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# **THE MARVEL OF SOCIAL MARKET ECONOMY: THINGS WE DO NOT TALK ABOUT**



# **The Marvel of Social Market Economy – Things We Do Not Talk About**

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## List of acronyms

CJEU - Court of Justice of the European Union

EC – European Commission

EU – European Union

TEU – Treaty of the European Union

TFEU – Treaty of the Functioning of the European Union

OJ – Official Journal of the European Union

WB – The World Bank Group

**Abstract:** The paper promotes the performance of the European market as a measure of the efficiency of its societies. The social market economy and the international standards of the social sciences and disciplines are essential to providing prosperity for all. The economic perspective comes naturally. A multi-methodological approach is employed. It involves a modified and generalized theory of social systems, heuristics, and casuistry. The general objective is translated into specific objectives that condition its approach: reassessing the understanding of the single market, outlining an adequate framework for promoting societal efficiency, and some positive, normative, and policy contributions. The research highlights the nurtured limits of the single market, introduces the social market economy and its constructed barriers, analyses its specifics, and presents things that are not talked about. It finishes by discussing, concluding, and making relevant recommendations, attempting to provide real-world advice to scientists and policymakers.

**Keywords:** social market economy, economy of effort, change, European Union.

**JEL Classification:** D70, K10, O10.

### **Biography:**

**Iulian Oneaşcă** specializes in social reforms and policies, with society as a whole being his main area of interest. His training in macroeconomics and social policy, as well as the experience gained in externally funded projects, complements his doctorate and economic studies. He worked for more than 15 years in international teams of experts, for prestigious institutions, such as the International Labour Office, the Technical Cooperation Society (GTZ - GmbH), and the Romanian central administration. Since 2006, he has been working for the European Institute of Romania. EU models and social processes are among his topics of concern.

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## Introduction

The 2023 anniversary of 30 years of the single market has given rise to numerous research papers that have highlighted its achievements. Without a doubt, the single market is a defining element of the EU. It has been described as the “backbone of the Union’s growth and economic well-being” (EC, 2022), a significant part of the “European Union’s strength, its origin, and the guarantor of its viability” (Dijmărescu *et al.*, 2023), a “cornerstone of European Integration” (Cavazzini *et al.*, 2022). Yet, its potential is not fully exploited. There are still many barriers that “continue to hamper the functioning of the single market” (EC, 2020). The completion of the single market is expected to boost the EU’s achievements. Researchers compete in estimating the theoretical gains that the operation of a perfected EU single market can bring.

- Improvements to the single market could generate between €183 billion and €269 billion annually for goods, while services could see gains of €297 billion a year (EPRS, 2023).
- Removing barriers to the single market for goods and services—at the member state level alone—could bring in €713 billion by the end of 2029 (EPRS, 2019).
- The adoption and implementation of the policies supported by the European Parliament and by the other institutions of the Union in the period 2019-2029, would bring gains of over 2,200 billion euros (EPRS, 2019).

The success of the single market is nurtured as its functionality improves. The paper endeavours to promote the performance of the single market, as a metric of the efficiency of European societies. A strong policy focus translates the general objective into specific objectives that condition its approach: the reassessment of the understanding of the single market, the outline of an appropriate framework for promoting societal efficiency, and some positive, normative, and policy contributions.

The approach capitalizes—in an entrepreneurial manner and with the rigor of casuistry—the method proposed by systems theory. The analysis and transformation of the single market focus on simplified sub-models to foreshadow the general conception and foundations of a desirable social market economy. The entrepreneurial routine counts on creativity and innovation, observation, and speculation, exposing what previously could not have been suspected to exist (according to entrepreneurship, in the view of Kirzner, 2008). The appeal to

casuistry is meant to support the promotion of robust judgments, well-framed philosophically and economically argued, regarding the various aspects of the transformation of a society's markets. For this, the wealth and wisdom of universal and specialized literature are considered, from which ideas, arguments, and useful examples are extracted. Casuistry is associated with heuristics, both for reducing the complexity and deepening some of the main aspects of the transformation, as well as for extracting lessons from the history of the society. Heuristics, as an art or practice of discovery, starts from "soft" (undefined, qualitative) aspects, such as the problem at hand and the change that would represent an improvement (Ulrich, 2005).

The systemic approach relies on a theory of social systems (Luhmann, 1995), modified and generalised (Oneașcă, 2020). To enable a system of systems, the modified theory introduces energy as the element of continuity and the key to its reproduction. Accordingly, people, organised in social sub-systems, are represented by their energy. The international standards of social sciences (OECD, Ford, 2015) and social disciplines (UNESCO, ISCED-F, 2014) complete the framework and allow the generalization of Luhmann's theory, maximizing the perspective of the social system. The standards provide the best approximation available of the known world, facilitating its understanding and the promotion of its progress. The science and social discipline of choice in this paper is economics, while its corresponding operator is the market.

