NEXT LEFT

For a New Social Deal

With foreword by:
Alfred GUSENBAUER

Edited by:
Ernst STETTER
Karl DUFFEK
Ania SKRZYPEK

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"For a New Social Deal"

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Editors of the "Next Left" book series:
Dr. E. Stetter, Mag. K. Duffek, Dr. A. Skrzypek

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Introduction



Ernst STETTER, Karl DUFFEK & Ania SKRZYPEK

Social democracy emerged as a movement of all those in opposition to the order that would not accommodate their hopes for decent lives and quality employment. Rejecting the order at hand and aspirations to change, they provided a motivation for workers across to globe to stand up, unite and strive for their rights and for their dreams. Even though especially at the beginning the struggle may have appeared utopian, the courage of conviction was strong enough for them to pursue and persevere. The record of historical achievements, which put in place the first tames for capitalism, proves that the impossible might be achieved. Step by step, elements of a new then social deal were put in place – with the aim of ensuring a balance between the power of capital and power of labour, while realising the mission of creating a better and fairer society.

The history of social democracy proves that reality can be transformed. Even if those delivering the changes are challenged, risking often all they hold dear – including their lives. The only reason why this statement could sound too pompous is because this proud legacy is nowadays taken lightly for granted. The deep respect and grateful memory of those, for whom core values have meant all, is often seen as too sentimental. The stories of struggles are summarised with sighs “those were the days” and then they sink in the gushy “before people believed in ideological principles”. This is yet another sign of a general mistrust that every period of time has its own questions and hence requires its own answers. And even though now, as much as at the beginning, there is so much objection towards the current reality, giving in to resignation seems a frequently reoccurring feature. The neo-liberal attitude seems to have succeeded for this moment to convince the contemporaries that there may be some alterations, but there is no real alternative.

This certain confinement of politics, which has been reduced to a mere politicised management, is a discouraging feature. It makes values appear intangible. Hence also visions seem illusionary and long-term policies give an impression of being unreliable. On that wave, grand projects, such as European integration, are being seen with scepticism, cynicism and distrust. Social democratic answers have been a passionate opposition to the neo-liberalism, including calls to tame financial capitalism and not to permit further

deterioration. The latter is expected as effects of the crisis and the post-crisis measures (such as austerity). Even though the social democratic reactions have been strong rhetorically, they still have left a certain doubt, if there is an alternative progressive narrative that could be put in place instead.

The issue is a complex one and there are several dilemmas. The first quandary is on how to formulate a proposal, which would pave a different path and would defend itself in terms of economic feasibility. The post-war compromise in the shape of welfare state is being seen as an agenda for the "times of plenty". It was subjected to have criticism in the peak of the economic crisis, as unsustainable and overspending. This topped the assessment that it would anyhow need to be profoundly reformed in order to respond to the needs and ambitions of the contemporary societies. The difficulty lies in the fact, that any reform or any new priorities setting in current circumstances may be seen as "austerity in disguise".

Secondly, the movement itself seems to experience a momentum of hesitation. Social democracy, as a traditionally established political force, has become a part of the world of politics that is being rejected by people. It has become part of the set up that is being accused of having become detached from society it was supposed to represent, while at the same time incapable to exercise any power over economy. This makes social democracy and hence any political offer it would wish to bring along suspected as far as in how far it may realise what it stands for. In such conditions, it would be strange for social democracy not to become even more insecure and unsure of its own chances. Hence the crisis it diagnosed before, has developed into a new stadium in which its own inferiority has become the first largest obstacle. Social democracy of today starts experiencing new cracks on its portrait, tarnished among different currents and losing self-assurance that it can and should profoundly reform itself.

The transformation should be based on critical learning from the past, while at the same time asking a question: what is the new compromise between the labour and capital that would need to be framed in order to bring the world into equilibrium? Can social democracy re-emerge as a force that can deliver on a promise of empowerment, prosperity and progress for all? Is there a way to ensure a fair distribution of wealth, income, knowledge and power in the world of today?

These fundamental questions became an inspiration for the authors, whose contributions are included in this volume. They were drafted during a year-long process, during which the members of the FEPS Next Left Focus Group offered each other reviews. Their engagement in a continuous scholarly deliberation, which by a number of occasions was confronted in a more politicised ambiance of FEPS Next Left round tables and symposiums, resulted in the emergence of a vision of a social contract for the 21st century Europe. This is where the title "*For a New Social Deal*" derives from.

The papers gathered in the first Chapter "*Shaping a New Social Contract*" look at both philosophical, societal and political aspects of the contemporary circumstances, in which the new social deal was to be put in place. Ania SKRZYPEK looks at the idea of a Social Contract in relation to the evolving vision of a Social Europe. She proposes three exemplary areas, in which adequately: progress and solidarity, equality and prosperity, and democracy and trust in politics could be achieved. Furthermore, Patrick DIAMOND examines public attitudes towards provisions based on the current contract, namely welfare state. His argument revolves around priorities that societies of Western and Northern Europe would list as far as its' safeguarding and reforming. Ignacio URQUIZU closes this section with mapping the new areas for debate – looking at how far economy determines social democratic agenda and in how far social democracy itself would be able to shape economy.

