

# Unit 10: The State and Us – Monetarism and Keynesian Economics

(Sek 2: Jahrgangsstufe 12, 8. Lernjahr, B2/B2+)

## Allgemeine Erziehungsziele:

Historische Zusammenhänge einordnen;  
Auswirkungen auf die Gegenwart beschreiben und beurteilen;  
Perspektivenwechsel vornehmen;  
Politische und ökonomische Kontroversen verstehen und einschätzen;  
Medien kritisch analysieren;  
Standpunkte verstehen und vertreten

## Ziele fremdsprachlicher Bildung:

Lesekompetenz schulen;  
Informationen über komplexe Sachverhalte verarbeiten;  
Landeskundliche und interkulturelle Kenntnisse;  
Arbeit mit Texten, Grafiken und Tabellen;  
Interessen verstehen und zuordnen;  
Standpunkte abwägen und beurteilen

## Inhalte und Themen:

*The Invisible Hand (Adam Smith);*  
*Keynes and Friedman: demand-side and supply-side economics;*  
*Politics and economy (Germany);*  
*Mergers;*  
*Social Market Economy;*  
*A Magic Hexagon*

## Fertigkeiten, Fähigkeiten, Anbahnung von Kompetenzen:

### GeR (Auszüge):

B2: Kann etwas systematisch erörtern und dabei entscheidende Punkte in angemessener Weise hervorheben und stützende Einzelheiten anführen; kann eine klare und systematisch angelegte Präsentation vortragen und dabei wesentliche Punkte und relevante unterstützende Details hervorheben; kann längere Redebeiträge und Vorträge verstehen und auch komplexer Argumentation folgen; kann Artikel und Berichte über Probleme der Gegenwart lesen und verstehen; kann sich ... aktiv an einer Diskussion beteiligen und Ansichten begründen und verteidigen.

B2+: Kann ein breites Spektrum anspruchsvoller, längerer Texte verstehen und auch implizite Bedeutungen erfassen; kann über eine Vielzahl von Themen klare und detaillierte Texte schreiben; kann Informationen wiedergeben und Argumente und Gegenargumente für oder gegen einen bestimmten Standpunkt darlegen (Europarat 2001: 65 f.).

## Sachfach-Curriculum Po/Wi:

Wirtschaft und Wirtschaftspolitik in der sozialen Marktwirtschaft; Konjunkturpolitik; Herausforderungen wirtschaftlicher Ordnungspolitik und Zielsetzungen; Freier Markt und Monopole; CSR; Kontroversen um gerechte Sozialpolitik und Probleme der Staatsfinanzierung

## Sprachfokus:

thematisch orientierte Redemittel und Strukturen;  
*analysing texts and cartoons;*  
*CLIL discourse and word fields;*  
*understanding concepts;*  
*working with historic sources;*  
*reading and listening comprehension;*

*interpreting podcasts and commenting messages;  
negotiation of meaning and perspectives  
taking a stance*

**Lehr- und Lernstrategien:**

*Inside-outside circle\*; comparisons and presentations; plenary discussions; crib sheets\*; think-pair-share\*; placent activity\*; gallery walk\*; group puzzle\*; gapped sentences; right/wrong exercises; rubrics; guided and independent content-based research*

**Evaluation:**

formatives Feedback (im Rahmen der Lernaktivitäten mit *comparisons, negotiations, explanations of activities and procedures, peer scaffolding; plenary discussions, findings of research*); summatives Feedback: Ergebnisse von Präsentationen, Standpunkte beziehen, Ergebnisse vergleichen

## Übersicht Unit 10: The State and Us – Monetarism and Keynesian Economics

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**Worksheet 5: Supply and Demand (a survey)**

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Unterrichtsstunde 9

**Worksheet 7: Mergers (Opelaner and Thyssenkrupp)**

Unterrichtsstunde 10

**Worksheet 8: Social Market Economy**

Unterrichtsstunde 11–12

**Worksheet 9: A Magic Hexagon**

### Worksheets 1 bis 9: Anregungen zum Vorgehen

Die für die *worksheets* vorgesehenen Unterrichtsstunden sind für jeweils 90 Minuten geplant. Das Thema der Unterrichtseinheit, das Zusammenspiel von Wirtschaft und Politik, wird zunächst aus historischen Kontexten hergeleitet (*worksheets* 1 und 2); es entwickelt – nicht zuletzt seit der Finanzkrise von 2008/2009 – ein zunehmend kritisches Potenzial und gewinnt zukunftsorientierte Dimensionen unter den Bedingungen der Globalisierung. Das Verständnis wirtschaftspolitischer Kontroversen lässt sich in mehreren Schritten kompetent erwerben. Mit seinen historischen Wurzeln in der schottischen Aufklärung und Industriellen Revolution wird Adam Smith als Gründungsvater der Wirtschaftswissenschaften beschrieben, dessen Grundannahmen von „*invisible hand*“ und „*division of labour*“ den sozioökonomischen Diskurs bis heute maßgeblich beeinflussen, während der Streit um die Deutungshoheit weiter anhält und je nach Interessenslage in die eine oder andere Richtung ausschlägt: als neoliberale Prägung des Monetarismus oder die der sozialen Marktwirtschaft durch

den Keynesianismus (*worksheets* 3 bis 5). Ziele der Wirtschaftspolitik (zusammengefasst im magischen Vier- bzw. Sechseck) werden mithilfe konkreter, aktueller Beispiele (*worksheets* 6 bis 8) zugeordnet und analysiert. In der eingehenden Beschäftigung mit dem Konjunkturzyklus werden Fachbegriffe der angebots- und nachfrageorientierten Wirtschaftspolitik erarbeitet und Schüler befähigt, die Unterschiede nachzuvollziehen und ihr Verständnis zu dokumentieren, sodass ihnen vor dem Hintergrund der historischen Entstehungsbedingungen eine eigene Positionierung möglich wird (*worksheet* 9). Finanzkrisen und globale Wirtschaftsbeziehungen erfordern innovative und kenntnisreiche Einsichten, die sich aus den historischen Kontexten herleiten lassen. Mit kleinschrittigen *tasks* wird das englischsprachige Unterrichtsmaterial erschlossen, mit *scaffoldings* authentische Quellen entlastet und deutsche Texte mithilfe von Mediation einbezogen.

## Worksheet compass

phase	activities of		scaffolding
	teachers	students	
<b>planning; backward design</b>	issues/problems to be solved	analysis, assessment, negotiation, critical thinking, expressing views	worksheet compass
	guiding questions and outcomes	advance organizer, study objectives, peer-scaffolding	...
<b>complex task</b>	initiating a stance	examining controversy, negotiating, interpreting, allocating corner stones	crib sheets*, useful phrases, discourse files, rubrics
<b>worksheet 1</b>	Adam Smith	<b>task 1:</b> read, complete <b>task 2:</b> outline, mediate, discuss	gapped sentences, rubrics
<b>worksheet 2</b>	The Invisible Hand	<b>task 3:</b> analyse, outline, compare <b>task 4:</b> outline <b>task 5:</b> compare, discuss, assess	placemat activity*, cartoon*, historic sources, crib sheet*, think-pair-share*
<b>worksheet 3</b>	Keynesianism	<b>task 6:</b> describe, complete, scan <b>task 7:</b> describe, create	terms & concepts, gapped text, placemat activity*, inside-outside circle*, poster
<b>worksheet 4</b>	Monetarism	<b>task 8:</b> outline, juxtapose, discuss <b>task 9:</b> discuss, assess	crib sheet, think-pair-share, video clip, running sheet
<b>worksheet 5</b>	Supply and demand (a survey)	<b>task 10:</b> examine, mediate <b>task 11:</b> design, outline, compare	right/wrong exercise, gallery walk*
<b>worksheet 6</b>	Germany – Politics & economy	<b>task 12:</b> mediate, explain, complete	placemat activity*, key/discourse terms
<b>worksheet 7</b>	Mergers (Opelaner & Thyssenkrupp)	<b>task 13:</b> describe, discuss, brainstorm <b>task 14:</b> outline, evaluate <b>task 15:</b> analyse, evaluate, present	inside-outside-circle*, rubrics, placemat activity*

<b>worksheet 8</b>	Social market economy	<b>task 16:</b> read, examine <b>task 17:</b> mediate, allocate, present	gapped sentences, placemat activity*, rubrics
<b>worksheet 9</b>	A magic hexagon	<b>task 18:</b> examine, brainstorm <b>task 19:</b> outline, compare <b>task 20:</b> negotiate	think-pair-share*, plenary activity*

## Worksheet 1: Adam Smith

### Task 1:

Adam Smith, a Scottish scholar and philosopher in the 18<sup>th</sup> century, is commonly known as the “Father of Economics”, because in his work he dealt with the ideas of a free market. **Read** about Adam Smith to see why he was given this name. After you read the text, **complete** the sentences below.