The time interval considered is defined by two key moments: the first is that of the emergence of the single market, the year 1993, and the second is the reality of 2023, according to data availability. Outside this interval, meaningful moments and processes are also considered, such as the considerable leaps at the global level or key institutional development.

The paper's structure highlights the limits of the single market, introduces the social market economy, analyses its specifics, and presents things we do not discuss about. It finishes by discussing, and making relevant recommendations.

The greatest achievements of societies and their markets have been occasioned not by technology or trade policies, but by social innovations. They dramatically improved social organisation and released peoples' creative energies. Politics and rules underpin markets and societies. The EU must unleash its competitive potential. The efficiency of its political system is key. And so, designing, experimenting, and implementing coercive and incentive policies is the right way to complete the single market.



## 1. The single market and its limits

Markets are institutions that serve the exchange of goods and services; they are founded on rules they can enforce. As such, markets' structure incentives. They have a widely and rightly acknowledged ability "to contribute to high economic growth and to overall economic progress" (Sen, 1999). The existence of markets is natural. Among the best justifications for their existence there are *antecedent rights*, such as the freedom to exchange goods, and *consequences*—the results of economic exchange and economic interrelations, as much of the world's prosperity is directly linked to them (Sen, in Wallace, 2004). A much stronger justification would rely on philosophical principles, such as the minimum energy one, in its economy of effort version, which leads the way to the price of efficiency produced by the market.

The price mechanism coordinates the economic system (Smith, 1828 [1776]). Indeed, the prices organize the distribution of resources (Coase, 1937) and, through currency, reflect the flow of goods and services. A real reflection is, however, implausible. In society, only a lesser fraction of human activities is quantified (Schultz, 1960; ONS, 2018; Thierry, 2023). It means that the real flow of goods and services, on which our standard of living depends, is insufficiently known. The currency can only mirror recognized economic activities. As a result, we price widgets, as R. Coase coins the insufficiently understood goods and services (Coase, in Ferrarini *et al.*, 1997). To serve a growing standard of living, the exchanges within and between economic systems should benefit from a comprehensive price mechanism, including both monetized costs—as a result of economic activities—and not monetized costs—generally all others (e.g., ecological, political, psychological, legal).

Generally, the market provides a way to streamline exchanges and returns but also a process of consolidating order. The certainty of the market helps people to become more rational, weigh their needs and wants, and plan their lives according to their capabilities, strengthening predictability. This process serves to improve the possibilities of efficient management of society, through the transfer of skills to social activities. The social market economy encompasses them all, monetized or not.

### 1.1 Markets in a social system

The market, with its foundations—exchanges, resources, and costs—is the central element of the economic perspective of the social system. Each subsystem (e.g., Luhmann, 1995), has its own markets, with specific resources, exchanges, and capitals (e.g., political,

legal, economic). It is worth noting that a market, as any phenomenon, has a differentiated determination (Kant, 1998, [1781]):

- One is constitutive and derives from the essence of things, is immutable, similar to the strong laws that govern it.
- The other is regulative—constructed in the sociology of Bell (1990)—and socially defined; it comes from the different human rules that accompany the respective phenomena; these rules may be broken or changed, with severe outcomes for society.

In society, markets operate based on the constitutive scarcity of energy. This is the consequence of the overlap between free will, specific to living matter, and the expression of the minimum energy principle. The energy deficit is objectified by the dynamic sharing of available energy between and within the limits of harvesting and consumption, constantly overtaken by needs and wants, under the pressure of time, technological progress, and the refinement of tastes. The filtering action of the psychic system differentiates between the choices that must be made in the various social exchanges. Thus, the awareness of the individual—specific to the psychic (Luhmann, 1995)—substitutes the economic profit with the intangible gain, according to the social dimension in which the exchange takes place.

The minimum effort encompasses the whole energy expenditure, human and social. It acts continuously, in work, in free time, or rest, accompanying, for example, all physical, psychic, mental, or emotional manifestations. In society, it happens similarly. Effort minimization is achieved instinctively, or consciously, and voluntarily in any activity. It is also achieved by counteracting any causes that deplete available energy of individuals (e.g., thirst, excessive cold or heat) and societies (e.g., dictatorship), or merely diminishing it (suffering, anger, fatigue, or bad governance). Socially, the minimum effort is a measure of the organisation of society. Repeated exchanges reveal society's efficiency, according to its values, rules, and way of life.

### *1.2 Nurtured limits of the single market*

The social order and its markets are mediated by rules and values that nurture human and social behaviour. The latter are secured through repeated reproductions until they become rooted, that is, difficult to change. The extent to which social behaviours and markets are favourable to the progress of society exposes the nurtured limits of the market.

