

The International Dimension of the SME.

Latin American experience*

Marcelo F. Resico (Catholic University of Argentina)

I- Introduction

In the latter years, the Latin American region has presented indicators which convey an improvement in both economic and social performances. Although the international conditions that have paved the way to this performance (particularly, a beneficial international commodity prices and low interest rates) seem to be changing due to conjuncture reasons, the structural elements of the positive scenario will remain. Sustaining a good performance will rely more and more in the measures on public policies that aim at the improvement of productivity, just as the tightening of the institutional framework. Concerning the systems of organisation adopted in the region, after the perspective based on the “minimal state”, a dilemma has aroused: whether to trust the market economy with its due regulation and impulse social diffusion past the economic results, or to carry out the idea of the state as the dominant economic agent, which in turn have presented some signs of warn out and progressively accumulate significant disequilibria.

Despite the mentioned dichotomy, the improved social standards and economic welfare allow a clear analysis on most of the countries of the region, as relevant actors in the reorganisation of the international economic landscape which is taking place at the present. With the fall of the Berlin wall, the succession of financial crises on a global scale and, along with the recent geo-economic changes, a consensus generated which recognize the need to reform the institutions which set the framework of the international economy. What is yet left unclear, or at least lacks of consensus, is the new form of content of the institutions, just as the coalitions and the roads to obtain the requested reforms. Thus, the possible emergence of countries from the Latin American region who present a major institutional convergence as well as adequate policies in economic and social terms, could result in the possibility of boosting the role of the region, in such a context.

In order to develop the mentioned statements, the present article shall consist in four parts. In the first, the present economic and social results will be discussed, within the context of recent global economic changes, and their impact on the region. In the second, the alternatives of economic organization systems will be presented, mainly “Social Market Economy” (SME) and “State Capitalism,” adopting as a framework for analysis the distinction between “inclusive” and

* This paper is the revised and augmented version of the lecture “La dimensione internazionale dell’economia sociale di mercato: l’esperienza dell’America Latina,” delivered at the seminar *La dimensione internazionale dell’economia sociale di mercato. Europa e Latinoamerica*, organized by Centro di Eccellenza Europeo Jean Monet, Pontificia Università Lateranense, Centro di Studi sul Federalismo and Almo Collegio Borromeo. Pavia, Italy, 20-21 April 2015. I would like to thank Andrés Martignano, for his help with the present English version.

“extractive” institutions. In the third, the opportunities as well as the challenges will be identified, for a higher convergence of the region in connection with “inclusive institutions”, i.e. the deepening of the SME. Last but not least, in the fourth the possibility of a greater influence of the countries of the region will be analysed, so as to aim towards a global-wide consensus, and also its essential elements.

II- Latin American situation in the new international economy context

The Latin American region has sustained –generally speaking– democratic stability, ever since its political recovery, in the majority of cases during the 80s. On the other hand, since the last decade, the countries have seen a steady economic growth. So as to compare with the last decade (2000-2010), the region has seen an increase of 2.8% in constant prices, compared to for instance the economic growth of the countries with high incomes during the same period, around 1.8%¹

Also in the last decade, the region has overall improved in its social indicators: the percentage of the population under the poverty line has diminished since the 1992 till 2012 from 46,5% to 25,0%.² Moreover, the Gini coefficient of the region has dropped 5,4 points.³ Unemployment has decreased from 11,5% in 2000 to 6,8% in 2012, according to data from the World Bank. However, the informal sector has mildly decreased, resting around the 40%.⁴ According to this scenario, we could argue that although it is true that the region did improve, there are still several social issues to be considered, and that there is still an important difference when compared to the most developed countries.

The causes of this better social situation rested in the improvement of economic growth in the same period, as well as the augment of transfers for social security, made possible by that growth.⁵ The resources that were directed to the social budget, on the region’s average, have grown from 11,2% in 1990 to 18,6% in 2010, in terms of GDP, whilst ascended from 45,7% to 62,6% as percentage of the total public budget in the same period.⁶

The mentioned economic growth that sustained the increase of transferred resources into the social area had two aspects: on the one hand, it has been fueled by the increase of international commodities prices of products which the region produces in a competitive way, such as food and minerals. This raise in commodity prices has been caused, between other factors, by the recent

¹ *Global Economic Prospects, Having Fiscal Space and Using It*, January 2015, World Bank Group.

² While the indigence level slumped from 22,6% to 11,5%, during the period 1990-2010, according to ECLAT.

³ From 0,517 in 1992 to 0,484 in 2012. Source: SEDLAC (CEDLAS and World Bank).