#### Adam Smith: Biography

1. Adam Smith (1723–July 17, 1790) was a Scottish economist and moral philosopher. His “Inquiry into the Nature and Causes of the Wealth of Nations” was the first serious attempt to study the historical development of industry and commerce in Europe. It helped to create the modern academic discipline of economics and provided one of the best-known intellectual rationales for capitalism. Smith was the son of the comptroller of the customs at Kirkcaldy, Fife, Scotland. The exact date of his birth is unknown, but he was baptized at Kirkcaldy on June 5, 1723, his father having died some six months previously.

2. At the age of about fifteen, Smith proceeded to the University of Glasgow, studying moral philosophy. In 1740, he entered the Balliol College of the University of Oxford, and in 1748 he began delivering public lectures in Edinburgh under the patronage of Lord Kames. Some of these dealt with rhetoric and belles-lettres, but later he took up the subject of „the progress of opulence,“ and it was then, in his middle or late 20s, that he first expounded the economic philosophy of „the obvious and simple system of natural liberty“ which he was later to proclaim to the world in his “Inquiry into the Nature and Causes of the Wealth of Nations”. About 1750, he met David Hume, who became one of the closest of his many friends.

3. In 1751, Smith was appointed professor of logic at the University of Glasgow, transferring in 1752 to the chair of moral philosophy. His lectures covered the fields of ethics, rhetoric, jurisprudence, political economy, and “police and revenue”. In 1759, he published his “Theory of Moral Sentiments”, embodying some of his Glasgow lectures. On returning home to Kirkcaldy he devoted much of the next ten years to his magnum opus, An “Inquiry into the Nature and Causes of the Wealth of Nations”, which appeared in 1776. It was very well-received and popular, and Smith became famous. In 1778, he was appointed to a comfortable post as commissioner of customs in Scotland and went to live with his mother in Edinburgh. He died there on July 17, 1790, after a painful illness. He had apparently devoted a considerable part of his income to numerous secret acts of charity. He neither married nor fathered children. (BK)

**Voc.:** rationale: Begründung, Grundprinzip; comptroller: staatlicher Kontrolleur; Lord Kames (1696-1782): Scottish advocate and philosopher, central figure of the Scottish Enlightenment; belles-lettres: Belletristik, schöngestige Literatur; to expound: erklären, darlegen; David Hume (1711-1776): Scottish philosopher and economist, influenced cognitive science (study of the mind); revenue: Steuereinkommen

1) Smith’s modern academic discipline of economics provided

.....

.....

.....

2) His public lectures in Edinburgh

.....

.....

.....

3) Smith became famous because

.....

.....

.....

## Task 2:

The legacy of Adam Smith is powerful both in the past and present. In the table below, **outline** the topics connected with his work; some **mediation\*** is required. **Discuss** your results in plenary.

## Topics

### Division of Labour

Smith's central message is that productive labour should be made even more productive by deepening the division of labour. In the famous example of a pin factory, Smith explained how co-operation between workers in the factory to divide tasks between them raised their combined output. He went on to explain how, by trading with others, both at home and abroad, we could specialise our own production and society as a whole would benefit from higher incomes and standards of living.

### The Invisible Hand

Smith only used the term three times himself: in "History of Astronomy" and once in each of his "The Theory of Moral Sentiments" (1759) and "The Wealth of Nations" (1776). This last statement has been interpreted in numerous ways. Commonly accepted is the idea that rational self-interest and competition can lead to economic prosperity.

Joseph E. Stiglitz, Nobel Prize-winning economist, says that the reason that the invisible hand often seems invisible is that it is often not there. (BK)

### Die "unsichtbare Hand" des Marktes

In einer freien Marktwirtschaft sind, Adam Smith zufolge, Angebot und Nachfrage die wichtigsten Steuerungselemente für Produktion und Konsum. Smith berief sich dabei auf den Mechanismus der unsichtbaren Hand: Sie sorgt dafür, dass jeder Marktteilnehmer allein dadurch, dass er seine egoistischen Ziele und Gewinnmaximierung verfolgt, zum Nutzen der Gesellschaft beiträgt und die Verfolgung privater Interessen dem Gemeinwohl dient. Die Funktion der Regierung beschränkt sich dabei auf den Schutz des Privateigentums, die innere und äußere Sicherheit und die Garantie der Rechtssicherheit. Sie hat die Rolle eines Nachtwächterstaates und erfüllt Aufgaben im Bereich von Bildung und Infrastruktur sowie öffentliche Serviceleistungen, die durch private Träger nicht abgedeckt werden. (BK)

### Mercantilism

An economic system (Europe in the 18th century) to increase a nation's wealth by government regulation of all of the nation's commercial interests. It was a managed economy in which government intervention was important in allocating goods and resources and determining prices. The cause of increase in national wealth was believed to be labour, rather than the nation's quantity of gold (bullions). (BK)

### Physiocrats

Opposed to mercantilism – the dominating economic theory at the time – illustrated by their motto "laissez faire et laissez passer, le monde va de lui meme". Only agricultural activity would produce real wealth; merchants and industrialists would not. It was a hidden criticism of the nobility and church, arguing that they made up the only real clients of merchants. (BK)

**Scottish Enlightenment**

The Scottish Enlightenment was a practical movement of ideas usually dated in the second half of the 18<sup>th</sup> century and a timespan before and after. It started before the French Revolution of 1789. The term was coined by the Welsh professor W.R. Scott in 1900 and provided ideas leading to the main accomplishments of Scottish Enlightenment (rational thinking, common sense) as well as compulsory education (also for girls). Scottish culture of the second half of the nineteenth century was at its best in literature, science, architecture and music. Overall, the discovery of knowledge which could then be applied to improve living conditions and increase the production of commodities was one of the fundamental features of the Enlightenment. (BK)



© Bildnachweis: kevinj, Stock-Fotografie-ID:140448309, Hochgeladen am: 2. März 2012

<https://www.istockphoto.com/de/foto/der-neuen-zwanzigfundschein-gm140448309-3098488> (last accessed August 2018)

**The Adam Smith banknote**

The L 20 note, issued by the Bank of England, has this inscription: "The division of labour in pin manufacturing (and the great increase in the quantity of work that results)". It refers to his famous work "The Wealth of Nations" and its central theme as exemplified in a pin factory. (BK)



© Adam Smith Institute, <https://www.adamsmith.org/store/adam-smith-institute-official-ties> (last accessed June 2018)

**The Adam Smith Necktie**

Among other memorabilia, the Adam Smith tie is often worn by people as a statement of their devotion to his idea of free markets and limited government intervention (aka laissez faire). It might, however, misrepresent his pledge because he did not wear it himself. (BK)

**Scaffolding:**

<b>Division of Labour</b>	In a pin factory Smith discovered ...
<b>The Invisible Hand (die „unsichtbare Hand“ des Marktes)</b>	Self-interest and competition leads ...
<b>Mercantilism</b>	In 18 <sup>th</sup> century Europe, governments ...
<b>Physiocrats</b>	This economic school of thoughts ...
<b>Scottish Enlightenment</b>	A practical movement of ideas ...
<b>Banknote</b>	The only English banknote representing ...
<b>The Adam Smith Necktie</b>	This necktie is a statement of ...