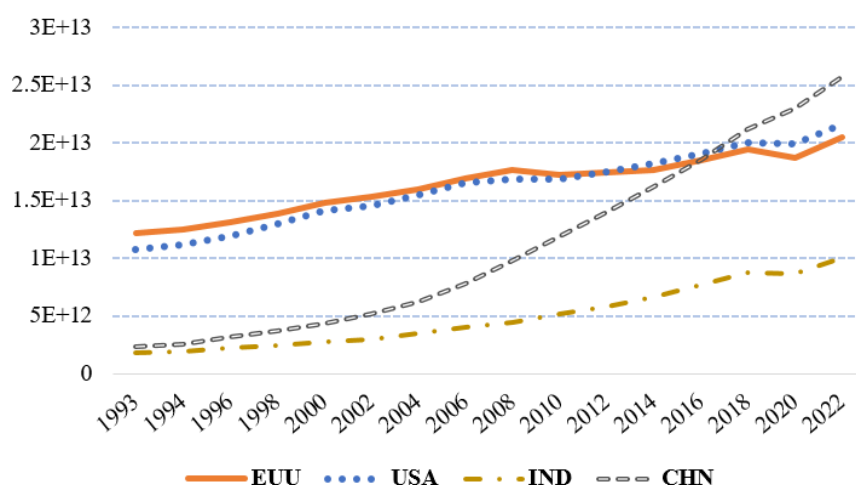
A comparison of the EU with other economies would be instructive for its current state and probable evolution for the next period. The most populous economies—China, India, and

the USA—serve as comparisons. The choice considers the potential for value creation and allocation, as well as that of internal exchanges—the number of people—, which the social organisation can capitalize on. These are decisive elements for the level of competitiveness of economies in the long term. Gross domestic product (GDP), expressed in international dollars at purchasing-power-parity (PPP) exchange rates, can serve as the basis for an adequate reflection of reality. Thus, the indicator includes adjustments for price structure and currency constancy. An adjustment measure for quality differences does not yet exist. The metric has its limits as price structure and inflation vary between countries. Essentially, however, it does not affect the purpose of this exploration.

In these comparable terms of GDP, the EU lost its lead over the USA and was overtaken starting in 2012 (*Graph 1*). China is growing rapidly, surpassing the EU in 2016 and the USA in 2017. India still shows no chance of faster progress.

**Graph 1. The evolution of the GDP in the EU and the world’s most populous economies**

GDP, PPP (constant 2017 international \$) 2022, or latest available

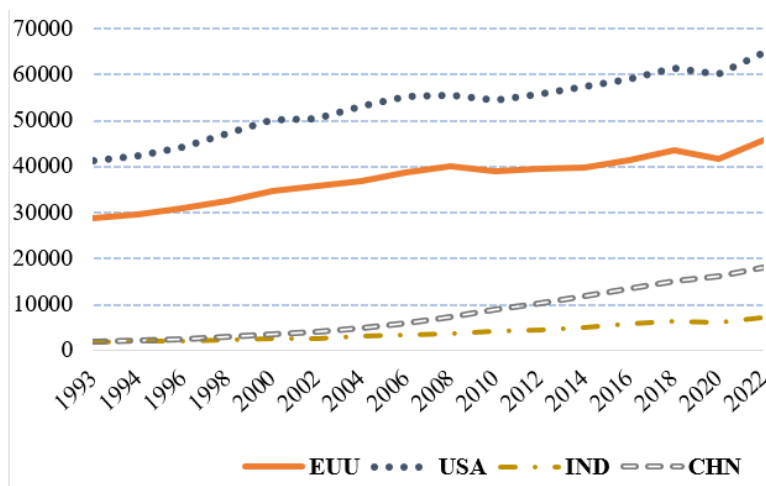


Source: The author, based on World Development Indicators, World Bank DataBank, Last updated: 15/09/2023.

The EU remains below the USA in GDP per capita, and the gap is visibly increasing (*Graph 2*). During the same period, China got closer to the EU but kept a relatively constant distance from the USA. India is still far away.

**Graph 2. The evolution of the GDP per capita in the EU and the world's most populous economies**

GDP per capita, PPP (constant 2017 international \$) 2022, or latest available



Source: The author, based on World Development Indicators, World Bank DataBank, Last updated: 09/15/2023.

What is worrying is that the faster advance of the US compared to the EU in terms of GDP per capita, takes place in conditions hampered by the faster growth of the US population (*Table 1*). Thus, between 1993 and 2022, the US population grew by 28.22%, compared to an increase of only 5.56% in the EU. The worrisome fact is that in the EU the net migration accumulated annually in the reference period—about 30.5 million people—far exceeds the total increase in the population size, of 23.6 million people, in the same period. The data are consistent with those regarding the migrants, which indicate 23.8 million non-EU citizens living in the EU on 1 January 2022<sup>1</sup>.

<sup>1</sup> Eurostat, Migration and migrant population statistics (March, 2023), [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Migration\\_and\\_migrant\\_population\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Migration_and_migrant_population_statistics).