Rémi BAZILLIER inaugurates Chapter 2 "*Ensuring fair distribution of income, wealth and power*" with an article devoted to a thesis that there is no trade-off between efficiency and equity, which in fact are the two sides of the same coin. While proving wasteful and downgrading nature of inequality, he presents 17 propositions on the bases of which economic credentials of a progressive agenda could be restored. His deliberations connect with the ones of Andius BIELSKIS, who presents a critical assessment of Marxist theory vis-à-vis reality of global financial capitalism. He builds his argumentation for a new deal around the necessity to overcome exploitation and alienation within the contemporary world of labour.

Finally, Chapter three "*Building Progressive Alliances*" examines a possibility with whom social democracy could join forces in putting the new social deal in place. Dimitris TSAROUHAS looks there closer at the traditional ally – namely trade unions. Through the prism of Social Europe agenda, he studies their evolution, transformation and europeanisation. John HALPIN, on the other hand, presents an argument that nowadays majority coalitions can only be built upon issues. He backs his observation with analyses of the recent campaign of President Obama.

Altogether, this sixth volume of the Next Left Book Series "*For a New Social Deal*" constitutes relevant reading. It provides an interdisciplinary perspective on the historical challenges that social democracy is currently facing. The multidimensional, values-based analyses help envisaging the scope within which a new social contract could be framed. At the same time it also indentifies the ways through which such a "*New Social Deal*" could gain public support as a feasible promise on both the European and national levels. As such, this book requires from readers to dare stretching the boundaries of their contemporary political imagination, to experiment in thinking what may appear unrealistic and to have courage to believe again that a new, progressive contract is possible.

Alfred GUSENBAUER

For a New Social Deal. Believing in the Hopes that Social Democracy Aspires to be Entrusted with

The FEPS Next Left Research Programme emerged from the deliberations of the post-2009 European elections. To begin with, progressive academics, politicians and experts from civil society gathered to analyse the reasons that caused the general defeat of the centre left in Europe. Identifying those grounds led very quickly to an assessment that the problem at hand was much more profound. Once could say, historical even. This particular European vote seems to have emphasised that unless social democracy renews itself thoroughly, it risks further decline up to the point of becoming just a chapter within the books on political history of Europe. The impacts of the global crisis would further destroy whatever is still left from the post-war consensus, which the evolving and highly fragmented society was unlikely to defend. The realism of the threat that such a pessimistic scenario could be fulfilled seems quite high, especially that in parallel social democratic parties were losing ground on the national level.

As also in the past, pondering the future of social democracy has attracted much attention. This is encapsulated in the nature of the centre-left, which has a critical and hence self-critical thinking engraved in its partisan DNA. Especially the past 4 years featured a great number of debates and publications on that theme. Self-evaluation led to identifying possible questions that social democracy was compelled to answer before gaining capability to move ahead. They framed guidelines for transforming the centre left into a political movement adequately equipped to face the challenges of 21st century politics. Following those queries, even a greater number of responses have been formulated. The actors involved in those processes have gone as far as forgetting and forgiving old internal divisions. They decided to learn lessons from previous attempts; namely that in order to successfully self-reform they need to ensure that the modernisation encompasses the entire movement. The legacy of those recent "intellectual-renewal-boom years" is an important one, as on its fringes a very serious appraisal of the current political, societal and economic situation.

One could then assume that not only social democrats start seeing a light at the end of the tunnel, but that they also know where this tunnel is leading to and how to rebuild

it accordingly. Indeed, so it could seem with the problems at hand being thoroughly examined and with quite clear ideological answers that have been given. The difficulty lies however that on the eve of the 2014 elections there are only quite a few, who themselves believe either in those responses or in the fact that social democracy altogether can re-emerge strong enough and united to actually implement them. This overpowering feeling that can be sensed is that social democracy is trapped in confinement of contemporary politics and economy mostly on the national level. It is being masked and submerged into a discussion on an "overall moral crisis" of Europe, which society has been subjected to during the economic and political crisis evolving since 2008. But even in this context it is hard to resist an impression that despite numerous declarations that we can't come back to business as usual after such a predicament, somewhere deep social democracy would prefer to do so. Wouldn't that be lovely to just erase the crisis chapter and go back to safe haven of political pendulum, which makes everyone get into power now and then?

Surely, this would be most convenient. But even though it may be sentimentally appealing, it is not likely to ever happen. Paradoxically, after those recent years of soul-searching and erasing divides, post-crisis European social democracy emerges to be more divided than before. With the mainstream agenda of austerity across the Union, social democrats have hard times to deny that the resources needed to build a society of social democratic ideals are very limited. This is likely to further thaw the old divisions between "traditional" and 3rd Way social democrats. The 'defrosted' conflict could once again emerge along the same lines of protective versus active investment state. Furthermore, the split between the North and South of Europe is also echoed within the movement. Perhaps again, not as far as the recognition that there is a problem – but rather in terms of identification of causes and possible ways forward. The difficulties here, expressed usually through very unusual calculations who owes whom what and what for, are still insufficiently tamed by appeals for more solidarity. And last but not least, the overall disillusion concerning Europe is very likely to translate further into a new sort of euro-scepticism within the social democratic parties. This will further deepen the gap between the European and other level of partisanship. Pro-Europeanism seems to become more and more a pro-forma attitude at the moment, within which national parties can comfortably say that they are indeed in favour of a different vision for Europe. And with that they mean more and more not an ideal of a progressive Europe, but rather the scenario that fits the best their national political needs at the given moment. These three divides are just exemplary of the multilayer splitting cracks that currently hollow the centre left.

