and choosing a policy priority particularly in transitional time (*Ibid.*). However, given the triumph, due to weak CSOs and authoritarian state, corruption and scandals had plagued Japan

for a half-century and, as a result, the problems of Japanese democracy have deepened. As the middle class had been created, political disruptions had emerged and challenged the existing political order in Japan. In the process, social activism had broadened in the 1980s and this activism forced the government to encompass citizen-based pluralism (Hirata, 2004). Johnson (1982) claims that state authoritarianism has benefited the Japanese though this may not work for others.

As stated above, the middle class claimed not only economic gains but also democracy, so the government opened the political space for competition in the 1980s (Hirata, 2004; Öniş, 1991). However, the adherents of the East Asian model in Africa wrongly justify everlasting authoritarianism mentioning the Japanese and East Asian success as a showcase. Recently, Omneh (2012) claimed the democratic version of the developmental state may encompass six policy priorities: i) state autonomy, ii) social embeddedness, iii) consensual autonomy, iv) institutional coherence, v) authoritative penetration, and vi) inclusive embeddedness (Meyns & Musamba, 2010). However, what he claimed to be democratic looks rather still autocratic.

### **The Model: Ordoliberalism - Social Market Economy - Inclusive Development**

#### **Nexus**

##### ***Ordoliberalism - Institutionalism Nexus***

To comprehend the notion of ‘ordoliberalism’, which is praised together with SME to be the secret behind the “German Economic Miracle”<sup>5</sup> (German: Wirtschaftswunder), a swift reflection on the connotation of an “order” is worthwhile. The term ordoliberalism is composed of two words; order (German: “Ordnung”) and liberalism. The Cambridge Dictionary defines an *order* as a social or political system in which everything is arranged in the state of working suitably. According to the business dictionary, an order can be a system of commerce (*e.g.* legally binding contract and transaction), banking (*e.g.* an agency or organization), law (*e.g.* an authoritative mandate), and finance (*e.g.* currency). In sum, an order is a complex set of laws and rules by which one is governed in a society or community (*e.g.* “the democratic order” and

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<sup>5</sup> The German economic miracle is usually described as a rapid reconstruction and sustainable development of the German economy in the aftermath of World War II. The resilient feature of the economy was also revealed during the financial and economic crisis in 2009. Apart from the consistent social security, stable labour market even during the financial crisis is part of the story (Rinne & Zimmermann, 2011). The export surpluses and successful crisis management during COVID-19 could also be considered as part of the success as the word miracle is controversial.



“the constitutional order”). It is a condition in which one is governed by the norms and laws of a society or institution and a system of living by which things are ordered.

Similarly, according to the Wordhippo dictionary, the Latin word “Institutum” includes institute, institution, custom, purpose, plan, established law, habit, mode of life, settlement, and principle. The New Institutional Economics (NIE) also incorporates a theory of institutions such as laws, rules, customs, and norms into economics (Agboola, 2015; North, 1991).

From the above definitions of an “order” and “institution”, one can intuitively comprehend that the term “order” and “institution” have a lot of resemblances if they are not identical. This leads to an important inference that the new institutional economics and the German ordoliberalism (Ordnungspolitik) have inherent interfaces because in both cases, the roles of orders (institutions) are revitalized.

### ***The Theory of Ordoliberalism***

Ordoliberalism is a third-way political theory in the classical state-market nexus discourse. Ordoliberalism emerged initially in 1937 in the “Ordnung der Wirtschaft”.<sup>6</sup> According to Eucken, adhering to market principles, a state should offer a conducive political framework and legal setting for a competitive market to function in an efficient and socially desirable path (Ptak, 2009). Economists such as Walter Eucken, Adolf Lampe, and Friedrich Lutz and lawyers such as Franz Böhm and Hans Großmann-Doerth established the so-called Freiburg Circles (Vanberg, 2012; Ptak, 2009). The various contributions to SME are summarised later (see Table 3 below).

Eucken argued that a *laissez-faire* approach gives rise to cartels and an undue concentration of monopoly power unless coordinated by the state. In coordination of the market, it is aimed at limiting the indefinite economic aggression of individuals, companies, cartels, and monopolies for the interest of social benefit. As Suntum *et al.* (2011) noted, such social benefits are materialized through constitutive and regulatory institutional frameworks (see Figure 1 below).

### ***The Classical Social Market Economy***

As explained above, the German word ‘Ordnung’, meaning ‘order’ used to refer to institution (“rule of the game”) upon which economic systems are based (Vanberg, 2004a, 2004b).

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<sup>6</sup> Since the year 1948, ORDO has been published as a peer-reviewed yearly published academic journal of order, economy and society journal in the Freiburg School of Ordoliberalism as initiated by Walter Eucken, Franz Böhm and Hans Großmann-Doerth.