⁴ Vuletin Guillermo, (2008) “Measuring the Informal Economy in Latin America and the Caribbean,” *IMF Working Paper*, WP, 08/102, International Monetary Fund. The measure of the informal sector measured according to informal employment, according to ILO is around 50%, see ILO, “Thematic Labour Overview: Transition to Formality in Latin America and the Caribbean,” Lima: ILO, Regional Office for Latin America and the Caribbean, 2014. 46p.

⁵ According to the recent World Bank GEP report GDP at market prices grew a 3.3% between 2000 -2010. See (2015) “Global Economic prospects, Having Fiscal Space and Using It,” Ch.2 Regional Outlooks, Latin America and the Caribbean, The World Bank Group, 2015.

⁶ Source ECLAT.

Chinese high growth and increasing demand.⁷ In the past decade, China has been the most dynamic trading partner of Latin America and the Caribbean. In fact, in the period of 2005 – 2009, the growth rates of exports and imports among China and Latin American and the Caribbean have doubled their total exports and imports.⁸

During the period 2000-10 China experienced an extraordinary economic growth rate of 10.5 % average, fueled by a rapid industrialization particularly in the coast cities, where international IED gave the technological basis for producing competitive manufactures to be exported mainly to the high income countries.⁹ The industrialization process, as well as the migration of the labor force from the country side to the cities, produced an upward shock in the demand of raw materials and food. To sum up, the complementarities between the Chinese –and other Asian economies following the same development pattern– with Latin American economies, and particularly the South American ones is strong.¹⁰

Although this structural pattern will probably remain for decades the evolution of the international economy is changing rapidly the levels and some directions of the flows. From the subprime financial crisis (2007-08) onwards, the demand of Chinese exports was significantly reduced due to the decreasing demand in the high income economies hit by the crisis. At the beginning Chinese economy was able to sustain high growth rates, till the end of the decade, due to a very strong active economic policy, focused to a great extent, in building infrastructure. Nevertheless, since the beginning of the present decade, the growth figures continue to decrease (to a 7.4% in 2014).¹¹

The changes in Chinese external demand due to the slow recovery in the high income countries forced the beginning of a structural change in the Chinese growth model. The new one seeks a better balance between exports and internal consumption, and between manufactures and services, respectively. This structural evolution is far from being completed and it will involve a long transition and several risks. In this new phase, called by the Chinese authorities the “new normality”, policy makers have targeted a lower growth rate for the coming years.

In this sense the new normality of the Chinese economy is fostering a debate in the region related to the definitive end of the previous period of high rates and the future perspectives. The current situation is characterized by a struggle to resume genuine growth (i.e. growth without active monetary and fiscal policies) in USA and EU economies, and the new regional initiatives by China in fostering financial institutions for Asian growth. The challenge of Latin American economies lies

⁷ *Global Economic Prospects, Having Fiscal Space and Using It*, January 2015, World Bank Group.

⁸ Rosales Osvaldo, Kuwayama Mikio (2012) “China y América Latina y el Caribe Hacia una relación económica y comercial estratégica,” Comisión Económica para América Latina y el Caribe (CEPAL) Santiago, marzo de 2012.

⁹ See my article (2005) “La Dinámica de la Economía China y su Significación Global”, *Revista Colección*, Año, XI, No.16.

¹⁰ The commercial complementarity resembles the one produced in the XIX century between the region and UK. The similarities between South and North part of Latin America is that they produce raw materials, the difference is that the South also produces important quantities of food and don't have low cost labour industries (with the exception of Brazil), meanwhile the North (Mexico and Central America) is not so self-sufficient in food production and have developed a low cost labour industry (Maquila) for the American market that was hit by Chinese low cost production.

¹¹ *Global Economic Prospects, Having Fiscal Space and Using It*, January 2015, World Bank Group.

in playing a more significant role in this context, granting economic growth and resuming policies to incorporate value added to traditional primary exports, diversifying to some extent its destinations.

III- Alternative socio-economic models in the region

The sustainability of the good figures in economic growth and social indicators in the Latin American region lay in an improvement in institutional quality to deal with a more developed and demanding society. Nevertheless the region has, in a long term view, a record of high volatility in its institutional framework due to political instability.¹² The latter was the source of the strong shocks and changes in public policies (including the economic ones, of course) that resulted in a polarization of approaches in many countries. Since the reestablishment of democracy in the middle 80s and the reforms of the 90s some countries in the region have fairly improved their institutional quality, although there remains heterogeneity of cases with different prospects.¹³

Bearing this in mind, we can distinguish three initial groups of countries that are converging into two main options.¹⁴ The countries which are implementing inclusive institutions, including market institutions and the ones that point to equal opportunity, the ones who are developing some extractive characteristics and a third group where the liberalizing reforms generated a kind of initial inertia and are currently in a decisive period.