The lesson from the 2009 elections (as also subsequent ones within the EU member states), was that a successful electoral strategy should be focused predominantly not on the question from which competitor a party in question can win voters. It should rather

be seen in conjunction with a query what are the issues on the bases of which it can build broader, even temporary societal coalitions. These are essential for ensuring majority support. With all those fractures described above, it is very hard to think ahead of the upcoming European elections in terms of a consistent, coherent and complex agenda. This could perhaps explain why there is not a new narrative yet that would be more ambitious than a simple opposition to austerity and why, at the same time, social democracy can be successful in the pan-European context concentrating on the initiatives such as the recent action for a youth guarantee.

This rationalization could also throw some light at why the traditional, signature concept of European social democracy – Social Europe – has been partially abandoned. This year is precisely 40 years after the term was introduced to the dictionary of the centre left as a symbol of a progressive vision for European integration. It stood for a societal dimension that was to be added on the top of economic processes, ensuring that the benefits of economic growth are translated into the improvement of living and working conditions. Subsequently Social Europe has made its way into the institutional language of the Community and then Union – losing in some cases its ideological dimensions and being diminished to an equivalent of social policies. Regardless of those examples, it survived until recently as a logic that the EU and its policies should be instrumental in creating a fairer society.

It comes therefore as a certain surprise that the appeal for a Social Europe seem to be finding lesser supporters. Most likely this reflects the doubts of social democracy that such a vision was possible during the so called "era of plenty", while in the current stagnation it may appear ludicrous to promise and deliver on. This links with another dilemma, namely that currently the EU is being seen by many rather as a reason for a deterioration of living and working conditions than as a plausible promise of progress. Here social democracy faces a problem of how to lay out a long term strategy in general in conditions of peoples' disillusionment in politics. Furthermore, there seem to be more and more a temptation to address "individuals" and their "individual concerns" – rather than to talk from a perspective of a society that centre left would like to create. With that the appeal for Social Europe of course loses its appeal.

Realising those factors leads to a profoundly relevant question. This is: *can the belief of social democracy be restored, so that it trusts in itself and in its mission to shape the EU to become instrumental in shaping a fairer society? Could it come up with a convincing, pan-European proposal, which before the elections 2014 would be more ambitious than just raising the objections to austerity and aiming at removing conservatives from power? And if so, then can the next elections be the momentum of creating a New Social Deal between the EU, its politics and its societies?*

1. Reinstating Social Europe

The old truth is that a common enemy unites. This is the case for social democracy in Europe, which despite being tarnished with many internal cracks described above, still comes together as the opposition to the "conservative-governments led austerity that is imposed on Europe". The emphasis on the "conservative-governments led" is not a coincidence, but rather fingers pointing in terms of who is to be blamed for cuts and stagnation in Europe. The criticism concerning austerity usually underlines that it is unfair, ineffective and can serve only the short term. The problem lies however that the answers social democrats would have in mind are in fact the ones that would work in a long-term perspective – which makes them very difficult to argue credibly for now, when people demand some relief to their worsening living circumstances and growing, overwhelming anxieties.

The first challenge of social democrats is therefore primarily a political one. They require a new narrative to lay out a convincing and credible alternative vision. But this connects with the second defy. Social democratic parties that reached more favourable results in recent elections and entered into governments, face immediately the dilemma on how to use the limited resources widely vis-à-vis the ambitious tasks ahead. This leads usually to assigning priorities, to favouring some above others. This often is perceived as a betrayal of initial pledges. Realising fully that in the times of economic stagnation this political confinement is unlikely to vanish promptly, it is naturally very difficult to formulate a visionary electoral appeal for 2014.

Returning to the issue of Social Europe, its framing has always been made in conjunction with the anticipation that there would be a sustainable economic growth. To that end, this was supposed to be not only a tangible result of the economic integration, but also in the early years the guarantee that the profits of cooperation would by far exceed any benefits from the intra-state conflicts. Currently, both in the aftermath of the crisis and as a result of already applied austerity, there can be no expectation that growth in its traditional sense is to be rapidly recreated. This calls for new ways of defining growth, in the context of measures such as welfare, well-being, available public and social services etc.

The new understanding of what could become the content of the notion of "growth" in the 21st century, could also then lead to finding new ways of generating it. To begin with, social democracy should consider its traditional mantra that in times of crisis it is necessary to find means to boost consumption, which then will gear production and help overcoming recession. Perhaps the focus should rather be on investment and stimulating production to begin with, and thinking about consumption in terms of sustainability pattern. Such logic would also facilitate recreating the link between the real economy, value of work and financial markets, if the profits gained within the financial sector were to be reinvested by companies into potential of employees, their skills and infrastructure required

for their work. This is essentially a part of a mission of social democracy to bring about new equilibrium between the world of labour and the world of financial capitalism. This is the rationale that must further be reflected in all the proposals embodying the principles of tax and fiscal justice.