**Table 1. Comparative evolution of population in EU and US between 1993 and 2022**

	EU			US		
	1993	2022	Population growth	1993	2022	Population growth
0	1	2	3	4	5	6
Total population <sup>2</sup>	424.347.768	447.956.050	23.608.282 (5.56%)	259.919.000	333.287.557	73.368.557 (28.22%)
Cumulated net migration <sup>3</sup> over the period	30.459.429			38.973.249		

*Source: The author, based on World Development Indicators, Last Updated: 07/05/2023.*

This means that the EU population has been under-reproducing for decades. This demographic effect weighs heavily on the EU's global prospects. More worrying is that, despite this fact, the solution at hand to reduce population losses—migration—, is rejected by several states (Neidhardt, 2023). Could this be the reason why a demographic strategy is being avoided in the EU?

In the era of the IT&C transformation, dedicated funding for research and development is essential for the likely economic evolution of the EU. Research and development expenditure, expressed as a percentage of GDP, has evolved in the EU from 1.69 in 1996 to 2.32 in 2020. The EU failed to reach its target of 3% of GDP for research. During the same period, the US has consolidated and maintained its leading position. US R&D expenditures increased from 2.45 to 3.45, which is one percentage point more than the EU. Funding is just one shortcoming that can be fixed. The main problem in reducing the gap with technologically advanced states is the competitiveness of tertiary education systems. Their improvement would take generations. The Ranking of World Universities includes only four (QS, 2024), five (ARWU, 2023), or six (THE, 2023) EU universities in the top 50.

<sup>2</sup> Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.

<sup>3</sup> Net migration is the number of immigrants minus the number of emigrants, including citizens and noncitizens.

According to the above, the EU is losing ground in international competition, especially compared to the USA. The trend of slower GDP growth reveals the limits of the single market's functionality. These are accentuated by the shrinking of the EU's production potential as a result of the decline in the number of people, the underfunding of technological progress, and the lagging behind of tertiary education.

The evolution of bringing EU national jurisdictions closer together is inadequate. The progress of the single market in its 30 years of existence—considerable as it may be—, cannot match that of a federal market like the US, which has been operating for over 150 years.

## **2. The social market economy and its barriers**

An overview of the research work devoted to the success and completion of the single market highlights a dominant approach from the positions of traditional economics. The focus is mainly on things and monetized achievements. In real life, people matter more; the opportunities generated by the market for their social progress, support an “ever closer union”. The social market economy provides the underlying framework.

The concept began to gain visibility at the European level starting with the Treaty establishing a Constitution for Europe in 2004 (OJ, C 310/1). Following two rejection referendums, in May and June 2005, a two-year “period of reflection” followed. The social market economy finally became a defining feature of the European normative ideology with the adoption of the Treaty of Lisbon (OJ, 2007/C 306/01). It is embedded in Article 3 of TEU, which addresses the EU's aims of promoting “peace, its values, and the well-being of its peoples”, in an “area of freedom, security, and justice without internal frontiers”; the Union “shall establish an internal market”, “shall work for the sustainable development of Europe (...), a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment” (O.J. C 202/17, Art. 3, para. 3, TEU). The European vision is multidimensional, as is its single market. The symbiosis of generous and seemingly contradictory goals—the simultaneous promotion of full employment and social progress, as well as sustainable economic growth and social cohesion—expresses the European way of addressing evolvement and problems that are common to a varying extent.

The strength of the social market economy comes from its German starting place, the EU's most populous member state, and its most powerful engine. It stands as an accepted way of life, enjoyed by the majority (Stockmann, 2008, p. 114).

The social market economy is the *marvel* of the Lisbon Treaty. A global perspective shows that the EU is socially the most developed and dynamic compact group of countries in the world. It brings together unparalleled processes such as integration, cohesion, enlargement, and deepening (e.g., Euro and Schengen areas); as such, the EU is entitled to disseminate its concerns for social progress, peacefully and cooperatively. Its wide-ranging social perspective and high level of ambition oblige the EU to develop, use, and promote international standards (e.g., Ford, ISCED-F). By doing so, it provides an example for consolidated democracies and the world at large. An internal standpoint must consider the provisions of the treaties and the inclusion of the social market economy among its objectives. They stimulate the EU and its member states to evolve thoroughly. Anchoring the European project in an explicit multidimensional existence of societies compels to social change and good governance and transmutes the business-as-always economic approach. This becomes all the more clear the further the individual advances towards the centre of European activities.