## Worksheet 2: The Invisible Hand

### Task 3:

Based on the scaffolding below, **analyse** this cartoon and **outline** your findings in a placemat activity\*. **Compare** your results (middle of placemat) in plenary.



“Would it be so bad if the market could see you?”

© Andertoons, [www.andertoons.com](http://www.andertoons.com);

<https://smallbiztrends.com/2016/09/invisible-hand-business-cartoon.html> (last accessed June 2018)

**Voc.:** invisible hand: unsichtbare Hand; shopping spree: Einkaufsbummel; perceive: wahrnehmen; good bargain: Schnäppchen

### Scaffolding

#### Cartoons

**Content:** key words – planning a shopping spree, shape of a hand ...

**Context/description:** –worried consumer ...

**Target:** –shopaholic ...

### Task 4:

Working with historic sources, a search for key words will be helpful to translate the excerpt's contents (see below) into present day concepts of industrial production, co-operation, productivity and advantages of the division of labour. On a crib sheet\*, **outline** these key terms and **quote the relevant original passages**. The second excerpt would be dealt with similarly, focusing on the concepts of self-love, advantages, public interest, invisible hand and the public good.

AN INQUIRY INTO THE NATURE AND CAUSES OF

**THE WEALTH OF  
NATIONS**

by

Adam Smith

**CHAPTER II****OF THE PRINCIPLE WHICH GIVES OC-  
CASION TO THE DIVISION OF LABOUR****Book I**

It is the great multiplication of the production of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people (I.i.10). To take an example, therefore, from a very trifling manufacture, but one in which the division of labour has been very often taken notice of, the trade of a pin-maker: a workman not educated to this business ... could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire; another straightens it; a third cuts it; a fourth points it; a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business; to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations ... In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one, though, in many of them, the labour can neither be so much subdivided, nor reduced to so great a simplicity of operation. The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour. The separation of different trades and employments from one another, seems to have taken place in consequence of this advantage. This separation, too, is generally carried furthest in those countries which enjoy the highest degree of industry and improvement; what is the work of one man, in a rude state of society, being generally that of several in an improved one. (I.ii.12)

**Book IV****CHAPTER II****OF RESTRAINTS UPON IMPORTATION  
FROM FOREIGN COUNTRIES OF SUCH  
GOODS AS CAN BE PRODUCED AT  
HOME**

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages (I.ii.13). As every individual, therefore, endeavours as much as he can, both to employ his capital in the support of domestic industry, and so to direct that industry that its produce maybe of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (IV.ii.363-364)

(Gutenberg Project: public domain)

## Scaffolding

### Historic sources crib sheet\*

<p><b>book I</b></p> <p><b>industrial production:</b> ...</p> <p><b>co-operation:</b> ...</p> <p><b>productivity:</b> ...</p> <p><b>advantages of the division of labour:</b> ...</p>	<p><b>book IV</b></p> <p><b>self-love:</b> ...</p> <p><b>advantages:</b> ...</p> <p><b>public interest:</b> ...</p> <p><b>invisible hand:</b> ...</p> <p><b>the public good:</b> ...</p>
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### Task 5:

Compare your understanding of the historic texts with the following interpretation; **discuss** the implications of Smith's book "The Wealth of Nations" for present day economics and **assess** practical consequences concerning the role of the government. The format to be used would be think-pair-share\*.

#### Interpretation and Meaning

"The Wealth of Nations" was influential since it did so much to create the field of economics and develop it into an autonomous systematic discipline. In the Western world, it is arguably the most influential book on the subject ever published. When the book appeared in 1776, there was a strong sentiment for free trade in both Britain and America. This new feeling had been born out of the economic hardships and poverty caused by the war. However, at the time of publication, not everybody was convinced of the advantages of free trade right away: the British public and Parliament still clung to mercantilism for many years to come, Smith believed labour was tantamount, and that a division of labour would effect a great increase in production.

"The Wealth of Nations" also rejects the Physiocratic school's emphasis on the importance of land; instead, Smith believed labour was tantamount, and that a division of labour would effect a great increase in production. "Nations" was so successful, in fact, that it led to the abandonment of earlier economic schools, and later economists, such as Thomas Malthus and David Ricardo, focused on refining Smith's theory into what is now known as classical economics. One of the main points of "The Wealth of Nations" is that the free market, while appearing chaotic and unrestrained, is actually guided to produce the right amount and variety of goods by a so-called "invisible hand." If a product shortage occurs, for instance, prices rise, creating incentive for production, and eventually curing the shortage. The increased competition among manufacturers and increased supply would also lower the price of the product to its production cost, the "natural price." Smith believed that while human motives are often selfish and greedy, the competition in the free market would tend to benefit society as a whole anyway. Nevertheless, he was wary of businessmen and argued against the formation of monopolies. Smith vigorously attacked the antiquated government restrictions which he thought were hindering industrial expansion. In fact, he attacked most forms of government interference in the economic process, including tariffs, arguing that this creates inefficiency and high prices in the long run. This theory, now referred to as "laissez-faire", influenced government legislation in later years, especially during the 19th century. (BK)

**Voc.:** influential: einflussreich; autonomous systematic discipline: eigenständige systematische Richtung; arguably: begründbar; tantamount: very important; abandonment: Preisgabe; unrestrained: ungehemmt; interference: Einmischung

historic context	economics, role of current government
economics as a discipline, ...	advantages of free trade in a global ...

## Worksheet 3: Keynesianism

### Task 6:

#### A business cycle

Talking about the economy, certain terms and concepts are useful. In an inside-outside circle\*, select those you are least familiar with and use your (electronic) dictionary to **describe** them. **Complete** the gapped text “a business cycle” (words in the box below, but scrambled!) and complement the Scaffolding “economic terms and concepts” accordingly. **Scanning\*** the text “Keynesianism” will provide you with further information.

#### Scaffolding – Economic terms and concepts

**The Great Depression** – began with ...

**Supply-side economics** (also supply-focused: angebotsorientierte Wirtschaftspolitik) – ...

**Demand-side economics** (also demand-focused: nachfrageorientierte Wirtschaftspolitik) – ...

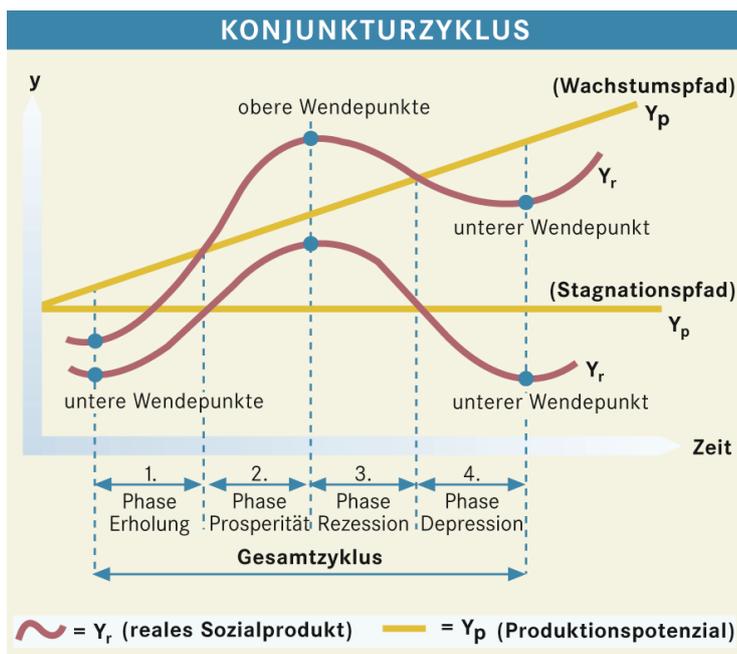
**Private sector/public sector** – ...