In that sense, the discourse about the new conceptualisation of growth and adequate strategies to stimulate it must capture the progressive answer to stagnation and to the inner-EU divide. This can be dealt with in two practical ways. The first one would be about finding new opportunities, which for example the recent proposal of President Obama on the trade agreement between the US and the EU seems to offer. The second one would look at potential new ways of reinstalling the cohesion in Europe. There is no way to go beyond the scandalous number of unemployed and impoverished with big words – but there may be opportunities with broader strategies. Many already called for a new common European Marshall Plan, which would help upgrading the capacity of Central Eastern Europe to rise beyond its predicaments. It presents an interesting idea, but social democrats should see for themselves how such a plan could work in order to put all into a common effort to safeguard the EU and advance then together in the spirit of solidarity, without risking even appearances of charitable measures.

Another difficulty with the traditional framing of a Social Europe is that it has always been a pledge to ensure quality employment for each and everyone. With so many people outside of the labour market on one hand, and so many stuck in terrible working conditions this has become almost a difficult pledge to make. On its fringe there is also a divide among social democrats from different regions, some of them arguing for indispensability of the promise of full employment and the others, doubting if such an appeal can be seen as reasonable. The fact remains that the EU with its common labour market must assume its responsibility. It must be about providing quality employment for all. It must develop a new strategy that would bring a rebalancing of the polarised (also geographically) labour market that would deal with the divides between outsiders and insiders, between genders, between generations. This is why the EU must deliver on setting up binding minimum standards as benchmarks, including a minimum living wage. Furthermore, work that remains currently outside of formalised employment relations must become recognised. This concerns especially the question of domestic work.

Through those lenses, Social Europe and herewith social democracy may appear instrumental in empowering people and societies. This is why in the context of both described above, the new growth strategy and the labour policies, it is absolutely essential to go beyond simplistic promises of protectionism. Indeed, in the 1990s it was argued that the European Union is a framework to protect people against globalisation. Two decades later, it is obvious that protection itself is not only not easy to guarantee, but also is not enough. The EU must become therefore focused on enabling all to be a part

of progress and prosperity for all. Refocusing the EU's agenda accordingly requires both the courage to believe in such a promise and herewith engagement and united efforts of social democrats across the continent.

2. Assuming European responsibilities

The crisis made the European Union preoccupied with trying to make it till the end of a day without major disaster and door-slamming of irritated heads of states, rather than on anticipating what tomorrow could bring. Sadly, that meant that the focus on policies that would embody the principle of solidarity, both internally and externally, was somewhat lost. With certain exceptions, social democracy went with that flow. It stopped arguing for an added value of the European Union, as far as equipping its peoples and societies with skills, knowledge and means that are they need in order to find their ways in the complicated world of the new century. The philosophy of creating opportunities to reach equality of autonomy has been pushed aside, which weakens the EU itself in terms of remaining a relevant global player that is able to stand for the interest of its states and population.

Therefore, it is crucial that ahead of the 2014 elections social democracy retrieves the solidarity part of its traditional agenda. In the context of framing a credible Social Europe proposal and safeguarding the European Social Model, this would mean outlining those policies that can bring progress and prosperity while contributing to social cohesion; i.e. more investments in public services and goods. Here especially the care sector (childcare, elderly care, health care), as also education and non-formal and informal learning would require a reallocation of resources. These investments need to be seen as means to empower all, ensuring safety nets and at the same time mechanisms to boost one's potential. Hence their efficiency can be measured through the creativity, productivity and security it equips people with – helping them remain part and contribute to a society as a whole. Success of it is a key test for social democracy in proving that its core values applied adequately in policies are their best credentials in terms of managing economy and creating competitive advantage of Europe.

There needs to be a primary focus on young people. They are currently the most crisis-hindered group in society. Hence, they are the ones for whom Europe seems no longer a promise of betterment. The young generation, called by many NEETs (not in employment, education and training) requires multi-layered strategies that would both re-integrate them and enable their participation in society, work and lifelong learning. The social democratic mobilisation for the youth guarantee was a very valuable one; however a more complex, ambitious agenda for the future generations is still in awaiting. Secondly, a new approach is needed regarding the participation of women on the labour market. It is

clear that recovery will not be possible, unless all contribute to it – and that there is no way anymore to sustain one's family household with only one single income. Yet, the negative practices leading to the gender pay gap or barriers in taking up entrepreneurship persist. Thirdly, there is a remaining challenge of integration of migrants within the societies and labour markets. These three are only exemplifications of where a new approach is needed. This issues are not and cannot be resolved by merely current traditional redistributive policies, which is why the 'shy' debates on pre-distribution and distribution should be reinforced by social democrats onto the European level. An agreement among the centre-left on the principles of them is essential if indeed the European Social Model was to be preserved and renewed.