Accordingly, ‘Ordnungspolitik’ is a German version of institutional economics. As ‘ordoliberal’ is the political philosophy, which is a foundation for the creation of the post-World War II German social market economic (SME) system, is considered as a socioeconomic model under the political theory of Ordoliberalism. The model has been ostensibly implemented in Western Germany by the political party called the Christian Democratic Union (CDU) since the government administration of Chancellor Konrad Adenauer. His Minister of Economy, Ludwig Erhard is regarded as the “father of social market economy” (Ptak, 2015; Vanberg, 2004a, 2004b, 2012; Exenberger, 1997).

Although the Ordoliberalism and social market economy models are contemplated as the post-WWII, their origins lie in the 1860s as a form of revolutionary socialism associated with orthodox Marxism (Bookchin, 1999). By the 1920s, social democracy became the dominant political tendency along with communism within the international socialist movement (Newman, 2005, p.5). While communist parties advocated radical or revolutionary socialism, the labor parties that advocated for SME were evolutionists (*Ibid.*).

By the 1910s, social democracy had to spread worldwide. Social democrats who opposed the Bolsheviks later renamed themselves as democratic socialists because they believe in a liberal democracy. This concept has been promoted by the Freiburg School of ordoliberalism (Goldschmidt & Rauchenschwandtner, 2013). The SME model, therefore, combines free market capitalism alongside social policies. In other words, the SME is a third-way between *laissez-faire* economic liberalism (Rhine capitalism) and state socialism (Abelshauser *et al.*, 2004). As the Director of the Economic Administration of the “Combined Economic Area”, Müller-Armack, declared the end of the controlled economy against the opposition from the occupying powers, the social market economy, since then, has proved to be a model for success in Germany. According to the German Federal Ministry for Economic Affairs, the social market economy is the “foundation of a liberal, open and democratic society” in Germany. The main idea behind the social market economy, therefore, is free competition-based prosperity and social security (Exenberger, 1997).

As indicated above, among others, Walter Eucken and Franz Böhm are primarily regarded as the founders of Ordoliberalism and the Freiburg School because they advocated for a strong role for the state in creating a proper legal environment for the economy and maintain a healthy level of competition especially in coordination with market and distribution of economic dividend through measures that adhere to market principles (*Ibid.*). Due to the foundational

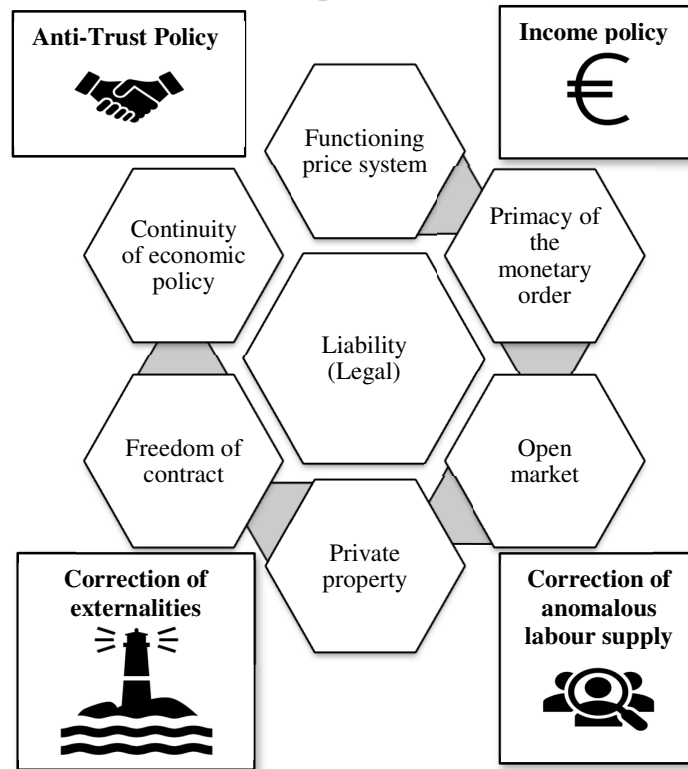
belief in the market, therefore, Ordoliberalism is also sometimes referred to as “German neoliberalism”. However, others regard it as a “liberal market economy” and “coordinated market economy” to distinguish neoliberalism and ordoliberalism respectively (Pühringer, 2016).

As Berger *et al.* (2013) claim, in Germany, the SME triumphed for more than 70 years. It is also argued that Germany is the birthplace of the Social Market Economy as originally advocated by notably the Freiburg Ordoliberalism School. The inner meaning is set as follows.