**Monetary policy actions/Fiscal policy actions** – twin tools of Keynesianism: ...

**Recession & prosperity** – ...

**Voc.:** New York Stock Exchange: Börse in New York

#### Business cycle



<http://www.bpb.de/nachschlagen/lexika/lexikon-der-wirtschaft/19819/konjunkturzyklus> (last accessed June 2018)

#### A business cycle

(gapped text)

A country's economic development, over a period of time, can be measured in a ....., which shifts between periods of growth and periods of relative stagnation or ..... These ..... alternate between four phases: prosperity (.....), contraction (.....), decline (.....) and recovery (.....). The cycle is influenced by ..... and consumption, industrial investment and capital ....., government ..... and spending, export and import. Robust indicators of the economic development are the rate of employment, rising or falling interest rates, ....., and the balance between ..... and ..... Stimulating factors are an increase of investments, private demand and consumption, rising public expenditure and a rise of exports in comparison to lower imports. .... the business cycle can be caused by declining private demand, lower rates of investment, higher taxes and increasing

unemployment. In times of stagnation or even recession, economic policy by the government would try to ..... for instance by public spending, lowering taxes and monetary ..... to increase capital investments.

The role of public spending is one of the issues of short-term economic policy, as an ongoing dispute between Keynesians and liberals (Monetarists) about which principles and guidelines would seem to be the most effective for stabilising and promoting economic growth. (BK)

incentives – intervene – dampening – demand – supply – stock prices – revenue – expenditure – private demand – expansion – depression – recession – boom – fluctuations – decline – business cycle

### Task 7:

The text about “Keynesianism” will support you in **describing** economic concepts; a placemat activity\* will combine the knowledge of your group. **Create** a poster showing the context and most important aspects of a demand-side economy.

**Voc.:** to distinguish: unterscheiden; business cycle: Konjunkturzyklus; policy response: politische Antwort; government intervention: staatlicher Eingriff; deficit spending: öffentliche Verschuldung durch Geldaufnahme; ensuing: folgend; resurgence: Wiederaufleben

#### Keynesianism

John Maynard Keynes (1883-1946), British economist and scholar in Cambridge, developed his theories during the Great Depression (the worst economic downturn in US history in the 1930s) and published them in his 1936 book “The General Theory of Employment, Interest and Money”. Economists following his ideas distinguish between a public and a private sector in the economy and are in favour of an active role of governments to stabilise the business cycle. They would argue that often private sector decisions in a market-based economy do not lead to efficient outcomes and require active policy responses to overcome stagnation and depression. In their view, a mixed economy with a strong private sector needs to be supplemented by government intervention such as public or deficit spending, especially during recessions.

To Keynes, the solution to the Great Depression was to stimulate the economy by government investment in infrastructure (fiscal policy) and lowering interest rates (monetary policy). An outstanding example was the Tennessee Valley Project, initiated by US President Franklin Roosevelt in 1933. At its peak, it employed more than 28,000 workers creating over 20 dams and steam plants. It was part of a number of schemes in the great deal to overcome the effects of the Great Depression and promote economic development, and as a very successful model for deficit spending it is widely documented ([https://www.youtube.com/watch?v=zwdDM\\_xSHUU](https://www.youtube.com/watch?v=zwdDM_xSHUU), <https://www.youtube.com/watch?v=CgFxtmiHQ2c>, <https://www.youtube.com/watch?v=eoge1KmeMy8>, <https://www.youtube.com/watch?v=za17GsxdmvM>, last accessed June 2018)

Beyond the Great Depression and World War II, Keynesianism became a standard economic model in post-war, Western and market-oriented countries leading to a long-standing period of growth later labelled as a demand-side economy. US President Nixon was quoted as being a “Keynesian in economics”. It lost influence during the oil shock of 1973 and ensuing economic problems with high unemployment and inflation, which led to a resurgence of supply-side and monetarist, later even neo-liberal economics. (BK)

## Worksheet 4: Monetarism

### Task 8:

Watch the video clip “Milton Friedman – Free to Choose. The Tyranny of Control” (from 0:00’ to 15:00’) and **outline** in a crib sheet\* the main aspects of Milton Friedman’s economic theory – in juxtaposition to Keynesianism. The scaffolding (running sheet) of the video clip will help to organise your results – to be **discussed** in plenary.

#### When governments try to control the economy ...

Milton Friedman’s central work is called “Capitalism and Freedom”, and it describes his main thesis: there is no liberty without capitalism. The American economist is regarded as the scientific founder of neo-liberalism, rejecting state intervention and regulation of the economy. Recipient of the 1976 Nobel Prize for Economic Science, he was one of the most recognizable and influential proponents of liberty and markets in the 20th century, and the leader of the Chicago School of economics.

Video: <https://www.youtube.com/watch?v=PJWLT1TmAy4> (last accessed June 2018)

### Scaffolding (running sheet)

Free to choose	Milton’s TV programme “The Tyranny of Control”
Introduction	in the film the ideas of Milton Friedman are discussed: ...
Adam Smith (1:00’)	a flash of genius – key idea: ...
Industrial Revolution (3:40’)	...
The Great Crystal Palace Exhibition (5:00’)	free trade ...
In Japan (5:36’)	1868: complete isolation – the result: ...
Free trade (6:47) and Adam Smith principles (8:00’)	free trade came to Japan – ...
In India (14:00’)	In 1948 India achieved independence – but: ...

**Task 9:**

**Discuss** the basic terms of monetarism, such as money supply, inflation and price stability and **assess** the shortcomings of this doctrine in the light of developments after 1990. Use think-pair-share\* as a working format.

**Monetarism**

Milton Friedman (1912-2006) won the Nobel Prize in Economic Sciences in 1976 for his central work "Capitalism and Freedom". The American economist is regarded as the founder of neo-liberalism, rejecting state intervention and regulation of the economy, also called supply-side economy. He was one of the most recognizable and influential proponents of liberty and free markets in the 20<sup>th</sup> century and the leader of the Chicago School of Economics.

Criticising Keynes' theory of government spending to overcome a breakdown in the business cycle, his school argues that an expansion of money supply is inflationary and harmful to price stability and shifting demand from the investment sector to the consumer sector. Active demand management through government spending would endanger the inherent stability of free-market economies. Their response to economic crises was seen in strengthening the supply-side of economics, encourage deregulation and lowering taxes.

After Margaret Thatcher, leader of the Conservative Party in the UK, won the 1979 general election; her government turned to monetarism as a weapon to fight inflation, which had peaked up to 10% under preceding Labour rule, enforced deregulation and limited Trade Union influence. In accordance with the then US President Ronald Reagan, the implemented economic policy became known as Thatcherism and Reaganomics.

Although both Monetarists and Keynesians agree over the fact that issues such as unemployment, inflation and recession in the business cycle are caused by inadequate demand, there is an ongoing debate between the two schools of thought with fundamental differences as far as the degree of government intervention is concerned.

A major responsibility for stabilizing the economy has now been allocated to the central banks in the light of globalisation, international investment and free trade. (BK)

**Scaffolding**

basic terms	shortcomings
money supply: ...	...
inflation: ...	
price stability: ...	
demand management: ...	
implementing monetarism: ...	

## Worksheet 5: Supply and demand (a survey)

### Task 10:

Examine the main differences between demand-side (*nachfrageorientierte*) and supply-side (*angebotsorientierte Wirtschaftspolitik*) economics by **mediating\*** the given text and deciding which of the sentences below are right, wrong or not given.