Furthermore, there needs to be a rethought European industrial strategy put in place. It has to serve economic sustainability, high quality jobs' creation and none the less respecting environmental goals. The right to live in a healthy environment and to be able to help protecting it must be shared by individuals and societies across Europe. At the moment, despite many years of debates on greening jobs and economy, it is still the case that ecological choices are affordable mostly to the more wealthy citizens. So are also energy saving solutions – which impoverished households usually cannot opt for. The European Union can be a protagonist of these debates, which can be shaped by progressives if they decided of seeing them in their complexity as part of one, coherent agenda. In that sense, they need to be bridged with debates on natural resources and climate change, as well as Common Agriculture Policies, issues of food security, or trade agenda. Again here, core-values driven attitude, which looks at economy from both, coherently merged aspects of equality and efficiency, is the way of restoring centre-left credentials needed to propose a new socio-economic narrative.

Last but not least, as mentioned before – the crisis made the EU inward looking. It focused so much on internal management, with which it allowed the global context to fade away. This concerns both the question of its contributions on the international level, as also preservation and development of its own strength to be able to act in the name of a common agenda. Historical internationalism should make social democrats step in therefore very strongly in order to reverse this trend. The first challenge lies with the issues of enlargement and neighbourhood policies. On one hand, the bordering areas have experienced profound changes in the recent two years, which require further assistance. Traditionally, the EU has always been a project of peace and stability – and hence instead of lamenting that these principles are no longer alive or adequately deeply rooted in Europeans' hearts, one should try to revitalise them especially in the context of those developments. Secondly, the EU should become stronger in terms of developing a vision for global governance. The financial and subsequent economic crises were not uniquely EU affairs – on contrary they showed the overwhelming international power of global

financial capitalism. There can be no democratic way to tame it and to bring equilibrium between the world of labour and capital, unless there is an adequate, democratically legitimised global institutional framework and appropriate supervision mechanisms put in place. Thirdly, as much as social democrats oppose austerity measures in Europe, they should also oppose them in conjunction with policies of development and aid. Beyond any doubts, Europeans are currently preoccupied with their internal sorrows – however if they slow down on their external commitment the erosion of certain mechanisms may prove not to be easy to recuperate. Social democrats must find within the movement a courage to stand up for a new global deal, for a new agenda for peace, social justice and democracy. The soon-expiring Millennium Development Goals and already ongoing discussions on if there could be new commitments and binding targets, provides one with the opportunities to return to the thinking about a progressive international agenda.

3. Restoring Democratic Europe

The crisis evolved from financial, through economic and then developed also into a stadium that is described in the literature as "political predicament". The years of "TINA" (There is no alternative) convinced people that in reality not much can be done about financial capitalism. Politics and politicians started being perceived on one hand as subordinates of its forces, and on the other as detached from society. This confinement has been so convincing that very soon they got to believe in those themselves. Lack of believes on both sides, laid at the core of popular disillusionment vis-à-vis politics, feeling of resignation and anger. "Traditional partisan politics" seems herewith on its way out, providing a vacuum that populists and extremists gladly used as a fertile ground to grow on. The visible and measurable shows of disapproval and disenchantment were the dropping electoral turnout, falling support for all traditional parties, as also the fact that in some countries people took the issues onto the streets.

The answers of social democrats have varied. Some believed that there was a possibility to enter in new coalitions with the social mobilisations, even if they primarily refused to see themselves as any organised fractions. This strategy failed therefore, and what was most disappointing is that unlike 30 years before the centre left did not manage to use the momentum they created. Nowadays, when with some exceptions these movements seem to be more and more a memory, there regret can be expressed that the agenda that they put forward was only so modestly embraced by social democracy. In the eve of the European elections, centre left seems to be coming back to its old, slightly arrogant rhetoric based on pompous statements such as "we need to develop a good communication strategy" or "we need to talk to people and explain to them". The lesson that social democracy should have drawn instead from the last two years, is that

the contemporary citizens are perhaps the best informed in the history. Hence not so much of an explanation, as rather a deliberative process in which they can co-define the scope of the political mandate – is what they would desire. Enabling that by opening the movement and treating citizens as partners in shaping a New Social Deal would be much more successful way forward.

In the two chapters before, it was broadly elaborated on what the EU should focus on if it was to be functioning following the guidelines of the progressive agenda. These observations were made in relation to general disappointment that people may have concerning Europe due to different reasons and with emphasis that a new, politicised vision for Europe is needed. This is very important to keep in mind on the eve of the EU elections, in which it is always very difficult to resist a temptation and not to speak extensively about the EU institutions and procedures. European voters should not be demanded to "like" the EU institutions, as asked if they actually "like" the national one – they would not be likely to answer yes. They should be able however to support them by extending a democratic mandate. This is why it is so important to restore the position of the European Parliament, which influence has been decisively hindered by the shift towards the inter-governmental method of governing in the last years. The debate is relevant, but it has to be translated into terms of politicisation and democratisation of Europe, instead of drowning in the usual technocratic discourse. Succeeding would be a fundamental step towards opening a new debate on the future structure of the EU, which institutions should be much better equipped – which lesson is broadly understood from, among others, the euro-crisis.