*The social market economy seeks a middle path between socialism and economic liberalism (i.e. a mixed economy) combining private enterprise with government regulation to establish fair competition, maintaining a balance between a high rate of economic growth, low inflation, low levels of unemployment, good working conditions, social welfare, and public services by using state intervention. The idea underlying the social market economy is that the free market efficiently produces a quantity of goods and would distribute them in a certain pattern among the economic agents who produced it, but that this distribution can be made morally and practically better by making it more ‘social’ (Ibid., p.21).*

In the social market economy, the German state abides by free competition, when it is necessary, it is also ironically benevolent enough to subsidize some sectors. In this regard, Hasse *et al.* (2008) posit that, in certain cases, the state does protect the privileges of, for example, specific industries such as agriculture and coal mining, and the owners of jobs and housing, endangering the state under the rule of law and the market economy through short-term legislation and interventions which do not conform with the system. It is due to these consistent social market economy-oriented policies that the German economy was rehabilitated from the WWII crisis, and in the long-run, has become the leading gigantic economy in Europe and the fourth-largest economy in the world. It is worth noting here that Germany, during the “Euro crisis”, was able to lower its unemployment rate which is literally known as “Jobwunder” or “Job Miracle”. In general, it is a widely held claim that the secret behind the “German Economic Miracle” is the SME. However, the major argument for further revitalization of the social market is that the classical Eucken’s principles of the social market neglected the “social inclusion”. According to Empter & Shupe, “Eucken emphasized the importance of a competitive economy, but he did not give enough attention to social inclusion” (2012, p.7). On contrary, they also emphasized that in 1946 the first economist to use the phrase “Social Market Economy” was Alfred Müller-Armack, who arguably “placed a significantly stronger focus on social policy” (*Ibid.*).

**Figure1: The Classical Principles of Social Market Economy**



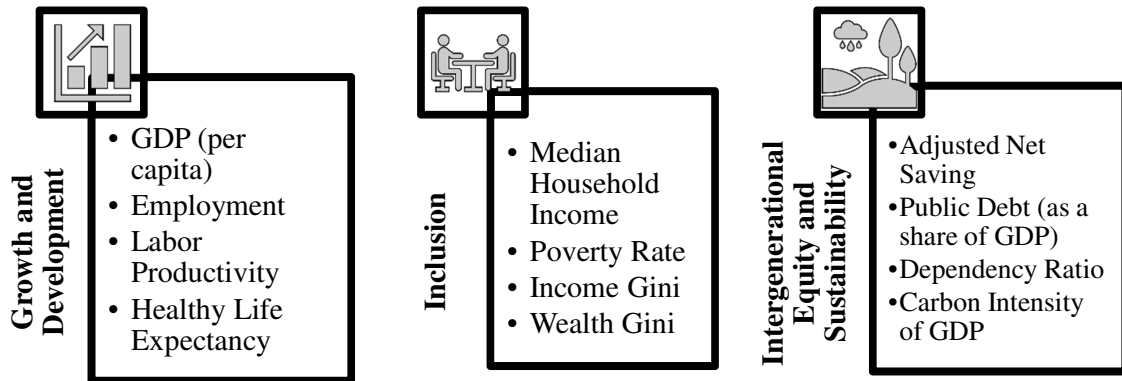
*Source:* Sketched by the Author Based on Suntum *et al.*, 2011, p.7.

N.B.: The Hexagons represent the constitutive (K) principles, whereas the rectangles epitomize the regulatory (R) principles as Eucken (1952) originally articulated.

### ***The Modern Social Market Economy Model - Inclusive Development Nexus***

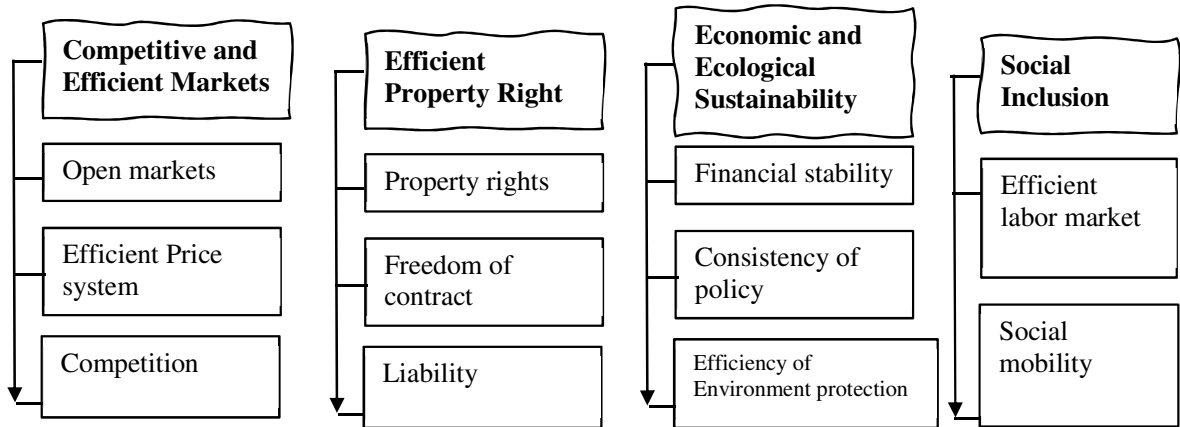
Governance institutions (orders) determine inclusive development (Mesfin 2020; Acemoglu & Robinson, 2012; North, 1991). The inclusive development approach is a pro-poor development economics and political economy approach for not only economic growth, but also social welfare are crucial constituents. Amartya Sen (1981), for instance, argues that every human being deserves entitlement as the basis for social justice. The mainstay of the social market economy is, therefore, not only augmenting economic growth through market instruments but also social securities for all which directly connects to an inclusive development approach. The importance of orders (institutions) is that the social market economy model is a long-term and institutionalized development path contrary to the Keynesian short-term and discretionary state intervention (*Ibid.*).