- Social Market Economy as an organizing economic system

The first group, whose members have achieved high social indicators thanks to the growth of the private sector, maintaining macroeconomic stability, increasing the transfer of resources to social policies, as well as a better off institutional quality and civil involvement. In these countries, we can observe a greater participation of inclusive institutions over the extractive ones.¹⁵ In the Latin American region, there are examples such as Chile, Brazil, Uruguay, Costa Rica, and Peru.

In this group we see an evolution towards the Social Market Economy approach.¹⁶ The social market economy is a system based on a free market economy, which cannot be conceived without

¹² The Argentinian case is covered in my article "Institutional aspects of Argentina's development: convergences, conflicts and opportunities," *Revista Cultura Económica*, Año XXVIII, Nº 77/78, Septiembre de 2010.

¹³ See Krause Martín, "Institutional Quality Index 2014," Relial, 2014.

¹⁴ See my two works: (2013), "A debate on models of capitalism and the Social Market Economy", *Konrad Adenauer Foundation Online publication*, Brazil, June; and (2013) "El rol del estado en la economía según la Economía social de mercado: casos y aplicaciones para Latinoamérica" International Conference "Los desafíos económicos, políticos y sociales de América Latina contemporánea", organized by Centro de Estudios Internacionales of El Colegio de México and Konrad Adenauer Foundation, 20-21 June 2013, México D.F.

¹⁵ Acemoglu Daron and Robinson James, (2012), *Why Nations Fail? The Origins of Power, Prosperity, and Poverty*, Crown Business, New York.

¹⁶ This definition of the ESM as a socio-economic model comes from the ideas developed by Alfred Muller-Armack, who coined the concept as an open idea and not as a closed theory. In his work *Wirtschaftslenkung und Marktwirtschaft* (Economic management and market economy), 1946, based on the article "Economía Social de Mercado, Introducción"

the existence, at the same time, of a strong institutional framework, and an emphasis on the socialization of the results of economic growth in an equitable manner through society.¹⁷ This last point is achieved through an active decentralization policy (for example antitrust laws, local and regional development policies, etc.), and in the form of a subsidiary social policy that promote self-improvement of individuals and communities (empowering civil society associations for social aid, and complementary public policies).

The institutional framework in this system is based on the rules of a market economy, the protection against restraints to competition, sound market regulation (in order to avoid behavior that may violate justice and a fair competition) and rules for the use of macroeconomic policies that open up a space for its prudent use in cases of exceptional situations, for instance active macro policies during the current crisis. The social policy as a whole is conceived in a "subsidiary" function, supporting self-help, and based on the promotion and strengthening of civil society initiatives, with a State that intervenes in cases where these efforts are not enough or where is a need for coordination. This socio-economic model harmonizes inherently with a participatory democracy political system, based on the recognition of individual and social rights, with government alternation and the division of powers to guarantee them.¹⁸

The SME system arises from the conscious attempt to synthesize the advantages of a market economic system: stimulation of individual initiative, productivity, efficiency, tendency to self-regulation, with the fundamental contributions of the social tradition of solidarity and cooperation based on equity and justice in a given society.¹⁹ In order to take the economic socio-political principles thus far to the concrete reality, the social market economy is based on a series of economic principles that are derived from them.²⁰ The "structural principles", which are dedicated to ensure the field of economic freedom, and the "regulatory principles", which are the ones that prevent the potential abuse of that freedom and guarantee that the profits generated in the market will be widely distributed in a socially equitable manner.²¹

(Social Market Economy. Introduction) by Friedrun Quaas, in Hasse Rolf H., Schneider Hermann, Weigelt Klaus (ed.), (2008). *Diccionario de Economía Social de Mercado, Política Económica de la A a la Z*, 3ra. Ed., Buenos Aires, Konrad Adenauer Stiftung.

¹⁷ SME comprises a complete political economic theory and a proved economic policy system applied in real economy experiences. This approach was developed in Germany and was applied successfully after the Second World War. The results have influenced similar decisions in neighboring countries at the time. It also contributed to the reunification of Germany in 1989 and it influenced the economic system adopted by the European Union as well as in the developing and transitioning countries, including Latin America. In some way the economic system of the USA (and Anglo-Saxon world) has a similar structure but depends on political consensus between different political parties through time, instead of on a broad and common explicit economic concept. It could be argued that both approaches are useful in different cases depending on cultural backgrounds. (For an study of the American economy case close to this argument see Luttwak, Edward, *Turbo Capitalism*, Harper Perennial, New York, 1999; and McCraw Thomas, *Creating Modern Capitalism*, Harvard University Press, Cambridge, 1998.