Researchers debate over an apparent conflict between free trade and social policy in Europe. The contested nature of “social Europe”, or the “free trade Europe versus social Europe”, as the debate is termed (Claassen *et al.*, 2019), is a false problem. The multidimensionality of human existence has been anticipated and evoked for a very long time. The flourishing society of Aristotle is one of the oldest concepts, while “prosperity for all”—the leading principle of the social market economy (Erhard, 1957)—, is one of the most recent. The call to international standards clarifies further the broad scope of the term *social*, substituting the traditional dichotomy between economic policy and social policy, with a comprehensive understanding of society. The knowledge gathered in such an interpretation raises the approximation of the real world to the highest level.

### *2.1 Constructed barriers to the single market*

Societies and their markets are subject to rules. Rules are intangible assets (e.g., IAS 38), identifiable resources, controlled by the entity as a result of past events (e.g., acquisition or self-creation) and from which future benefits are expected. They accumulate in various configurations (e.g., codes, conventions, legal acts), as part of the patrimony of the respective society. As such, they contribute to outlining the programming of the social order, as part of its constructed existence.

Rules are socially constructed and can be changed. In the EU, some act as barriers that prevent the smooth functioning of the single market (EC, 2020). They also block the social

market economy from unfolding. The legal system provides examples in this regard. There are practical manifestations that the EU deals with—the membership to the Euro area, the Schengen area, and NATO—, and theoretical ones, articulating political compromises.

### *2.1.1 Shifting barriers*

The system's imperfections, enshrined in its treaties, shape the behaviour of the EU member states and facilitate free-riding behaviours, reproducing old flaws into new ones. Such manifestations have been exercised for a long time. For instance, during the Latin Monetary Union (1865-1926), some countries were covering part of their deficits with seigniorage; thus, costs were unequally shared (Bordo and Jonung, 1999) due to extensive free-rider behaviour among members (Fendel and Maurer, 2015). A similar practice can be found nowadays among the causes of the *sovereign debt crisis* (ECA, 2020). Values do not change unless provoked.

*The accession to Schengen*—a deepening process of the Union—provides another example, with consequences for the ease of the internal exchanges. Bulgaria and Romania fulfil the conditions in all relevant areas of the Schengen acquis since 2011 (EPRS, 2022). The politicization of the accession decision has delayed it for more than 12 years. Currently, only one EU member state—Austria—has blocked Schengen's accession of Bulgaria and Romania on grounds of an influx of asylum-seekers through the Western Balkan route. According to the European Parliament (2023), Austria's arguments are not related to the conditions established for accession to the Schengen area. The veto acts contrary to the solidarity principle—a legal obligation, not just a political expedient (Koeck, 2019). The principle of solidarity and fair sharing of responsibility concerns, among other things, border management, asylum, and immigration (Art. 80, TFEU). In the interpretation of the Court of Justice of the European Union (CJEU), solidarity entails a general obligation, for the European Union and its member states, to take into account the interests of all stakeholders liable to be affected (Curia, C-848/19 P). The context of Austria's veto, expressed by its “high dependence on energy imports from Russia, deep integration into global value chains, and large banking exposures”, must be noted. This makes Austria highly vulnerable (IMF, 2022).

*EU defence spending* presents a mixed picture. The Eurostat data (gov\_10a\_exp) show that the large majority of EU member states spend less than 2% of GDP, as the 2014 Wales Summit agreement recommended (NATO, 2014). In their defence, the 2% target is a guideline to move towards within a decade. Still, in 2021 the EU average is 1,3% of GDP and the expenditures vary between 0,2% (Ireland) and 2,8% (Greece) of the respective GDPs. It must



be noted that the sleeping beauty (Juncker, 2017) of the Lisbon Treaty — “Permanent Structured Cooperation” (PESCO)—, was awakened by the Council in 2017 and the participating member states undertook binding common commitments concerning defence. The considerable differentiation of defence spending in the EU reveals equally differentiated responsibility and solidarity regarding a vital matter.

### *2.1.2 Barriers to change*

The behaviours of the EU member states presented above demonstrate that the common values accepted as the basis of the treaties are not common at all, or are common to varying degrees. It is a treated reality. Apart from this, the strongest obstacles to the completion of the EU single market are explicitly raised by the treaties.

The *Charter of Fundamental Rights of the European Union* is a legally binding promise of the Treaty of Lisbon (OJ, 2010/C 83/02). It “places the individual at the heart of its activities”, and sets the direction of social progress, based on rights and guarantees, with recognized common values and principles (OJ, 2010/C 83/02, Preamble). At the same time, however, Art. 52, para. 6 seems to limit the implementation of such provisions, by enacting full account “of national laws and practices”. The question is whether “equal treatment and the promotion of universal access and of user rights” (Protocol 26, Annex to the treaties) can be a common European value while taking full account of national laws and practices. The former is theoretical and the latter is operational.