**Figure 2: Key National Performance Indicators of Inclusive Growth and Development**



*Source: Adapted from the World Economic Forum (2017).*

**Figure 3: The Modern Principles of the Social Market Economy**



*Source: Empter & Shupe, 2012, p. 8.*

In this article, as inclusive development and institutional quality are thematized, the new social market economy model is found to be particularly pertinent. This is because it gives critical attention to social inclusion and environmental sustainability compared to the classical SME model (see Figure 1 & 3).

**Table 1: The Modern Principles of the Social Market Economy**

Principles		Description	Indicators
Competitive and Efficient Markets	Open Markets	An open market is an economic system with no obstructions to free-market activity including factor and product mobility. The state facilitates competition, efficiency, and equity	Open Markets
			Controls on Capital Movement
			Freedom of Migration
	Efficient Price System	Distribution of goods, services, and factors of production are based on market forces. The state protects consumers from artificial distortions and unnecessary predation but not by setting the price.	Barriers to Market Entry
			Product Market Regulation (OECD)
			Price Control (Fraser Institute)
Competition	The market price is not obstructed by state intervention	Administrative vs. Market Prices (World Bank)	
		Subsidies and Other Transfers (% of expenses, OECD)	
		Media Pluralism (Sustainable Governance Indicators)	
Efficient Property Right	Property Rights	The state protects the ownership entitlements and facilitates transactions.	Competition Oversight Authority (Global Competition Review)
			Investor Protection (World Bank)
			Patent Protection (Park Index of Patent Rights)
	Freedom of Contract	Contracts are based on mutual agreement of market agents without the intervention of the state	Intellectual Property Rights (World Economic Forum)
			Occupational Choice
			Market Transparency and Consumer Protection
	Liability	The state intervenes if there is an undue contract	Judicial Review (Sustainable Governance Indicators)
			Private Insolvency
			Ratio Medium-sized Companies to Total Companies
Economic and Ecological Sustainability	Financial Stability	Apart from the precautions, during economic shocks in the key financial markets the state addresses with effective financial instruments and institutions	Manager Liability
			Central Bank Independence
			Depth of Credit Information Index (World Bank)
			Public and Private Credit Registry Coverage (World Bank)
			Prevention of Too-Big-to-Fail
			Bank Capital to Assets Ratio (World Bank)
	Consistency of Economic Policy	Policy consistency means compatibility and uniformity of course of actions from top to bottom level stakeholders so that it can be correctly & efficiently followed by all of them without creating a conflict & consistency in the development path	Equity Ratio of Companies
			Control of Financial Consolidation (OECD)
			The extent of Staff Training (World Economic Forum)
			Pension Systems Linked with Life Expectancy (OECD)
			Social Security Spending (OECD)
	Efficient Environmental Protection	The state regulates environmental protection and works with work together with corporations	R & D Spending (OECD)
			Market Economy Instruments
			Environmental Policy (Sustainable Gov'ce Indicators)
			Revenue from Green Taxes (OECD)
Social Inclusion	Effective Labor Markets	The state has policies for employment creation vocational training, assistance in the job search, wage subsidies or public works programs, and support to micro-entrepreneurs or independent workers, and protection of employees right	Active Labour Market Policy per Unemployed (OECD)
			Employment Protection Legislation (OECD)
			Prevention of Duality
			Employer-Employee Parity
			Effective Labor Market Programs
	Social Mobility	The state recognizes and facilitates social mobility i.e. the movement of individuals, families, households, or others in society.	Social Inclusion (Sustainable Governance Indicators)
			Non-Discrimination (Sustainable Gov'ce Indicators)
			Public Spending on Childcare & Early Edu'n (OECD)
			Education Structures
			Compulsory Unemployment Insurance (OECD)
			Guaranteed Minimum Social Security
Income Taxation and Incentives to Work			

Source: Compiled and Adopted from Different Sources including Empter & Shupe, 2012.