¹⁸ Resico Marcelo, (2011). *Introducción a la Economía Social de mercado. Edición Latinoamericana*, Río de Janeiro, SOPLA-KAS.

¹⁹ The representatives of this concept work in a synthesis of the liberal political-economic tradition in regard to the "individual rights," "republicanism," and the "market," with the tradition of social-Christian thought that emphasizes "human dignity," "social justice" and "fraternity".

²⁰ The first listing of them is due to the contribution made by the economist Walter Eucken, one of the leaders of the Freiburg School of Law and Economics.

²¹ See Eucken Walter, *Foundations of Economic Policy* (Grundlagen der Wirtschaftspolitik), Rialp, Madrid, 1956; and Karsten Siegfried, "Eucken's Social Market Economy and its Test in Post War West Germany," *American Journal of Economics and Sociology*, Vol. 44, No 2, April 1985.

All this set of economic principles presupposes the existence, in contrast with extreme economic liberalism and with the authoritarian statism, of a "strong and limited" state. "Strong" to promote and implement the principles set forth, and punish individuals or pressure groups that seek to violate them by imposing their own interests; and "limited" so that it does not exceed its functions beyond those principles, nor in the design nor its application.²² In addition the operation of this kind of state is conceived from the point of view of "subsidiarity", that is to say, in total coincidence with the delegation of functions and the promotion of individual, organized, or civil participation.

- ***State Capitalism as road from the Washington Consensus***

The second group includes those countries whose growth has been stimulated by the raise in the international prices of commodities, though the governments' policies are based on more extractive institutions. Despite bettering their social indicators, they have relied on the generation of massive processes of redistribution without consent. This strategy polarized society and deteriorated institutional quality due to the concentration of political power. In these countries it is taking place a replacement from private to public investment with diminishing results, diminishing productivity and the traditional problems related to corruption. In some cases, macroeconomic policies of the countries of this group have led to significant levels of inflation, jeopardizing seriously social advances. Some examples of this group are Venezuela, Argentina, Ecuador, Bolivia, and other from Central America.

In these countries part of the policy points to develop extractive institutions and approaching a model we can call "State capitalism".²³ State capitalism is a system in which the government acts as the dominant economic player and uses markets mainly for its political benefit. In order to do this it can combine political authoritarianism with state control of the key sectors of the economy. The economy in these countries can maintain "theoretically" private property and a pragmatic opening to foreign trade, but in the service of the state and its leaders. The government uses the state-owned companies or those controlled by the state, and other social partners (trade unions and social movements, as is the case in Latin America), to move forward their policies. In state capitalism the success in the business depends on the close relations between entrepreneurs and political officials. At the same time, the policy of expansion of the activities and powers of the state provide more opportunities to condition the economic and social actors.

Public financial funds aim to achieve a tight control of the most relevant investment projects through the power of long-term state financing. The latter, in turn, gets the capital by capturing foreign exchange reserves accumulated thanks to exports, taking over natural resource rents and

²² Recent articles on the subject Bonefeld, W. (2012), "Freedom and the Strong State: On German Ordoliberalism," *New Political Economy*, 17 (3), pp. 1–24; and Jackson Ben, "At the Origins of Ordo-liberalism: the Free Economy and the Strong State, 1930–1947," *The Historical Journal*, 53, 1 (2010), pp. 129–151 f Cambridge University Press 2010. The originators of this approach: Rüstow Alexander (1932), "Liberal Intervention;" and Röpke Wilhelm, (1944) "The Guiding Principles of the liberal Programme," both texts could be found in Willgerodt, Hans et al., *Standard Texts on the Social Market Economy*, Ludwig Erhard Stiftung, Gustav Fischer, Stuttgart- New York, 1982, pp.187-193.

²³ Ian Bremmer, (2008) "The Return of State Capitalism", *Survival*, vol. 50, no. 3, June–July, pp. 55–64.

the revenues from the operations of the controlled large businesses. The motivations behind investment decisions are political as well as economic. The government controls the economy by acting as a "capitalist" (in the sense stated by Karl Marx), that is to say, by appropriating surplus from the private economy. The "surplus appropriation" policy presupposes and requires a production system capable of creating wealth. In this conception, the optimal strategy is not short-term return maximization, but to encourage the productive system as much as possible, consistent to the preservation of the dominant position in the system.