#### Nachfrage- versus angebotsorientierte Wirtschaftspolitik

In den ersten Jahrzehnten nach dem Zweiten Weltkrieg war der Keynesianismus die dominante Denkschule in der Wirtschaftspolitik. Der Wohlfahrtsstaat wurde in den reichen Ländern auf Basis von hohen Steuern und Sozialversicherungsabgaben ausgebaut; die Finanzmärkte waren stark reguliert und internationale Kapitalströme wurden begrenzt; die Arbeitslosigkeit war gering, die Gewerkschaften befanden sich in einer starken Verhandlungsposition, und es wurden weitgehende verteilungspolitische Maßnahmen ergriffen, die die Ungleichheit von Einkommen und Vermögen geringhalten sollten. Große Teile der Wirtschaft waren durch staatliche Unternehmen bzw. staatliche Regulierung geprägt.

Die traditionellen keynesianischen Rezepte der Geld- und Fiskalpolitik erschienen ungeeignet, die Stagflation zu überwinden. Vor diesem Hintergrund setzte in den 1970er Jahren in Wissenschaft und Politik eine "neoklassische Gegenrevolution" ein. Eine wichtige Rolle spielten hier die Arbeiten des Ökonomie-Nobelpreisträgers Milton Friedman, durch dessen Ideen u.a. die Regierungen von Margaret Thatcher in Großbritannien und Ronald Reagan in den USA inspiriert wurden. In den meisten Ländern wurden nun angebotsseitige Reformen durchgesetzt. Ziel war es, Ineffizienzen im Staatsapparat zu beseitigen und verstärkte Leistungsanreize für Arbeitnehmerinnen und Arbeitnehmer sowie private Unternehmen zu schaffen, um die Angebotsbedingungen der Volkswirtschaft zu verbessern. Zu diesem Zweck wurden Steuern auf hohe Einkommen und Vermögen gesenkt. Außerdem wurde in vielen Ländern durch die Deregulierung des Arbeitsmarkts (z.B. Abbau des Kündigungsschutzes, Kürzung der Arbeitslosenunterstützung) die Verhandlungsmacht der Gewerkschaften geschwächt. Gleichzeitig wurden die nationalen Zentralbanken zunehmend unabhängig von der Politik, und der staatlichen Ausgabenpolitik wurden Grenzen gesetzt. Hierdurch sollte verhindert werden, dass durch staatlich betriebene Nachfragesteigerung lediglich kurzfristige "konjunkturelle Strohfeuer" erzeugt werden und die eigentlich notwendigen strukturellen Reformen vergessen werden.

Spätestens mit der weltweiten Finanz- und Wirtschaftskrise ab 2007 und mit der Eurokrise seit 2010 ist der theoretische Grundkonflikt zwischen Neoklassik und Keynesianismus mit voller Macht in die wirtschaftspolitische Debatte zurückgekehrt. Zunächst reagierten die meisten Regierungen in den Jahren 2008 und 2009 mit umfangreichen, keynesianisch inspirierten, Ausgabenprogrammen auf die Krise. Viele Ökonominen und Ökonomen argumentierten, dass diese Notfallmaßnahmen nötig waren, um einen wirtschaftlichen und politischen Niedergang vom Ausmaß der Großen Depression zu vermeiden. Zunehmend wurden in den Wirtschaftswissenschaften auch Stimmen laut, welche den Anstieg der Einkommensungleichheit in vielen Ländern als eine wichtige Ursache für die Finanzkrise ansehen. Ihr Argument ist, dass die unteren und mittleren Einkommensschichten sich in vielen Ländern (v.a. USA und Großbritannien) verschulden mussten, um ihre Konsumnachfrage hoch zu halten, weil ihre Einkommen nicht mehr oder kaum noch stiegen. Viele sprechen in diesem Zusammenhang von der "Rückkehr des Keynesianismus" und fordern eine gleichmäßigere Einkommensverteilung als Antwort auf die Überschuldung vieler Privathaushalte.

Mittlerweile sind viele Regierungen wieder zu einer angebotsorientierten Politik, inspiriert durch neoklassische Denkmuster, zurückgekehrt. Vielerorts wird eine entschlossene staatliche Sparpolitik (Austerität) betrieben, weil die wirtschaftlichen Probleme als im Wesentlichen strukturell bedingt interpretiert werden. In der Europäischen Union und speziell in der Eurozone wird diese Politik insbesondere von der deutschen Bundesregierung gefordert. Zugleich kritisieren einige internationale Beobachter die aus ihrer Sicht antikeynesianischen Positionen in Deutschland und diagnostizieren der Eurozone sogar ein "Deutschland-Problem" im Zusammenhang mit den aus ihrer Sicht negativen Folgen der Austeritätspolitik. Viele Anhänger neoklassischer Konzepte halten hingegen den Keynesianismus nach den Erfahrungen der 1970er Jahre nach wie vor für gescheitert. Somit ist

gegenwärtig noch unklar, in welche Richtung sich das ökonomische Denken in den nächsten Jahren entwickeln wird.

<http://www.bpb.de/politik/wirtschaft/schuldenkrise/239934/neoklassik-und-keynesianismus> (last accessed June 2018)

**Voc.:** nachfrageorientierte Wirtschaftspolitik: demand-side economy; angebotsorientierte Wirtschaftspolitik: supply-side economy; Wohlfahrtsstaat: welfare state; Sozialabgaben: social security contributions; Verhandlungsposition: bargaining position; Leistungsanreize: incentives; Kündigungsschutz: dismissal protection; Notfallmaßnahmen: emergency measures; staatliche Sparpolitik: austerity

### Scaffolding (right/wrong/not given)

Mediation	right	wrong	not given
The welfare state in affluent countries was based on high taxes and contributions to social security.			
Despite high unemployment rates, trade unions were in a strong bargaining position with the international flow of capital limited by law.			
Parts of the economy did not catch up with the general positive development of markets.			
State-controlled companies and regulations were a dominant feature.			
Traditional methods of Keynesian monetary and fiscal policy did not succeed in overcoming stagflation.			
The doctrine of monetarism – according to Milton Friedman – influenced the German government to a large extent.			
Monetarism aimed at creating incentives for workers and companies.			
Taxes on high incomes and property were increased to improve the supply side of the economy.			
In many countries, the influence of trade unions was weakened by deregulation.			
Government spending was limited and the role of national central banks became independent from state influence.			
Economic scientists blamed the increasing disparity between rich and poor for the financial crisis of 2008.			

**Task 11:**

**Design** a table summarizing the aims, tools and implementation of the two economic doctrines below. Work in groups, **outline** your findings in keywords and **compare** your results in a gallery walk\*.

<b>demand-side economy (Nachfrageorientierung)</b>		<b>supply-side economy (Angebotsorientierung)</b>
fighting the <b>symptoms</b> ...	<b>aims</b>	fighting the <b>reasons</b> ...
lower interest rates, ...	<b>tools</b>	reduction of subsidies, ...
deficit spending, ...	<b>implementation</b>	deregulation, ...
<b>Keynesianism</b>		<b>Monetarism</b>

## Worksheet 6: Germany – Politics & economy

### Task 12:

**Mediate\*** the following texts about “Germany’s Economic System and Policy” – using the target language – and **explain** differences and similarities. A placemat activity\* will help organize your results. First, **complete** the scaffolding below, inserting the missing terms in either direction.