**Table 2: Pragmatic Lessons from Germany’s Inclusive Development Trajectory via SME**

<b>Politics</b>	<b>Economy</b>	<b>Social</b>
Ordoliberal/Rhine capitalism! school is “third-way” between <i>laissez-faire</i> economic liberalism and socialist economics. As an antithesis for the Anglo-Saxon model of capitalism, the state has social programs as argued by Alfred Müller-Armack, and as a synthesis state sets the order for the free market as claimed by Eucken and Erhard. Then Konrad Adenauer considered both the free market and social responsibility	There is self-regulating (unhampered) market competition ( <i>viz.</i> constitutive orders) and a strong state coordinates market and ensures economic justice ( <i>viz.</i> regulatory institutions)	universal social insurance programs: universal healthcare, compulsory education, sickness insurance, accident insurance, disability insurance, and a retirement pension. Right to self-determination, liberty, due process of law, freedom of movement, freedom of thought, freedom of religion, freedom of expression, peaceful assembly, and freedom of association are basic assumptions
Regional economic integration	Strong international supply chain	strong civil society organizations and delicately chosen civil servants
Rejects the socialist ideas of replacing private property	Fiscal decentralization	education-industry linkage (demand-based education)
Strong regulatory orders (e.g. property right protection, contract administration, data protection, digital identity)	Macroeconomic stability and independent central bank	non-discriminating (privilege-free) social insurance, mandatory private bank accounts
Democracy, republicanism, social responsibility, and federalism, individual freedom, human dignity, and the subsidiarity of societal organization are key components of the Basic Law	state coordination of labor market, training, unemployment benefit, regulation against exploitation, and free mobility	reading culture and rule binding society. Social integration and volunteerism, coordinated civil society, formal income, and expense of sacred income in religious institutions
Strong regulations against rent-seeking behavior. State and corporate-financed research, multiparty democracy (but major two large parties)	Export-oriented economy and grown multinational companies, coordinated producers and service providers	Family-based social system, secure social peace, economic humanism, least cost housing for those who are left behind in the development
inspired by Ordoliberalism, social-democratic reformism, and the political ideology of Christian democracy (ethics),	capital market & financial institutions diversification	Subsidy for socially important industries, equal opportunity, and protection of old-age, disability, or unemployment

*Source:* Compiled from Diverse Sources including Goldschmidt & Rauchenschwandtner (2013).

**Table 3: Thinkers that Contributed to the Evolution of the Social Market Economy**

Contributors	Selected Contribution to The Social Market Economy
Böhm, Franz (1895-1977)	Interested in antitrust law
Briefs, Goetz A. (1889 -1974)	Opposes the structural weaknesses and interested in the Christian view of 'Man and Society'
Dietze, C. von (1891–1973)	Advocates every economic order to be based on specific political and moral principles
Einaudi, Luigi (1874–1961)	Claims no need for private monopolies nor state control moral and political freedom without economic freedom is impossible
Engels, Wolfram (1933–1995)	Advocates the social market economy and its principles upholds the principle of individual freedom over state-controlled economies
Erhard, L. W. (1897-1977)	Contributed to the reengineering of the German economic system and the birth of the 'economic miracle' and known for 'prosperity for all' slogan
Eucken, W. K. H. (1891–1950)	Articulates the concept of institutional order which adhere to the principle of competition, and opposed interventionism in the economic process
Frickhöffer, Wolfgang (1921-91)	Defended ideological enemies of the social market economy and was known as the 'watchdog of the social market economy'
Hayek, Friedrich (1899–1992)	Fights for the 'neo-liberalism' in the war generation. In 1974 he was awarded the Nobel Prize for his comprehensive work on economics and social philosophy.
Höffner, Joseph Kardinal (1906–1987)	Advocates for the religious institutions' transition from romanticism to social reform and active participation in society.
Kamitz, Reinhard (1907-1993)	Introduces the concept and the principles of the 'social market economy' in Austria after 1945 believing in the indispensability of economic, political, and cultural liberties.
Karrenberg, F. (1904-1966)	Advocates the social market economy in church circles
Lutz, Friedrich August (1901-1975)	Iterates for necessary regulations to be incorporated into the monetary and currency system during flexible exchange rates
Meyer, Fritz W. (1907-1980)	Particularly interested in international trade relations, labor, and development policies as well as currency problems
Miksch, Leonhard Born (1901 – 1950)	Promotes competition with responsibility and influenced the currency reform by providing a framework of institutional order
Müller-Armack, Alfred 1901 – 1978	Coined the term social market economy and regarded the implementation of a liberal and humane political system
Nell-Breuning, Oswald von (1890 – 1991)	Argues that apart from market competition, social justice, love, 'genuine' regulatory principle, conditional reconciliation are vital in a society
Nipperdey, Hans Carl (1896 – 1968)	Promotes that the basic law to include basic economic, constitutional, and legal principles to guarantee the system of the social market economy.
Röpke, Wilhelm (1899 – 1966)	Claims that justice generates a 'concept of liberty', affirming solidarity as a basic value in 'economic humanism' or the 'third-way'. Humanity is 'beyond supply and demand'
Rueff, Jacques (1896 -1978)	Influenced the French monetary and economic policy, property rights, battled against inflation, the gold standard in foreign exchange, suggested stability policies
Rüstow, Alexander (1885 -1963)	Has a deep conviction in freedom and individual responsibility saying 'If you need a helping hand, first look for it at the end of your right arm.
Schiller, Karl (1911 – 1994)	Advocates for 'Competition as far as possible, planning as far as necessary'. 'Liberal and social elements in modern economic policy'.
Schleyer, H. (1915 -1977)	Opposes an interference with the market economy which is not inherent in the system
Schmölders, Günter (1903-1991)	Criticizes state as the 'benevolent dictator' & influenced the contemporary economic theory where market failure is criticized more frequently than government failure.
Schreiber, Wilfrid (1904 – 1975)	Promotes Catholic social doctrines, family burden compensation, social security, income distribution to children and adolescents not yet capable of gainful employment
Stoltenberg, G. (1928 – 2001)	Promotes financial & economic policy based on social & ethical principles along institutional order
Stützel, Wolfgang (1925 1987)	Focuses on legal issues and questions of business management and claims 'paying and receiving market prices means protecting one's freedom and dignity'
Thielicke, Helmut (1908 – 1986)	Endorses neither the <i>laissez-faire</i> capitalist economy nor communism. 'It is our responsibility to organize the material aspects of the way we live'.
Veit, Otto (1898-1984)	Contributed to the implementation of a stable financial and monetary constitutional framework and helped to make the concept of the social market economy a reality.