In the Latin-American case, for example, the cultural characteristics of the region make our predominant form of "state capitalism" to be colored by charismatic authoritarianism and the clientelism of a demagogic state that distributes resources to win elections and adepts. However, this scheme wastes valuable resources in investments of dubious economic rationality and poorly designed social policies, without interest in encouraging self-improvement and independence of the people to whom they are addressed.

State capitalism is a system that has serious limitations that tend to increase over time. The mixture of business with government impairs competition, and more serious indeed "state capitalism" –as well as "de-regulated market economy"– does not believe in laws against monopolies. The distortions of competition, such as imbalances, bottlenecks, etc., lead to misallocation of resources, which in "state capitalism" usually involves new interventions, causing a vicious circle. Companies that maximize political objectives do not tend to be innovative and productive, since the political criteria often hinder entrepreneurship and efficiency.²⁴

Besides, the politicization of economic relations could easily lead to a disharmony of interests, which are conveyed by a constant and growing tension between parties and groups. The appropriation of surplus expands the "zero-sum" logic to other parts of society. By this logic an individual or group wins at the expense of another, stimulating the escalation of conflict between interest groups. In this fashion it is probable that tension raise within the ruling class, or between the ruling class and the rest of society. Finally, the model, which contains growing contradictions, becomes inherently unstable over time.

In addition, it is important to note before closing our classification that there are also some individual cases where the reforms derived from the "Washington Consensus" have been conserved to some extent. These economies have improved their growth paired with stability, though with a minor transfer of resources on social policies and institutions designed to foster equal opportunity, hence causing a more mild improvement of social indicators. Some of them are placed in Central and North America. Although it is fair to say that as they were producing manufactured labour intensive goods for the North American market, they have been weakened by China's high competitiveness in these goods, and also were hit in a sensible way by the deceleration of the American economy following the subprime crisis. These countries face an alternative between the two other ways presented before.

²⁴Walter E. Grinder, John Hagel Iii, "Toward a Theory of State Capitalism: Ultimate Decision-Making and Class Structure", *Journal of Libertarian Studies*, Vr.1. I. No. 1, pp. 59-79.

IV- The Challenge of Fostering Further the SME

As developed in the previous section, there are countries which are oriented towards a SME approach and try to sustain growth and development by augmenting the reach of the inclusive institutions. These, however, are beginning to face an issue which the literature calls “middle-class trap”.²⁵

There is firstly a development phase in which society manages to overcome poverty, and increases the income per capita. Nonetheless, the society is simultaneously growing more complex, and its actors are progressively becoming more specialized, as well as their interests. These differences and complexity pose important challenges to the governance for the continuity of development. When this conduct is generalised in the society, the differences may lead to a polarisation in the points of view, deteriorating the consensus on mid-term public policies around inclusive institutions. On the other hand, while this takes place and society becomes stagnated, a temptation to form authoritarian institutions can be re-established, responding to the need to solve the inertia caused by social conflict.

In this sense, the awareness of the conditions that are required to support a SME and its deepening is of vital importance. This implies in the first place to maintain a sustainable growth, and later to guarantee macroeconomic stability, added to the promotion of new competitive sectors, with a higher aggregate value that generate more employment.²⁶

When it comes to the social challenges of the countries belonging to this group, matters such as high levels of poverty and inequality still ought to be solved, which in turn implies a need to commit to improve the quality of social policies, abandoning completely the clientele traits. On the other hand, the emerging society, represented by the middle class, pressures further and further on for improvements in the quantity and quality of public services and the quality of institutions, which may lead to a transformation of the participation, turning demands more centred in particular interests. Finally the political elite is tempted to consider that the most part of the job had been done, and is easily turned to a more self-interested view, tending towards more corruption.

Concerning the challenge to improve the institutional quality, it is related to the amelioration of public capacities, fomented by the human capital of public servants. Also a melioration and extension of general education and the quality of the press and information, improving the quality of public debate, is very important as a preventive strategy, for strengthen the views of the public interest, against the narrow intentions of interest groups. Furthermore, civil and institutional culture ought to be promoted not only for the small groups but also for the clarification of public

²⁵ See Homi Kharas and Harinder Kohli, (2011) “What Is the Middle Income Trap, Why do Countries Fall into It, and How Can It Be Avoided?,” *Global Journal of Emerging Market Economies*, Volume 3, issue 3, 2011 pp. 281-289; and Eva Paus, (2011) “Latin America's Middle Income Trap,” *Americas Quarterly*, Winter 2011.