*The Protocol (no. 26) on services of general interest* assumes some values, at least inappropriate, and introduces very strong limitations in the progress of the EU market. Its Article 1 states that “The shared values of the Union in respect of services of general economic interest within the meaning of Article 14 of the Treaty on the Functioning of the European Union include in particular: (...) the differences in the needs and preferences of users that may result from different geographical, social or cultural situations” (OJ 115, 2008, P. 0308 – 0308). Thus, the EU places at its foundation differentiated standards within itself, which suggests the perpetual acceptance of a reality resulting from historically differentiated circumstances, unfavourable for some. A phenomenon of adaptive preferences—as the economists term it—seems to be included among the common values of the EU. The process fixates on social injustice and turns it into the norm. It develops as people learn to want only things they can have or things society convinces them they can aspire to (Nussbaum, 2006). The communities can also be affected, not just individuals.

The above Protocol (No 26) has only two articles, which differentiate between services of general economic interest, as referred to in Article 14 of the Treaty on the Functioning of the European Union, and non-economic services of general interest, whose competence to provide, commission, and organise remains with the member states. Their consequences reveal some of the things we avoid discussing.

### **3. Things we do not talk about**

People can be wrong when they appreciate what is good for them (Mill, 2001 [1859]; G. Dworkin, 1971). Moreover, the thinking of ordinary people includes systematic errors, integrated into evolved cognitive mechanisms (Kahneman, 2011). In trying to mitigate the situation, societies design and implement specific policies and programmes. Among these are the Services of General Economic Interest (SGEI), as the European Treaties generally identify services of general interest. SGEI occupy an essential place among the common values of the Union (EC, 2011).

In the economy, the EU has developed various ways to protect people against their own choices. Among others, there are i) consumer protection measures, ii) protective legislation dealing with the right of withdrawal, legal guarantee, and unfair contract terms, and iii) defence of the collective interests of consumers in the internal market. Similarly, in many other dimensions of their existence, people have protection rights. Such are the rights to choose one's future profession and change one's mind about it; to change one's family doctor or, if dissatisfied, have the right to get a second opinion; people have the right to a lawyer, even if they cannot afford one, as well as to an appeal if they lose the case. The examples can go on. However, their protection rights do not cover all social dimensions.

The main problem with the SGEI—besides the detrimental differentiation between rich and poor countries—is that a common European definition is missing. No one can tell if, for instance, education or health are SGEI or not in the EU. Accordingly, the possibility of implementing unitary standards is challenged. More than that, the services of general interest that matter the most for the course of the common European evolution are the non-economic ones. They are excluded from the direct influence of the EU by the Protocol (No 26) on services of general interest. So, shared standards cannot be implemented, and common coercions and incentives on the single market cannot be introduced. European citizens' chances of benefiting from improved political and legal systems are left to chance. The prospects of a common European future are jeopardised.

Reality shows that the organisation of legal systems and their performances vary across EU member states (EC, 2023). How could a single market function properly with a perceived lack of independence of courts and judges, *interference or pressure from the government and politicians*, or *unpredictable, non-transparent administrative conduct, and difficulty in challenging administrative decisions in court*? These are just a few of the concerns set in evidence by the EU justice scoreboard (EC, 2023). The main cause is that the legal systems in the EU, though monitored, are out of European reach. The area of freedom, security, and justice of the Union must respect “the different legal systems and traditions of the Member States”, according to the Treaty of Lisbon, Art. 61, para. 1 (OJ, 2010/C 83/02). Is it to the benefit of Europeans and European integration? Truth be told, the production of binding collective decisions is among the major functions of politics (Brennan and Buchanan, 1985; Luhmann, 2000)—the primary dimension of society (Luhmann, 1995). That is why the power in a social market is of the essence.

### *3.1 Power in the social market*

Societies and their markets bring people together. Their embodied or objectified energy (Bourdieu, 1986) reflects capital-forming assets. Capital holders have power, expressing the rate of energy use. It serves to satisfy individual needs and wants or collective ones. The players in the market act as firms; they are authorities (entrepreneurs) that direct the resources (Coase, 1937, p. 392, 393). Accordingly, the choices people make in their daily activities, such as purchasing goods and services or deciding on education, work, or politics, all express exercises of power. Power is present and exercised in each of the social subsystems, according to the specific capital: economic, political, legal, etc.

Power manifests itself in the relationships within and between societies, causing others to act according to the will of the power holder. As such, power reflects the ability to meet the specific needs of different dimensions of existence, bringing abundance to an arm’s length. This is all the greater as the capital that generated it is greater. That is why political power, which springs from the collective capital of society, is the greatest of all. It is socialized based on interpersonal relationships and thereby amplified, surpassing the human level of its exponent.

Power expresses the ability of groups and individuals to cause others to act in their interest (WB, 2017, p. 3); it depends on the ability, born or acquired, which facilitates the mobilization of human-social energy. Power constitutes a factor for ranking social energy,

amplifying the effects of spending, harvesting, or investing it. Stronger states are advantaged by the market, as are stronger companies. They are better organized, have more resources, can easily access new technologies, withstand price fluctuations better, and even impose a trend. Their behaviour can lead to the manifestation of one-sided bargaining power (e.g., see the Russian energy game). This affects the social efficiency of the market. As a result, the less developed countries and, respectively, the smaller companies, have a harder time facing the European and world competition. The economic aspects of power are supported empirically (Arjona, 2022).