Source: Compiled from Various Sources especially Hasse *et al.*, 2008, pp 27-77.



### **Potential Challenges of Applicability of the Social Market Economy in African Context**

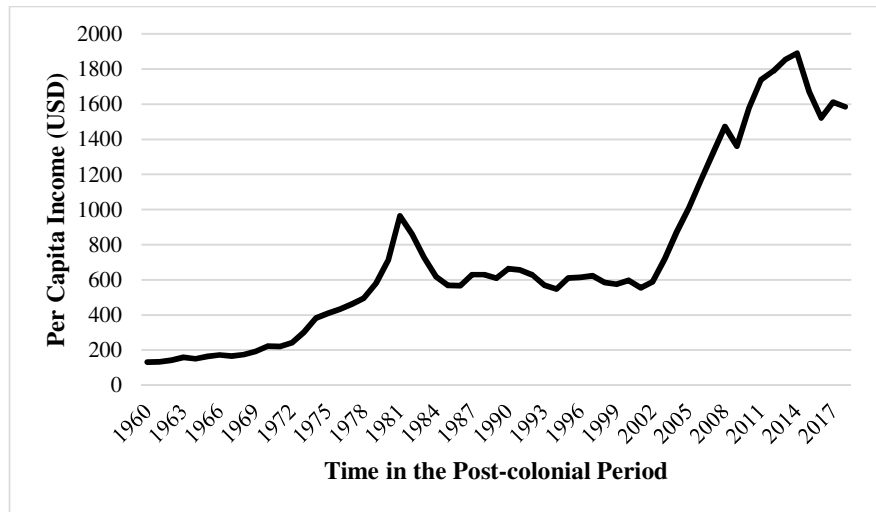
The German SME model has lessons that might be applied to fundamentally reengineer the political and economic thoughts in Africa. However, the reform can by no means be easier. For instance, due to the stage of development, historical, cultural, and geopolitical settings, a policy having a success story somewhere might not always keep fit in another social setting.

The following challenges might hinder the adoption of the German SME model in Africa. First, the SME successes have been gradual, whereas the urgent demand for inclusion in Africa may need more swift reform models like from recently emerged countries. Secondly, the SME was implemented in Germany and other western Europe, where corporatism and industrialization are already well established long ago, but in Africa, they are still underdeveloped and, hence, may limit the pertinence of the model. Thirdly, the governments must generate sufficient revenue to allocate funds to the acclaimed welfare programs in SME, whereas most governments in Africa may not afford it. The fourth problem may arise due to the mainstream tribal politics, totalitarianism, rent-seeking behavior in the market, and state, the African countries might not meaningfully espouse the commended policy instruments. In addition, the SME model may encounter challenges if implemented through debt or credit financing. With the prevailing minimal labor productivity and trifling demographic dividend, the welfare programs may also promote further dependency and inefficiency. Moreover, a social market economy can only truly work in the context of fiscal management where public finances are managed competently, efficiently, and transparently, whereas Africa has not yet drilled them. It is the case, as well that, historically, the liberal political economy in the transitional economies has a wide range of challenges. Finally, the policy dependency of African countries may face a severe constraint in having the SME as a viable and consistent long-term inclusive development path.

### **Comparison of Inclusiveness in Different Policy Choices**

In the post-colonial period, most of the African countries have passed through Pan-African socialism (1960-1980), capitalism (1980-2000), and the coexistence of capitalism and socialism (since 2000).