Another question is the issue of making each vote matter. In 2009, it was a shared evaluation that the growing number of abstentions should be seen as a dangerous tendency. It undermines the legitimacy of the EP, and by extension of the EU. Social democracy should liberate itself from the myth that people do not understand or are not interested in Europe. First of all, such a claim has never been sufficiently proven and secondly, with the EU being part of the national debates due to the crisis, a certain understanding that "we are all in this together" emerged. This is why social democracy should not be tempted to go next year in a search for "the lowest common denominator", just providing a general slogan that could accommodate everyone within its political family. It must be braver than that. It must look for a couple of leading, polarising messages. They must be formulated in a living language, instead of the European jargon. They must be rooted in the agendas of social democracy on the national, regional and local levels. And they must unite members across the EU, who in 2014 are for the first time in the history expected to campaign for a common, single candidate. In that sense it is important to use these messages to show, that whatever the division on particularities, there is a united and common vision for Europe that is profoundly different to the one at hand. In such a spirit voters are much more likely

to believe that their ballot matters, and even if a singular MEP cannot "change the world" on his / her own – within a stronger political fraction, he or she may be a part of a group "changing Europe for good".

Furthermore, social democracy must use these elections to express firmly their opposition to all the undemocratic movements and organisations, which gained or are likely to grasp places on the national political stages. 2014 is very likely to be one of those important historical junctions, when the terms of debate and hence sense of politics can be rescued. There has been much of showing solidarity with one another, which is undoubtedly needed and remains encouraging. But this is no longer a time for declarations or deliberations if it is more or less "comfortable" if a debate on issues such as migration takes place within the socio-economic dimension or within a cultural one. It is a time to step in into a passionate fight, turn the table around and make it about the issues that are at the core of social democratic agenda. Social democracy must make its new struggle about empowerment and about equality of share of welfare, knowledge, income and power. The only attitude that can make the movement persevere those times in a stronger commitment to its core values, to democracy and to engagement of the people in the progressive movement.

Last, but not least...

The essay offered a journey through the last four years of the FEPS Next Left Research Programme. It is been an adventurous one, as the project has been developing in the aftermath of the 2009 disastrous elections, as also in the context of different electoral defeats and victories. The mixture of scholar and political social democratic self-evaluation has offered herewith a solid diagnose of the state of the movement. It has been rooted in socio-economical deliberations, which allowed also drafting a portrait of a better society that in the 21st century Europe social democracy could still aspire to build.

Since 2012, there have been two additional aspects of the process. The first one was connected with social democracy returning to governments in a number of states. This created a certain feeling that herewith "political catharsis" was somewhat over. This is a natural sensation, as political parties are naturally focused on gaining and remaining in power. The second one was the post-crisis exhaustion. It felt like all has been said, but there is still no common way to move forward in Europe. There is "no" to conservative version of austerity, but there is still no new common narrative that could come after this frequently repeated objection. The growing internal discrepancies may prevent that to emerge in a foreseeable future.

This is why the upcoming elections are so important. In order to succeed, social democracy must retrieve its courage to be ambitious, to become truly politically distinctive

and to unite on the European level. It must overcome its own fears in terms of standing also nationally behind a common, European progressive vision, showing that it can have faith in itself again and that it is not afraid to believe in the hopes that through that pan-European vote it aspires to be entrusted with.

1

FOR A NEW SOCIAL DEAL

Shaping a New Social Contract

AL

Ania SKRZYPEK

The Next Social Contract: A New Vision for European Society[1]

1 This article is a continuation of the deliberations on the sense of the core progressive values and their transferability into contemporary politics through an idea of a social contract. Though it has been stipulated that the applicability of such a concept must be multilayered– the scope of these elaborations is restricted to Europe. This selection is made in order to comply with the size of the paper envisaged. It seems to be an appropriate choice, taking into account that the compilation of the crises brought along an existential question for the community – in which light it was also advocated that the renaissance of Europe and renewal of social democracy are co-dependent.

Key words

Social Contract - Social Europe – Progress and Solidarity – Equality and Prosperity – Democracy and Trust in Politics

Abstract

The global crisis has exposed the invalidity of the post-war social democratic consensus. The principle of equilibrium between the world of labour and world of (financial) capitalism has been challenged, with the welfare state coming under pressure as inadequate and inefficient in meeting the needs and aspirations of the contemporary societies. In parallel, the power of politics as a gear for change was questioned – proving a relative success of neo-liberal narrative in engraving the "TINA" logic in the minds of people. In those circumstances, the centre left found itself on historical junctions. It is either to prove capable of re-inventing itself through formulating a new mission for the 21st century or it will it fade away becoming a movement of the past. This article is resulting from the conviction that the first one is plausible, by social democracy formulating the "*Next Social Contract*". It examines therefore the tradition of "social deals" and analyses in how far a new one can be built on our proud legacy of core values as applied in the vision for a "Social Europe". It focuses on reconnecting again politics and society on one hand, and ensuring the primacy of politics over economy on the other.

Success in renewing European social democracy depends on how far it is able to anticipate and herewith also shape a new order, which is likely to emerge after the present-day global crisis. This relates to two matching challenges. The first one requires defining financial capitalism in its neo-liberal logic, as also better understanding of all the eroding processes it has induced in modern day societies[2]. The second one is about liberating social democracy from its nostalgic self-images and reconstructing a new mission in the 21st century.