Historically, power shifts, decentralizes, and concentrates. The motivation is constitutive, in line with the principle of minimum energy. Change however is socially constructed and based on free will. It is stimulated by society's struggle for emancipation and the acquisition of freedom and directed against the holders of power and their privileges. The process continues until freedom is complete and rights recognised. The result is improved societal efficiency.

In the long run, the association of equals proves more sustainable than a hierarchical structure. The rise and fall of empires and the formation of federal or similar states provide sufficient arguments. Such processes are present at all levels and in all markets of society. One may say that the biggest companies in the world, such as Apple, Microsoft, Alphabet, or Amazon, could have never been born and existed as such in a fragmented market like the one of the Union. The EU should guide its evolution accordingly and follow suit. Encouraging the growth of power and strengthening its social fabric also serve international ambitions. The main probable dares aim at the EU's social innovation capacity, to address internal and external market challenges.

### *3.2 Social innovation – the way forward*

In Europe, social innovation has a limited meaning, of a welfare nature, complementary to the economy.<sup>4</sup> This paper sees social innovation in its systemic and comprehensive understanding, embedded in the international standards of social sciences and social disciplines. European society has the responsibility to promote social change, designing and building a desirable society of the future. Social change requires a vision, voluntarily promoted, which mobilizes the energies and directs the action of public policies. The process benefits

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<sup>4</sup> See European Innovation Council [https://eic.ec.europa.eu/eic-prizes/european-social-innovation-competition\\_en](https://eic.ec.europa.eu/eic-prizes/european-social-innovation-competition_en).

from successful exercises, societal (e.g., EU's waves of enlargement), or smaller scale (e.g., OECD, 2017). Social innovation is the single market's main tool for boosting current incremental and inertial growth.

Historically, social innovation played a significant role in the success of all major societal transformations. Among the lessons learnt regarding society and its transformation, one can identify, for example, the following:

a) The Great Enrichment showed spectacular growth in the gross domestic product. At the origin were the struggles for freedom and the liberation movements from the 19th century. These led to the adoption of the constitutions, placing the sovereigns under the laws of society.

The modern world is founded on a radical improvement of ideas. Accordingly, the "great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government". They were "the product of individual genius, of strongly held minority views" (Friedman, 1962, p. 11) and entrepreneurship. It is a reality that current societal capabilities could change. Equal liberty and dignity for ordinary people, against old hierarchies, expressing "liberalism", was new to the world in the eighteenth century (McCloskey, 2016 a). Its great intellectual discovery and its result, the wider network of social coordination, was the spontaneous order of the market and the fact that within an adequate structure of the norms, individuals could promote the interests of others in pursuing their own interests (Brennan and Buchanan, 1985).

Major institutional changes began by formalizing constitutional foundations. The adoption of the first constitutions of the states of the world began, shy, at the end of the eighteenth century, the beginning of the nineteenth century. A new social order, causing incredible technological progress, included the following.

- Opening of societies and recognition of individual merits, acquired through work and talent, in contrast to those arising from the political position decided politically (Luhmann, 1995).
- Recovery/recognition of human dignity, independent of ethnicity or social class (McCloskey, 2015), but especially by its immediate consequences, respectively
- Opening the social mobility paths vertically.

The Great Enrichment, one of the world's biggest societal changes, took place starting around the year 1800. An explosion of per capita income and it's breaking away from the multi-millenary stagnation occurred. At the global level, humanity increased its average per capita

income by about 1.5 times in the first 1800 years, and then another 9.8 times until 2003 (Maddison, 2001; 2003). Estimates that take into account qualitative factors, which conventional price indices cannot include (such as medical services), attribute increases in living standards ranging from 30 times globally to about 100 times in countries such as Great Britain and Japan, between 1800 and the present (McCloskey, 2016 b).

b) Great conflicts, such as world wars and crises, had among their results institutional development and the advancement of world and European governance. The European Coal and Steel Community came into being after the Treaty of Paris, in 1952, a less-than-expected outcome of the Second World War. It served as a tool to unite European nations, moderate nationalism, and prevent future military conflicts. At the same time, it helped the necessary reconstruction process, which led to the formation of the European Union.

c) Newer processes, only a few years old and of regional relevance, such as the pandemic and the war in Ukraine, challenged the European institutions to initiate their first centralized procurements—vaccines and energy—in the EU. During the pandemic, the CJEU supported the needed state aid for a tailor-made centralised system for vaccine procurement (Curia, C-209/21 P and C-210/21 P); it also validated certain travel bans and testing and quarantine obligations (Curia, C-128/22). Similarly, the energy crisis that followed the invasion of Ukraine benefited from the support of the CJEU, which had previously ruled on the legally binding nature of energy solidarity (Curia, C-848/19 P - Germany v Poland). Before that, the arguments of the EU member states regarding the efficiency of a centralized purchase of energy, could not convince Germany to give up its comparative advantages and its energy dependence on Russia. The CJEU did it. The coherence of the actions is key to social change.