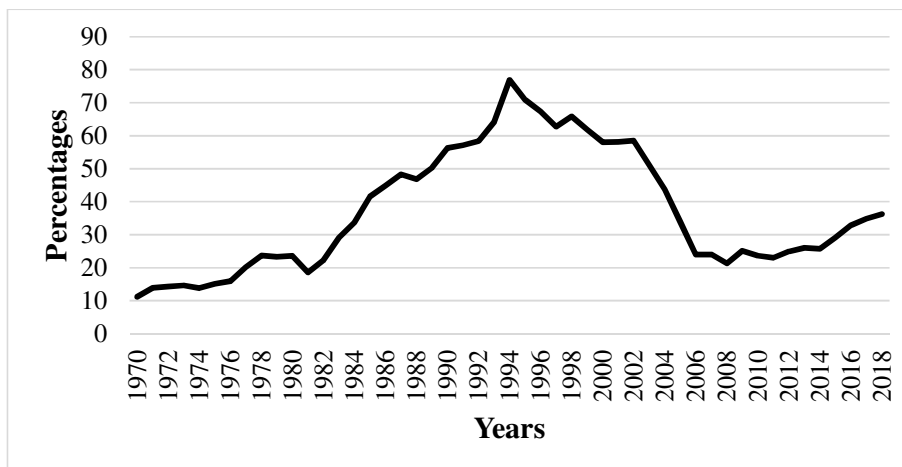
**Figure 4: Trend of Real Per Capita Income in Sub-Saharan Income**



Source: Sketched Based on Extracts from the World Bank Database, 2020.

As it could be noticed from Figure 4 above, the per capita income during the pan-African socialist regimes in the 1960s and 1970s was increasing though the performance was not uniform in different states. However, between 1981 and 2001, where the structural adjustment program (SAP) *viz. laissez-faire* capitalism principles were introduced, the real per capita income ended with dwindling which witnessed the lost decades in Sub-Saharan Africa. In the post-2000, however, where Millennium and Sustainable Development Goals were introduced, the Sub-Saharan African real per capita income had been increasing till 2014.

**Figure 5: Foreign Debt as a Percentage of GDP in Sub-Saharan Africa**

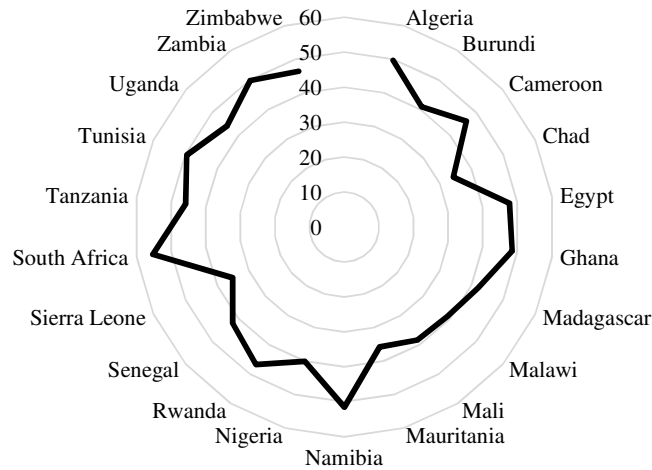


Source: Sketched Based on Extracts from the World Bank Database, 2020.

Figure 5 reveals an over-indebtedness of Sub-Saharan Africa (SSA) during SAP where the region exercised *laissez-faire* capitalism (in the 1980s and 90s). Moreover, it can be noticed

that in the time where capitalism and socialism coexisted since 2000, the SSA economy is recovering.

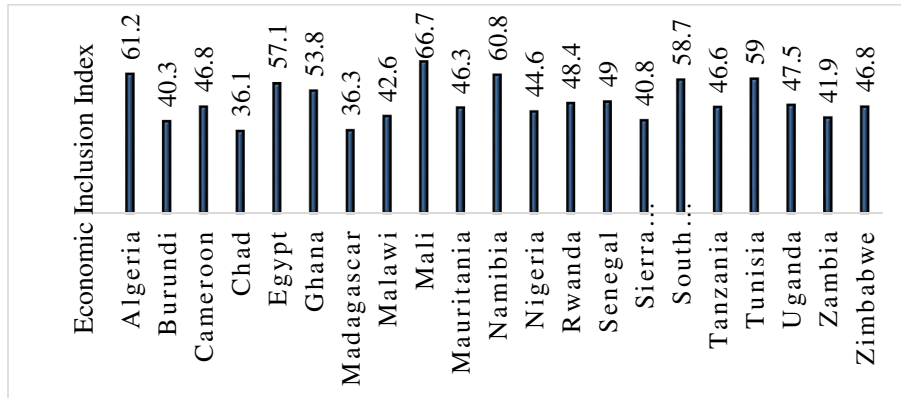
**Figure 6: Social Inclusion Index in Percentage**



*Source: Adopted from Mesfin, 2020.*

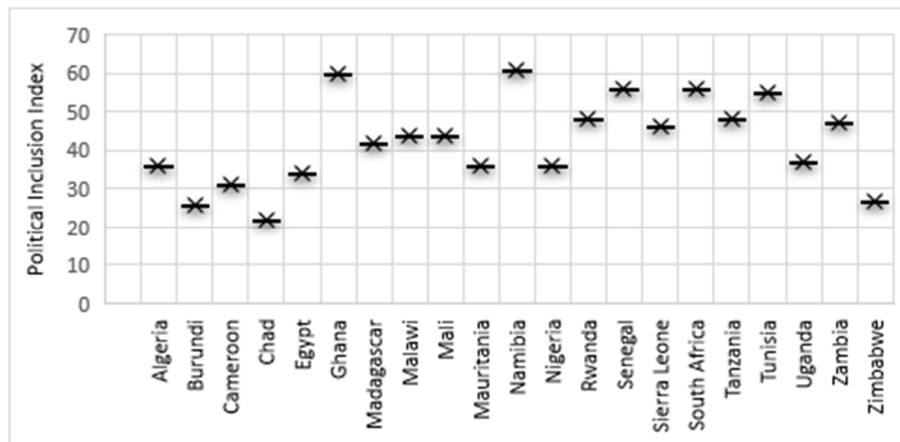
As Figure 6 above shows, the social inclusion index in the sample countries is minimal mostly less than 50%. South Africa, Namibia, Tunisia, Ghana, and Algeria are relatively better than the rest.