²⁶ See my work “A Economia Social de Mercado: Uma opção econômica para a América Latina,” en *Sair da crise: Economia Social de Mercado e justiça social*, *Cadernos Adenauer* Ano X, Nº3, 2009, FKA, Rio de Janeiro, Brasil. For the last subject see Solari Stefano, “Röpke's economic humanism and its relevance to the understanding of industrial districts,” *Storia del pensiero economico*, Angeli, Vol. 4.2007, 1, p. 47-68.

opinion. In order to do so, it is of high importance to accompany the public demand for rights and public services with responsibility and auto-responsibility in the different levels of public life.

Regarding the countries which are more oriented to “State Capitalism”, the challenge is even more important, because it implicates the change of the formation of extractive-oriented institutions into “inclusive” ones, according to the SME perspective.

In the case of the political system, the elements that concentrate power through the accumulation of dominant positions in either the public or the private economy must be tackled. Another means implemented by these groups consist in proposing reformations of the Constitution (especially the unlimited re-election of the president and the obstruction to the division of powers). To do so, within the context of a democratic system, the SME proposes political dialogue, and seeks the dialogue as a way to find consensus between the majority of the actors who search for pluralism, alternation and the fulfillment of the law for the governance of the country. The only viable strategy is the extension of the groups that gain conscience of the abuses coming from the extractive institutions, and the collaboration among them in order to change the centralist course of events.

Once the change in the main tendency is achieved, one more feature is necessary: not only the conviction that the “pluralism” of the groups is not enough, but also the development of the structure and the functions of a “strong and limited state”, as mentioned earlier as a requirement for the SME.²⁷ This in turn has some implications. On the one hand, creating an institutional framework where the limits to the abuses from the political powers are combined with the guarantee of the individual and social rights; on the other hand, the defense of the competition as a means of preventing the abuses of groups of interest and their influence on public affairs, guaranteeing the independence of the State, and hence allowing it to commit to the social welfare.

From those fundamental reasons, it is necessary to develop the institutions and policies that characterise the SME. The latter have been exposed in Part III: “Alternative socio-economic models in the region.”

As the region, leaving aside extractive institutions, converge towards a wide range of diverse forms of SMEs, it could become a responsible interlocutor with a more powerful voice when it comes to global issues. Taking into account that several countries –mainly the US and Europe– are progressively recovering from the crisis, and also the increasingly active role of China and other emerging States, there is a matter that must not be obviated: the international dimension of the SME.

V- Latin America and the International Dimension of a SME

²⁷ There is an important consensus around this topic, for example are guiding ideas in *Why Nations Fail?* By Acemoglu Daron and Robinson James, (2012), Crown Business, New York. and *The Origins of Political Order* by Fukuyama Francis, (2011), Farrar, Straus and Giroux.

Apart from being a sustainable response at the national level, the model of the SME could be a relevant framework of reference as a contribution to the reorganization of the international economic system. Nowadays the international system is threatened, not only by the economic effects of the current “great recession” crisis, but by a critical dissent in terms of what form this reorganization should take due to divergent models of capitalism, together with the values to institutions that compose them.²⁸ The contention between “market capitalism” and “state capitalism” will need other possibilities to play the role of third parties. In this situation, there is an important space for the model of the SME.

The global economy has always needed common values and institutions, in addition to the leadership of certain countries, that guaranteed specific institutional and infrastructure requirements as a safety net for markets, trade, and capital flows. Present day international organizations were created to resolve conflicts through accepted rules, created democratically by members, instead of using bare force. However, the structure of representation of this International Organizations refers to the geopolitical landscape at the end of the Second World War, a scenario that today has clearly changed, weakening its representativeness. In this scenario it is increasingly clear that there is a need to establish agreements with guarantees to govern the global economy from here onwards. This requires a common framework to set limits on the involvement of the states in view of trade and international environment.

Provided that the SME has been developed from the reconstruction of various European countries following WW2, the proposed system has placed emphasis on the economical and social ordering, on a national scale. Nonetheless, it has not credited the same success when it comes to the international dimension. Thus, it would henceforth be highly important to assume the task and propose systems of worldwide cooperation amid the challenges that are present today in this field, and also bring closer Europe and Latin America, as they may offer a voice of alternative and relevant proposals.

Moreover, in the matter of collaboration between vast areas or territories such as Europe and Latin America, it is especially important to understand the context of the attempt to strengthen the transatlantic relations. In order to profit from the current century, also known as “the century of the Pacific”, it shall only be a time of peace and prosperity if the relations involving mainly the Old Continent and the Americas are deepened and encouraged.