The contemporary predicament is complex. It is not easy to grasp its' nature, to describe it properly and subsequently to anticipate on its impact. The crisis' *multidimensional* character means that it touches upon all spheres of economic, social and political life; while its *multilayered* disposition implies that it has effects on everyone and everything. Its' magnitude has put in question all *given truths*, which used to predetermine the social order. It is impossible to continue with *"business as usual".* Consequently, people have become more disenchanted, insecure and frequently also angry. The challenge lies therefore in providing sound proposals on how to cross over this historical junction in a way, which would on one hand facilitate overcoming the overpowering fears about the uncertain future, and on the other to liberate people from both anachronistic political, economic and social relations[3]. It is a task of paving the way towards a better world, fairer societies and decent life for all.

Framing such a 'grand vision' should be seen as the core aim of reinventing the mission for social democracy worldwide. The progressive movement needs to reclaim its place on the (international) political scene, while finding new paths to the hearts and minds of people. This is why seeking a feasible political alternative is embedded in the overall ambition of restoring *sense of politics* as such. The contemporarily observed democratic crisis emphasized the double-folded incapacity of politics; it can neither generate powers to govern nor enjoy the legitimacy of its people. Politics appears no longer at the service of people. It does not engage them in any substantial deliberative process aimed at finding a shared goal and creating through these consultations *solidarity communities*[4]. It is often

2 D. Hill, *Resisting Neo-Liberal Global Capitalism and its depredations: education for a new democracy.;* [in:] *Doing democracy. Striving for Political Literacy and Social Justice.,* D. E. Lund & P. R. Corr (eds.), Peter Lang Publishing, New York 2008, pp. 33 – 34.

3 Ch. Clark & S. Clark, *Global Crisis and The Search for a New Social Contract,* iUniverse Bloomington 2011, p. xii.

4 See: J. Habermas, *Three Normative Models of Democracy.,* [in:] *Democracy and Difference. Contesting the Boundaries of the Political.,* S. Benhabib (ed.), Princeton University Press 1996, pp. 21 – 30.

being perceived rather as detached from society, subordinated to the enigmatic *markets*[5] and their respective dynamics[6]. What is more, it does not seem to "deliver". This causes public frustrations, which induce diverse behavioral patterns; from political withdrawal to street mobilizations, and from electoral abstention to support for new 'kind' of parties (such as Pirates) or voting for extremists' groupings. In such conditions there is an obvious space for a 'new quality' to emerge.

Researchers indicate that there are constrains for politics and political leaders nowadays. Some point at the progression of globalization and financialisation of economics, which led to spread of *global casino capitalism*[7]. These authors also suggest that while opening their respective economies to the "rest of the world" (i.e. via free trade), the respective countries became parts of a global network at the expense of becoming vulnerable to the global markets[8]. Others suggest that the further spread of neo-liberalism puts democratic politics in a grave danger. It is no longer even about the market, what it may offer and how to correct its deficiencies. It is giant companies that predefine what offer is even possible, playing freely between different (primary and secondary) markets. This stands from a shift between a free choice (democracy) and predetermined one (technocracy)[9]. Summarizing, the assessments differ between those, who diagnose detachment between economy and politics[10], and those who rather believe in its subordination to neo-liberal version of capitalism[11]. This presents a challenge to traditional social democratic views that advocated the primacy of politics over economy (market). Not only there is a need for a better understanding of current stage of capitalism, but also the idea on what to do to rescue politics. This battle cannot be fought with an agenda of mere reforms[12].

Consequently, **social democracy needs to formulate a profoundly new (post-crisis) narrative that would bring back together into a logical constellation: politics, society and economy. This 'new deal' shall define a reassuring vision of a better, fairer society in which all may prosper (unleashing their potential for the sake of individual and common progress).** The path leads through redefining the core values

5 J. E. Stiglitz, *The price of inequality. How today's divided society endangers our future.,* WW Norton and Company, New York / London 2012, p. xii.

6 Also: R. Osborne, *Of the people, by the people. A new history of democracy.,* The Bodley Head, London 2011; p. 280.

7 http://www.casinocapitalism.com/

8 R. Osborne, *Of the people, by the people...* p. 280.

9 C. Crouch, *The strange non-death of neo-liberalism.,* Polity, Cambridge 2011, p.57

10 See: the Report of high level seminar "*Next Left : Building New Communities*" that organised by FEPS together with Renner Institut and IGLP took place on 12th – 13th at Harvard Law School in Cambridge, USA.

11 Sh. Berman, *The Primacy of Politics. Social Democracy and the Making of Europe's Twentieth Century,* Cambridge University Press 2006, p. 204, and 208 - 209

12 Ch. Clark & S. Clark, *Global Crisis and The Search for a New Social Contract,* iUniverse Bloomington 2011, p. xii.

To that end, a common narrative is essential to restore the trust between people and politics and restores democratic ideals and criteria of legitimacy. This is why a Next Social Contract is needed.

of the movement in a way, in which they stop being 'abstract statements', and become 'tangible concepts'. Only then they can inspire communitarian identification of individuals and induce their feeling of responsibility for others. They need to be translatable into policy principles and applicable on all political levels (from local community to the global level). They need to ensure coherence and guide answers to significant societal dilemmas. The clear linkage between core values and new socio-economic paradigm is therefore relevant[13]. To that end, a common narrative is essential to restore the trust between people and politics and restores democratic ideals and criteria of legitimacy. This is why a *Next Social Contract* is needed.