**Figure 7: Economic Inclusion Index in Percentage**



*Source: Adopted from Mesfin, 2020.*

**Figure 8: Political Inclusion Index in Percentage**



*Source:* Adopted from Mesfin, 2020.

The above Figures (6-8) show that the countries with better political inclusion, economic and social inclusion are also better and vice versa. The direction of correlation is not the scope of this article. Answering the question of whether “development” yields “better institutions” or “better institutions” yield “better development” is like the classical “egg or hen comes first” dilemma.

### **Conclusion and Recommendations**

In this review article, an attempt was made to briefly present the basic tenets of the ordoliberal social market economic ideology as a third-way political position that combines the free market competition-based prosperity and social justice through the welfare state. It has been noted, in this article, that, contrary to the Keynesian short-term and discretionary state intervention, the SME model is a long-term and institutionalized development path due to its consistency in terms of orders (institutions). And, the German economy significantly recovered from the WWII crisis due mainly to these consistent ordoliberal SME-oriented policies that, in the long-run, made the country Europe’s leading gigantic economy and the fourth-largest economy in the world. The central argument is that the ordoliberal SME has not only augmented the economic growth that was termed the “German Economic Miracle” through market instruments but also helped the realization of social justice which constitutes the inclusive development approach.

The vigorous conceptual linkages between the inclusive development and SME model prevails in the fundamental principles behind the model such as the constitutional and regulatory orders for a coordinated market, social insurance programs comprising universal healthcare,

compulsory education, social insurance, and labor market orders. The terms “order” and “institution” have a lot of resemblances if they are not identical. This may lead to an important inference that the new institutional economics and the German ordoliberalism have strong inherent interfaces than with neoliberalism because in both cases, the roles of orders (institutions) are revitalized. In Germany, since the 1950s, SME has been consistently followed and constitutionally proclaimed. Regardless of the programs of political parties, Article 20 of the German Constitution (Grundgesetz) declares ‘social democracy’ as the state policy.

Contrary to Germany’s path, the African countries experienced different political ideologies in the aftermath of colonialism, which proves that there was no policy consistency. However, the post-2000 economic trajectory of Africa has shown the coexistence of the welfare state and coordinated market that has already laid the ground to implement the lessons from the German SME. Yet, given the potential challenges of implementing SME policy instruments in Africa related to the stage of development, historical, cultural, and geo-political settings, there are the most important factors to take into account and paramount lessons to learn from. To this end, the following recommendations could be forwarded.

- The *laissez-faire* policies adversely affected inclusive development in Sub-Saharan Africa especially during the initial implementation years. The communist ideologies have also failure stories. Therefore, African countries need a consistent “third-way” political position and development path which promotes market forces that equally value social justice, thereby inclusive development.
- Open market, efficient pricing system, promotion of healthy market competition, ensuring property right, freedom of contract, liability, financial stability, consistency of policy, efficient environmental protection, efficient labor market and social mobility, security, and investment are the major policy instruments and principles of the SME which could be benchmarked in devising an Afro-centric SME model.
- Apart from the above principles, adherence to the SME principles has tremendous benefits to African nations at least for the following reasons. Embracing competitive and coordinated input and product market, family-oriented social system, a few political parties, dialogic democracy, and the welfare state are, *inter alia*, a few lessons for Africa to be learned from the German SME model.

- Direct transplantation of the German SME is impractical and not prudent for Africa. The lesson can, however, serve as a benchmark to devise a viable Afro-centric SME model where the African traditions, context, and aspirations are considered.
- A significant part of the African market is not only shallow, but it needs to leverage the private sector in a more humane way.
- Given the growing interest in the SME among the major political parties of the USA, UK, Europe, and other donors such as China and Japan, it would be easier to mobilize resources for policy implementation if African countries shift their political choice towards SME.
- There are local challenges in Africa that need urgent reform. For instance, the latency for a demographic dividend due to a youthful population might be the justification to reform the labor market as per the SME. Likewise, rampant poverty, the high-income gap between the poor and rich, infant industry, rent-seeking governance, brain-drain, and aid-dependence are also ground realities that necessitate urgent reform geared towards SME. Furthermore, following a consistent Afro-centric SME model may boost business confidence, predictability, learning by doing, research, and inclusion.

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