In the first place, the SME is a general orientation, relevant when it comes to macro issues, involving grand areas. In China, the SME may help to foment a change towards an economy based more on internal consumption, ie establishing a SME “with Chinese characteristics”. Furthermore, in the USA, a number of analysts point out accurately that one of their main challenges is to avoid the polarisation within the internal debate, regarding socioeconomic conceptions.²⁹ Plus, in the

²⁸ WEF, (2012). “Global Agenda Council on Geopolitical Risk”, Davos-Klosters, Switzerland 25-29 January; and my article “A debate on models of capitalism and the Social Market Economy”, *Online publication*, Konrad Adenauer Foundation, Brazil, June 2013.

²⁹ Krugman Paul, “A tale of two moralities,” *New York Times*, January 13, 2011; Fukuyama Francis, (2011) *The Origins of Political Order. From Prehuman Times to the French Revolution*, Farrar, Straus and Giroux, pg.16.

UE, the SME is successfully helping to work jointly through a severe crisis in the southern region, and from our point of view, the key lies in the macroeconomic prudential approach, ie impelling the levels of internal activity.³⁰

On the other hand, it is also required to think of an SME which could achieve a global reach: the SME stresses the role that institutions possess when organising the spheres of economic liberty, without relinquishing a strong normative and ethical base. What is observed today is that although the economy and the financial system have been globalised in a broad way, the institutions still have a long way to go; in fact, the international institutions are undergoing a period of transition.

At present, a series of problems have been accumulated in international terms: the over-dimensioning of the financial system has had negative consequences such as the disconnection with the real economy, becoming unstable and unsustainable. Furthermore, the marked augmentation of the concentration of companies in the international field has contradicted one of the fundamental assumptions of classical liberalism: even though there may be an economic concentration on a national level, we can trust that competition is to prevail in the international market. Last but not least, the need to improve the labour and environmental standards through a broader consensus, just as the application and the respect of patents, etc.

Many consequences could arise if this path is taken. From an economic policy point of view, for example: more emphasis in social policy –both at national and international level–; stronger regulations for financial markets, as laws and institutions foster competition; a renewal of efforts to bring closer differences in labor and ecological standards between regions and countries.

This being said, under what spirit are the international institutions to be reformed? Firstly, it is important to visualize the negative effects that follow a solution which permitted legal holes, institutional inertia, or an increase in the concentration of economic power, for they are all roads which involve high risks. While the former leads to and increase in conflicts and crises, the latter raises the chances of an authoritarian solution, which would carry utterly negative consequences. In the middle of these different paths, the SME emerges as an option with its bases on the subsidiary, federal and confederative focuses. And this may be achieved through the G-20, implementing an internal aggrupation that adopted the SME as a proposal with the spirit of dialogue and consensus.

However, this may only be delivered within a context of peace, mutual respect and collaboration; and in order to obtain peace, a profound work has to be carried out, in trying to find the points in common, as well as elaborating rules of common agreement for the resolution of conflicts. Although a period of coexistence of many superpowers makes the generation of consensus harder to achieve, it could guarantee fairer rules for all, rather than being settled unilaterally or biased by the excess I gravitation of the sole interest of its creator.

³⁰ Röpke Wilhelm, (2007) *Crisis & Cycles*, The Ludwig von Mises Institute, Auburn, Alabama, 2007, pg.173-176.