#### **4. Discussions, conclusions, and recommendations**

The market is part of society's life. Its performance in the various dimensions of existence is always a topical subject. Politics, through the adopted rules, governs the market. Their suitability to the society's culture decides the pace and direction of its evolution. Societal efficiency expresses how well the EU manages to use its resources, meet its needs, and achieve its goals. The process is based on the ability of European societies to meet the requirements of the principle of minimum energy or economy of effort.

The social market economy depends on social innovation and institutional building. These are by far the most rewarding paths forward for the EU. Change should begin by breaking down constructed barriers to the single market. Its nurtured limits will also fall. The

endeavour involves harmonizing both market forces and national interests. Political power and differentiated values within the EU go hand in hand. They are the most difficult to surmount. Creative or previously practiced forms of cooperation (e.g., see the Schengen experience) are needed to overcome difficulties in adopting better-suited rules.

In society, “the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them” (Schumpeter, J. (2003 [1943])). The EU is no exception to this. Speeding up its integration would increase the chances of exploiting the market potential according to its constitutive laws. It is a never-ending process. Potential rises with the development of capabilities. Setting strategic goals that follow the inertial trends of the international market proves insufficient. It is the ones specific to the EU that would differentiate its progress from that of the rest of the world. An adequate level of ambition—incorporating its competitive advantages—should become a benchmark for the EU. The current targets set by the EU’s industrial strategy, to lead the way “towards climate neutrality and digital leadership” (European Commission, 2020), show that the EU has never stopped dreaming. A counter-competitive and generous objective—climate neutrality—, together with a wishful thinking one—digital leadership—, may respond to politicians’ needs for greatness. However, competition depends on the mobilisation of European social energy, which requires down-to-earth objectives, in line with its constitutive principles. After the EU failed to become “the most competitive and dynamic knowledge-based economy in the world” by 2010 (European Council, 2000), a cold-eyed realist political class would have focussed on the EU’s comparative advantages—social dynamics and openness to change. Alas, it didn’t happen.

The political motivation for social change is often countered by the desire to retain power. This is unyielding. It is a fact that only circumstances can change, as history shows. In critical times like war or pandemic, people tend to come closer and unite around their leaders. Political power benefits from a consolidation of its capital, with the resulting benefits: political orientation—less affected by fragmentation—and social energy are channelled with increased effectiveness. The effect spreads on the level of trust and increases the ability to address social change. At the same time, the gravity of the events presses on the responsibility of the leaders and increases their empathy. They tend to live up to the expectations of the population. It happened recently, during the pandemic and Russia’s invasion of Ukraine, when the Union changed the rules of the game and led its first EU-centralised procurements—vaccines and

energy. Are EU leaders waiting for greater tragedies to happen to abandon their business-as-usual attitude and motivate social change in the EU?

In politics, the limits of behaviour have always been self-imposed. Society has progressed, for most of its existence, with authoritarian leadership. The transition to democracy led to the dispersion of political will, without eliminating its unpredictability. The capability of the decision-makers remained low, at the level of their weakest links. These things have limited the capacity of politicians, taken individually, to harm, without increasing or guaranteeing, however, their capacity to do good, taken collectively. As a result, until society can generalize appropriate behaviour through self-imposed rules and thereby guarantee competent politicians, it is necessary to design and implement an adaptive system to ensure a progression of political efficiency. The generous goals of EU treaties and the social market economy compel it.

The following elements are among those that must be considered.

- a) **Creating a social change mechanism, integrated into the political system** - the tools should include deliberative technocracy (e.g., Salgiriev *et al.*, 2023; The Economist, 2014), polycentrism (Ostrom, 2008), and democracy (e.g.: its direct form, voting initiative). Their harmonisation can amplify the capacity of society to promote its market-based progress while exercising and improving the government of society by the many.
- b) **Treating the political services at the basis of governance as a public good** - subject to the rigors of services of general public interest [iterated by the EC, 2004].
- c) **Guiding and encouraging political performance in promoting the best interests of the people** – which may include:
  - reduction of the conflict of interest, considering the examples of European public procurement and legal practice.
  - public recognition, possible extended mandates, or increased rate of representation among elected, based on an impartial assessment.

The social market economy highlights the market values and social orientation of the EU. Harnessing the potential of economics and its principles in society is the best way to improve social energy efficiency and accelerate European progress for the benefit of its people, communities, and societies.



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