### Scaffolding

Soziale Marktwirtschaft	key economic terms/discourse
ausgebildete Arbeitskraft ...	skilled manpower labour force
Führungsqualitäten ...	managerial skills social market economy
Deutsches Wirtschaftswunder ...	German economic miracle laissez-faire doctrine
Regierungseingriffe ...	government intervention Basic Law
privates Unternehmen ...	private enterprise private property
Produktionsmittel ...	means of production industrial action
Tarifhoheit ...	tariff autonomy (free bargaining system) regulatory role in the market economy
innerhalb dieses Rahmens ...	within this framework market place decides what is produced and who gets how much of it
Voraussetzung	prerequisite
Wettbewerb (individuelles Gewinnstreben führt zu einem optimalen Angebot für die Bevölkerung) ...	competition (the individual pursuit of profit translates into a maximum supply of goods for the community) innovation
Rationalisierung, Einsparen von Arbeitskraft Unternehmer (neigen dazu, Konkurrenz durch Absprachen auszuschalten) ...	rationalisation entrepreneurs (try to neutralise competition, agreement with rivals) friendly and hostile takeover

Zusammenschluss, Fusionierung ...	mergers price fixing
Kartellvereinbarung	cartel agreement
(Anti-Kartell Gesetz) ...	Law against Restraints of Competition (Cartel Act) vocational training

### Germany's Economic System and Policy

1. The Federal Republic developed as one of the major industrial countries after World War II: in terms of economic performance it is the third largest, with regard to world trade it holds the second place. Germany owes its rise to one of the world's leading industrial nations not so much to its natural resources or financial reserves, but rather to economic efficiency based on the training and industry of the labour force, managerial skills and the landmarks of a social market economy.

The so called economic miracle is believed to be "the result of honest endeavour on the part of a whole nation who were given the opportunity and freedom to make the best of human initiative, freedom and energy" (Ludwig Erhard, Federal Republic's first Minister of Economics, who disliked this term). The system of a socially responsible market economy rejects both the laissez-faire doctrine of the Manchester school and government intervention in business and investment decisions. The Basic Law guarantees private enterprise and private property, rights to be exercised for the public good. The state only plays a regulatory role in the market economy, creating the general conditions for market processes and a framework within which consumers and companies decide freely what they want to consume and produce. The main factor is the marketplace without government intervention in price and wage fixing (industrial action and tariff autonomy).

In theory, competition ensures that in this market economy the individual pursuit of profit translates into a maximum supply of goods and that the companies are enticed to improve their market position by lowering prices, improving the quality of their products and offering better payment and delivery terms, also leading to innovation and rationalisation. But unhampered competition is difficult to achieve, as especially larger companies tend to neutralise this prerequisite for a well-functioning free market by price fixing and cartel agreement, including Friendly and Hostile Takeover. Starting in 1957, the Law against Restraints of Competition (Cartel Act) and ensuing legislation tries to prevent mergers and cartel-like agreements, compliance with the law being monitored by the Federal Cartel Office in Berlin, the anti-trust authorities of the 16 states. Responsibility for competition policy is increasingly being shifted to the European Commission in Brussels.

2. Productivity depends on a well-trained working force. This is why Germany's dual system of vocational training splits responsibility between educational institutions and companies. But even in mainstream schools, vocational training plays a major role by introducing work experience at an early stage. As far as industrial relations are concerned, agreements on pay, working hours and general working conditions are independently negotiated between the so called social partners, with their trade unions and employers' organisations, looking after the interests of their members and allowing for strikes (industrial action) only as a last resort. A dense social security network guarantees social stability and protection for the working community. The welfare system is based on solidarity: Employees pay contributions to the social insurance system, and the state provides child benefits, housing supplements, social assistance for the needy and indemnification for war victims. Expenditure on social security is high and is now close to 56 % of the GDP. To alleviate this system and secure international competitiveness, private provision by citizens themselves is becoming increasingly important to ensure that social security remains affordable in the future as well. (BK)

**Voc.:** performance: Leistung; owe: verdanken; economic miracle: Wirtschaftswunder; endeavour: Anstrengung; Manchester school: 19th century movement believing in laissez-faire economics, free trade, competition and freedom of contract; Basic Law: Grundgesetz; ensure: sicherstellen; enticed: verleitet; unhampered: ungehindert; prerequisite: Voraussetzung; mergers: Firmenfusionen; compliance: Beachtung; negotiated: verhandelt; industrial action: Arbeitskampf; social insurance: Sozialversicherung; indemnification: Schadenersatz; GDP: Gross Domestic Product (Bruttoinlandsprodukt); alleviate: mildern; affordable: hier bezahlbar

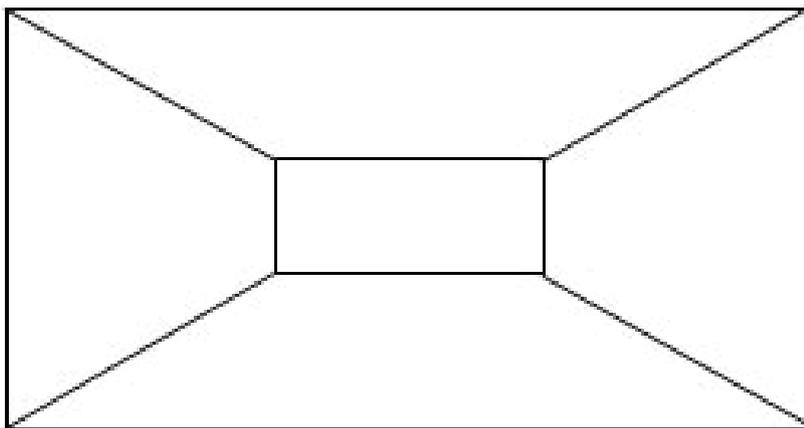
**Soziale Marktwirtschaft**

3. [Ludwig Erhard (deutscher Wirtschaftsminister von 1949-1963 und späterer Bundeskanzler von 1963-1966) prägte den Begriff „soziale Marktwirtschaft“]

Der Anspruch der sozialen Marktwirtschaft ist, die Vorteile einer freien Marktwirtschaft wie wirtschaftliche Leistungsfähigkeit oder hohe Güterversorgung zu verwirklichen, gleichzeitig aber deren Nachteile wie zerstörerischer Wettbewerb, Ballung wirtschaftlicher Macht oder unsoziale Auswirkungen von Marktprozessen (z. B. Arbeitslosigkeit) zu vermeiden. Die Zielsetzung der sozialen Marktwirtschaft ist deshalb ein größtmöglicher Wohlstand bei bestmöglicher sozialer Absicherung. Der Staat verhält sich aus diesem Grund nicht passiv, sondern greift aktiv in das Wirtschaftsgeschehen z. B. durch konjunkturpolitische, wettbewerbspolitische und sozialpolitische Maßnahmen ein. Eingriffe des Staates in die Wirtschaft erfolgen im allgemeinen Interesse und in solchen Bereichen, wo Anbieter oder Nachfrager durch angepasste, marktwirtschaftlich vertretbare Maßnahmen geschützt werden müssen (z. B. beim Verbraucherschutz oder der Wettbewerbsgesetzgebung). Die soziale Marktwirtschaft hat sich seit ihrer Einführung nach 1948 in der Bundesrepublik Deutschland bewährt und zu einer bis dahin nicht gekannten Steigerung des Wohlstandes bei breiten Bevölkerungsschichten und zu einem hohen Maß an sozialer Sicherheit geführt. Allerdings waren Art und Umfang der staatlichen Eingriffe z. B. mit dem Hinweis auf den Wohlfahrtsstaat politisch immer wieder umstritten.

<http://www.bpb.de/nachschlagen/lexika/lexikon-der-wirtschaft/20642/soziale-marktwirtschaft> (last accessed June 2018)

Placemat activity:



## Worksheet 7: Mergers (Opelaner & Thyssenkrupp)

### Task 13:

**Brainstorm** your own experiences with big companies like Google, Amazon, Facebook etc. All of them hold monopolies in their respective area of activities. **Discuss**, in an inside-outside circle\*, advantages and disadvantages of such monopolies for you as a customer. You might also **describe** your own experiences from the board game MONOPOLY and what happened to your money when somebody else owned expensive streets and houses. **Discuss** in plenary if the government should interfere before they get too big.

### Task 14:

Monopolies and cartels are the worst enemies of competition in a free market. **Outline** the laws regulating these attempts to contravene control of markets (Antikartellgesetzgebung) and **evaluate** the exceptions.