References

- Acemoglu Daron and Robinson James, (2012), "Why Nations Fail? The Origins of Power, Prosperity, and Poverty," Crown Business, New York.
- Bizberg, Ilán, (2011). "The global economic crisis as disclosure of different types of capitalism in Latin America", *Swiss Journal of Sociology*, vol. 37, n.2. Geneve, Seismo.
- Bonefeld, W. (2012), "Freedom and the Strong State: On German Ordoliberalism," *New Political Economy*, 17 (3), pp. 1–24.
- Bremmer, Ian, (2009). "State Capitalism Comes of Age", *Foreign Affairs*, May/Jun, Vol.88, Issue3.
- _____, (2008). "The Return of State Capitalism", *Survival*, vol. 50, no. 3, June–July, pp. 55–64.
- Jackson Ben, (2010), "At the Origins of Neo-liberalism: the Free Economy and the Strong State, 1930 –1947," *The Historical Journal*, 53, 1 pp. 129–151 f Cambridge University Press 2010.
- Fontenla Montes Emilio, Guzmán Cuevas Joaquín Eds., (2005). *Brasil y la Economía Social de Mercado*, Ed. Cáceres, Universidad de Extremadura.
- Fukuyama Francis, (2011) *The Origins of Political Order. From Prehuman Times to the French Revolution*, Farrar, Straus and Giroux.
- Grinder Walter E., Hagel Iii John, "Toward a Theory of State Capitalism: Ultimate Decision-Making and Class Structure", *Journal of Libertarian Studies*, Vr.1. I. No. I, pp. 59-79.
- Hasse Rolf H., Schneider Hermann, Weigelt Klaus (ed.), (2008). *Diccionario de Economía Social de Mercado, Política Económica de la A a la Z*, 3ra. Ed., Buenos Aires, Konrad Adenauer Stiftung.
- Homi Kharas and Harinder Kohli, (2011) "What Is the Middle Income Trap, Why do Countries Fall into It, and How Can It Be Avoided?," *Global Journal of Emerging Market Economies*, Volume 3, issue 3, 2011 pp. 281-289.
- Hurtado Osvaldo, (2004): "Neoliberalismo y Economía social de Mercado", *Revista Testimonio*, No. 79, Abril-Septiembre.
- Karsten Siegfried, (1985): "Eucken's Social Market Economy and its Test in Post War West Germany," *American Journal of Economics and Sociology*, Vol. 44, No 2, April.
- ILO, "Thematic Labour Overview: Transition to Formality in Latin America and the Caribbean," Lima: ILO, Regional Office for Latin America and the Caribbean, 2014. 46p.
- Krause Martín, (2014), *Institutional Quality Index*, 2014, Relial.
- Müller Armack Alfred, "The Meaning of the Social Market Economy," in (1989) *German Social Market Economy: Origins and Evolution*, Ed.By Alan Peacock and Hans Willgerodt, London, Macmillan Press.
- Paus Eva, (2011) "Latin America's Middle Income Trap," *Americas Quarterly*, Winter 2011.
- Resico Marcelo, (2013) "A debate on models of capitalism and the Social Market Economy", *Konrad Adenauer Foundation, Online publication*, Brazil, June.
- _____, (2013) "El rol del estado en la economía según la Economía social de mercado: casos y aplicaciones para Latinoamérica" International Conference "Los desafíos económicos, políticos y sociales de América Latina contemporánea", organized by Centro de Estudios Internacionales of El Colegio de México and Konrad Adenauer Foundation, 20-21 June 2013, México D.F.
- _____, (2011). *Introducción a la Economía Social de mercado. Edición Latinoamericana*, Río de Janeiro, SOPLA-KAS.
- _____, (2010) "Institutional aspects of Argentina's development: convergences, conflicts and opportunities," *Revista Cultura Económica*, Año XXVIII, Nº 77/78, Septiembre.
- _____, (2009) "A Economia Social de Mercado: Uma opção econômica para a América Latina," en *Sair da crise: Economia Social de Mercado e justiça social*, Cadernos Adenauer Ano X, Nº3, FKA, Río de Janeiro, Brasil.

_____, (2008). *La estructura de una economía humana. Reflexiones en cuanto a la actualidad del pensamiento de W. Röpke*, Buenos Aires.

_____, (2005) "La Dinámica de la Economía China y su Significación Global", *Revista Colección*, Año, XI, No.16.

Röpke Wilhelm, (2007) *Crisis & Cycles*, The Ludwig von Mises Institute, Auburn, Alabama, 2007.

Rosales Osvaldo, Kuwayama Mikio (2012) "China y América Latina y el Caribe Hacia una relación económica y comercial estratégica," Comisión Económica para América Latina y el Caribe (CEPAL) Santiago, marzo de 2012.

Solari Stefano, (2007) "Röpke's economic humanism and its relevance to the understanding of industrial districts," *Storia del pensiero economico*, Angeli, Vol. 4., 1, p. 47-68.

Teichman Judith, (2010). "La paradoja de la reforma de mercado exitosa en América Latina: fortalecer el rol del Estado", *Revista Cultura Económica*, Año XXVIII, Nº 77 /78, Septiembre, pp. 30-45.

WEF, (2012). "Global Agenda Council on Geopolitical Risk", Davos-Klosters, Switzerland 25-29 January.

Vuletin Guillermo, (2008) "Measuring the Informal Economy in Latin America and the Caribbean," IMF Working Paper, WP, 08/102, International Monetary Fund.

Willgerodt Hans, Watrin Christian, Stützel Wolfgang, Hohmann Karl, (1982). *Standard Texts on the Social Market Economy*, Stuttgart – New York, Gustav Fischer.

World Bank (2015) *Global Economic Prospects, Having Fiscal Space and Using It*, January 2015, World Bank Group.

Yañez Eugenio, (2005). *Economía Social de Mercado en Chile, Mito o realidad?*, Hans Seidel Stiftung, Santiago de Chile.