#### Legislation against monopolies and cartels

In the European Union, cartels are forbidden, when they fix prices or try to control segments of a market. These attempts are subject to financial penalties on top of the extra gains by cartels or monopolies. In other states, management even has to face jail sentences. In pre-emptive merger controls, government agencies examine company mergers onwards a certain size: one company with the share of a market of one third, up to five companies with two thirds of a market. These companies are required to prove that competition still exists and there is no dominance over other competitors. In spite of an existing market control, the Federal Minister of Economics can allow mergers if there are macroeconomic advantages or prevailing common interests. Up to nine out of 22 applications were granted in Germany. Cartels promising advantages for consumers, such as in research and the development of car engines can be admitted. (BK)

subject to regulations	exceptions
one company ...	ministerial permission; ...
five companies ...	

### Task 15:

More recently, there were two big mergers in Germany: Opel and Vauxhall were bought from General Motors by PSA Peugeot Citroën, Thyssenkrupp merged with its Indian competitor Tata. **Analyse** the European Commission's approval and **evaluate** – in groups using the placemat activity\* – in how far rights of workers and consumers were considered by these mergers. **Present** your findings in plenary.

### Case Studies

Since August 2017, the German Opel Car Company is a subsidiary of the French automobile manufacturer PSA (Peugeot Société Anonyme –manufacturer of Peugeot and Citroën vehicles) bought from the previous owner General Motors together with its English sister brand Vauxhall. The acquisition was approved by the European Commission regulatory authorities and includes annual payments for the German and British pension plans. The purchase price was US \$ 2.2 billion and transforms PSA into the second-biggest carmaker in Europe, after Volkswagen. According to Carlos Tavares, PSA chief executive, the takeover created a European champion, with annual savings of €1.7bn in purchasing, manufacturing, research and development, without any immediate job cuts. (BK)

### New steel giant in Europe

In a big merger on the steel market, Thyssenkrupp (Germany) and Tata (India) have agreed to a fusion of their European steel segment after negotiations of more than one year. In each of the enterprises 2,000 jobs will be lost and 400 – 600 Euros saved as synergy. Each company will hold 50 % of the shares, with 27,000 employees in Thyssenkrupp and 21,000 in Tata. Trade Unions announced their strong resistance to this merger, fearing the loss of further jobs and lower standards. Thyssenkrupp CEO Heinrich Hiesinger, on the contrary, pointed at the necessity of this merger in the light of excess capacities on the steel market with his company forced to cut jobs in any case. (BK)

	Thyssenkrupp	Tata (Europe)
steel production (Mio t.)	12.4	14.5
turnover (Bill. Euros)	7.6	8.9
Profit (Mio. Euros)	315	612
Number of employees	27,000	21,000

Worldwide steel production (in mio. t.)

1-Arcelor-Mittal: Luxembourg (95); 2-China Baowu (64); 3-HBIS: China (46); 4-Nippon Steel & Sumitomo M: Japan (46); 5-Posco: South Korea (42); 6-Shagang: China (33); 7-Ansteel: China (33); JFE Steel: Japan (30); Shougang: China (27); Tata Steel: India (24); ... 15-Thyssenkrupp: Germany (17). (Figures from World Steel Association)

## European Commission Press Release



### Commission approves acquisition of Opel by Peugeot Brussels, 5 July 2017

The European Commission has unconditionally approved the acquisition of Opel by Peugeot, under the EU Merger Regulation. The Commission concluded that the transaction would raise no competition concerns in the relevant markets. Peugeot S.A. ('PSA') will acquire assets and shareholdings linked to Opel. PSA will thus acquire sole control of the whole of Opel. Given that PSA and Opel are both active in the manufacture of passenger vehicles and light commercial vehicles, the Commission looked at the impact of the transaction on the automobile markets at both European and national level. The Commission also considered the overlapping activities of the two companies in the wholesale and retail sale of passenger vehicles and light commercial vehicles. The Commission's investigation found as follows:

- ▶ With regard to the manufacture and sale of motor vehicles, the combined market shares of the two companies are relatively small in all the relevant markets. The companies achieve a combined market share of more than 40% in only two national markets (Estonia and Portugal) for small commercial vehicles, but with an increase of less than 5% in both those markets. In the other affected markets, the market shares remain small. The Commission investigation also showed that the merged entity will still face strong competition from manufacturers such as Renault, Volkswagen, Daimler, Ford, Fiat and various Asian competitors.
- ▶ With regard to the wholesale and retail distribution markets, the Commission ruled out the possibility that the transaction might have a detrimental effect because of the different distribution channels used by PSA and Opel and the presence of independent distributors, importers and retailers.

The Commission therefore concluded that the transaction was unlikely to raise competition in the relevant markets.

© European Union, 1995-2018, [http://europa.eu/rapid/press-release\\_IP-17-1916\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1916_en.htm) (last accessed June 2018)

## Worksheet 8: Social market economy

### Task 16:

According to the Basic Law of Germany, private property and economic activities are committed to the social good. **Read** the given texts (Basic Law and commentary) and **examine** the connection between the economy and social commitment. After reading, complete the sentences.

#### Germany's Basic Law and the social market economy

Artikel 14.2: Eigentum verpflichtet. Sein Gebrauch soll zugleich dem Wohle der Allgemeinheit dienen. Artikel

20.1: Die Bundesrepublik Deutschland ist ein demokratischer und sozialer Bundesstaat.

Artikel 28.1: Die verfassungsmäßige Ordnung in den Ländern muss den Grundsätzen des republikanischen, demokratischen und sozialen Rechtsstaates im Sinne des Grundgesetzes entsprechen.

#### Commentary (BK):

The freedom-enhancing power of private property is acknowledged in the German constitution. Its usage, however, is subject to social considerations and the common good. Private property, freedom and the rule of law are accepted values and are a framework for the social market economy. This concept was derived from the free market economy. In order to prevent social inequality on a larger scale, the government can intervene in the economy to set certain rules for fair competition and against cartels and monopolies.

The Basic Law guarantees

.....

.....

.....

The German government is pledged by both

.....

.....

.....

The difference between a free market economy and the German social market economy

.....

.....

.....

The framework for the social market economy is determined by

.....

.....

.....

Certain economic rules can be set by the government, such as

.....

.....

.....

**Task 17:**

**Mediate** and **allocate** the economic objectives of a government to the magic square and its four corners. In a placemat activity\*, extend these objectives by two more corner stones (creating a hexagon) and **present** in plenary.

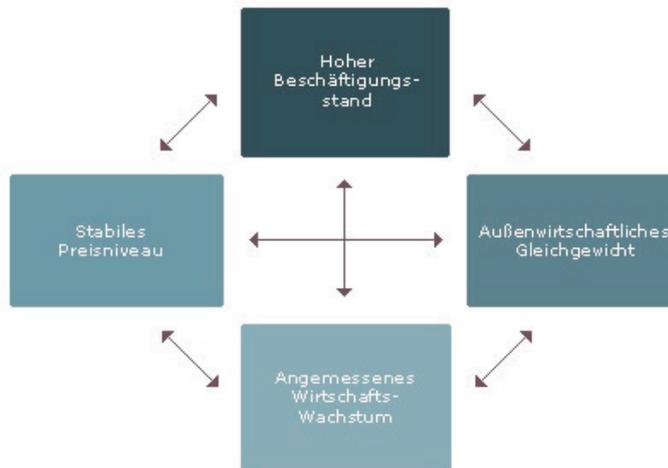
**State objectives in the economy**

There are four objectives formulated by the government in order to secure economic stability (a law passed in Germany in 1967 "Gesetz zur Förderung der wirtschaftlichen Stabilität und des Wachstums"): in the four corners of a magic square they are stability of prices, high rate of employment, positive balance of trade and stable economic growth. Often, this square is extended into a hexagon, adding two more objectives: just distribution of income and property and ecological balance.

It is called 'magic', because not all aims might be achieved simultaneously. For instance, it will be difficult to reach stable prices when high employment is effected.

(adapted from: <http://www.bpb.de/nachschlagen/lexika/das-junge-politik-lexikon/161381/magisches-viereck>, last accessed June 2018)

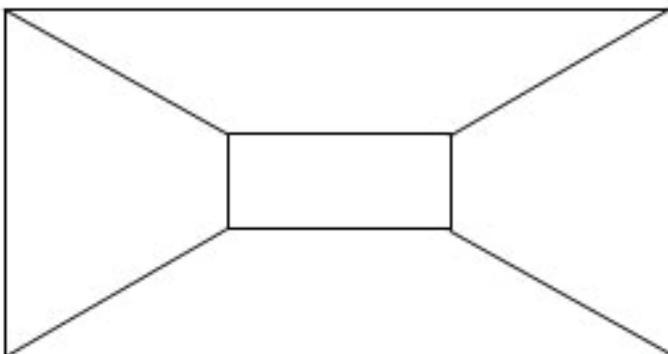
### ■ Magisches Viereck der Wirtschaftspolitik



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Bundeszentrale für politische Bildung, 2009, [www.bpb.de](http://www.bpb.de)



<http://www.bpb.de/politik/innenpolitik/arbeitsmarktpolitik/55040/aktive-arbeitsmarktpolitik?p=all> (last accessed June 2018)

**Placemat activity**

## Worksheet 9: A magic hexagon

### Task 18:

Examine the controversy about the “night watchman state” in a think-pair-share\* format and **brainstorm** a pro/con table in plenary.

#### Night watchman state

A night watchman state, or a minimal state, is a form of government in where the state’s responsibilities are so minimal they cannot be reduced much further without becoming a form of anarchy. The responsibilities in a pure night watchman state would include the police, judicial systems, prisons and the military. It would be the minimum required to uphold the law, which is limited to protect individuals from coercion and theft, to remove criminals from society, and to defend the country from foreign aggression. The term night watchman state was coined in 19th century liberalism, and is a metaphor for a state that “sleeps” (i.e., refrains from getting involved in citizens’ lives) until someone’s civil liberties are infringed. The view proposing a minimal state is known as minarchism, and is a core part of the libertarian ideology. Minarchists propose to enforce a night watchman state with a clearly defined constitution on the government’s powers, and may also see it necessary to ensure the constitution cannot be amended after adoption. (BK)

#### Arguments for a night watchman state

Minarchists argue that the state has no right to interfere in free transactions between people, and see the state’s sole responsibility as ensuring that transactions between private individuals are free. In general, the majority of minarchists claim that a minimal state is good in itself (for example because it fits their view of natural law), and that any further extension of government is inherently evil, even if it leads to good consequences. The Objectivist philosophy of Ayn Rand is notable for its support of this view. Other minarchists, however, also attempt to bring consequentialist arguments. Popperian libertarians argue that institutions and cultures evolve best without external interference from the government. The adherents of the Austrian school believe that any state intervention in the economy is harmful. (BK)

#### Arguments against a night watchman state

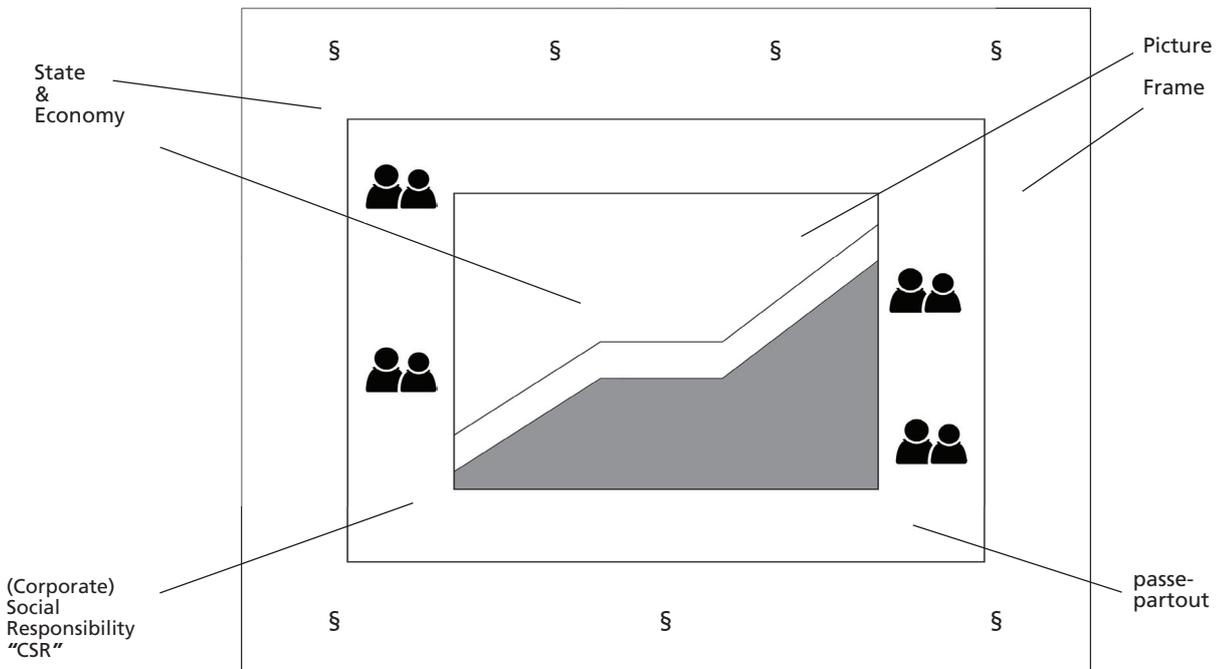
The groups of people who disagree with the notion of a minimal state are far more diverse than those who support it, and include nearly all political views other than libertarianism. Objections to the idea of a minimal state are likewise very diverse. The most widespread objection is that there is simply no need to reduce the government’s attributions to such a minimal level using a rigid and inflexible minarchist constitution, and that it is best to evaluate the merits of government intervention in each issue on a case-by-case basis. If the powers of the night watchman state are limited by a constitution which cannot be amended by the people, then it is undemocratic. A night watchman state would also have no social contract, and would be unable to deal with many practical matters, such as economic recessions (see Keynesian economics). In addition, specific political orientations and ideologies have specific objections to a night watchman state. Social liberals argue that it is the responsibility of the government to provide care for the less well-off or disabled through a welfare state, while social conservatives argue that the state should maintain a moral outlook. Finally, a unique kind of criticism comes from anarchists, who argue that no state – not even a night watchman one – should exist. Right-wing anarchists argue that the goal of the night watchman state – protecting individuals from acts of coercion and theft – needs to be funded by taxes, which represent in fact a form of theft. Left-wing anarchists believe this formula is incoherent, since they see the institution of property as a form of coercion and theft itself. (BK)

**Scaffolding**

Pro night watchman state	Con night watchman state
...	...

**Task 19:**

In the (picture) frame of “State & Economy” below, **outline** where political and economic activities can best be realized. Work in a group puzzle\* and **compare** your results in plenary. The sizes of picture frame (government actions), passe-partout (social responsibility) and picture (business and commercial activities) will change accordingly. Supporting government interventions will result in a bigger frame – with a much smaller picture – focusing on business in a free market will work the other way round.



**Task 20:**

In this target activity\*, you can take a stance (either on paper or in the space of your classroom) by marking your position. **Negotiate** your chosen objective with proponents of other economic aims. Refer to this statement:

***“Whether the invisible hand of free market ‘goodwill’ exists or not is hotly debated”.***

**Scaffolding****Discussion questions for think-pair-share\*:**

In which corner of the magic hexagon is the invisible hand most effective (or even visible)?

Which is your preferred corner stone and why?

How can you negotiate your chosen objective with other aims of corner stones?