1. Next Social Contract: a values-anchored vision for a fair society

The introduction to this paper emphasized the need for a more adequate understanding of the nature of our contemporary global predicament. It insisted on seeing the renewal of social democracy as process embedded in a mission that should lead to retrieving the very sense of politics. It originated from an observation that politics and society are in broader terms exceedingly detached from one another. To complete the picture, it is necessary to reflect more on the evolution of European societies.

On one hand, there are erosive processes, which deriving from the contemporary economy, induce further social polarization and fragmentation. This consequently means that the traditional socialist interpretation based on traditional class-conceptualization of societies becomes somewhat inadequate. In its traditional understanding it fails to capture the nature of contemporary society, and furthermore it also is misleading as far as assuming that politics can still be about representing anachronistically described interests. At the same time, it also does not embrace the challenges arriving from new risks or new inequalities. Therefore it undermines the conventional social democratic "storyline", according to which the left's mission has been to ensure a peaceful compromise between working class and capitalism. On the other hand, shared understanding and support for collective values has been weakened. This process goes beyond what used to be identified as *post-materialism.* There are several causes of it: mainstreaming neo-liberal thought, diversification connected with mounting individualism and communities falling

13 A. Skrzypek, *The core values for the Next Social Deal.,* [in:] *Progressive Values for the 21st century,* Next Left Books Series – volume 5, E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS 2011, p. 50 - 68

apart. A *Next Social Contract* must therefore be a societal vision capable to rebuild communitarian affiliations through shared values. It must be about providing a distinctive alternative – so that people do not fear that the search for adequate answers no longer belongs to democratic politics. On the contrary, it must indicate ways through which people can acquire democratically and peacefully control over their common destiny and individual opportunities. Numerous protests, on the streets in Europe and in the US, would suggest that larger groups believe that the public authorities are not able to deliver, while contemporary democracy does not offer space to deliberate about it.

1.1 Framing Next Social Contract

There is certain criticism among 'traditional' social democrats, who claim that a *social contract* is a liberal feature and hence can't be seen as alternative to neo-liberal thought. This is not an accurate judgment. The concept of *social contract* was introduced by ancient philosophers, and among them especially cultivated by stoics. Later on, it was revived by on one hand Thomas Hobbes, and on the other by of John Locke, Immanuel Kant and Jean Jacques Rousseau. According to the last one, a social contract in its basic form is an "*…intellectual device intended to explain the appropriate relationship between individuals and their governments. Social contract arguments assert that individuals unite into political societies by a process of mutual consent, agreeing to abide common rules and accept corresponding duties to protect themselves and one another from violence and other kinds of harm…"*[14]. There are two aspects worth extracting. First of all, the definition stipulates perceiving individuals as members of a society (community). Secondly, it focuses on the nature of the relationship among individuals, within society and with governing 'bodies'. This logic allows establishing rules, which would serve as explanation for mutual of rights and duties. This is why the content of a social contract predetermines if it is a politically distinctive alternative belonging to a certain ideological family.

Consequently, **proposing a social contract nowadays should be seen as an attempt to establish a new, post-crisis "social compromise". Following the definition, it could be a profound tool to redefine societal rules, framework in which communities are created and defines the public administration (politics) that is at their service.** The focus on society, seen as empowered individuals sharing values and commonly deciding on what constitutes a better future, is what makes a social contract particularly attractive to social democrats and what would allow them to embed themselves in the contemporary climate of civic liberations[15].

14 J. J. Rousseau, *Umowa społeczna,* Wydawnictwo Marek Derewiecki Kęty 2009.

15 Here seen very broadly – from the Arab Spring, through *Occupy Wall Street, Indignados etc. mobilisations.*

1.2 Using a European window of opportunity

In the context of Europe, a *social contract* seems to be especially desirable. Especially on the EU level, the detachment between people, political institutions and economic developments is most drastically visible. This disconnection is usually addressed by discussions on falling turnouts in the subsequent European elections and in the negative answers given to different European proposals in respective referenda[16]. These are very basic criteria, which however catchy, seem not to be fully grasping the nature of the democratic predicament of the EU. Furthermore, traditionally the European elections and referenda are of so called "2nd order". This means that Europe and European policies have only formally been present, while the actual campaign discourses and results were rather an expression of the attitudes towards national policy issues and/or national governments[17].

Even if European politics managed to manifest itself in campaigns, the divergence among the offers would usually divide them flatly among "pro" and "anti" European. This has been furthermore induced by the fact that the popular approval rates on the respective countries' membership in the EU had been systematically dropping already before the current crisis[18]. It would make the parties in favor of the EU defend it first and foremost, narrowing the space that would allow them to propose any alternative directions of the integration processes. The reason to believe that it may change is connected with three observations. First, Europe entered into national campaigns in 2012. The results of the elections show pragmatic, but rather pro-European approaches – on the wave of which extremist parties got substantially blocked. Secondly, subsequent treaties have empowered the European level with the tools to run a more effective campaign and enhance building the European public sphere. Thirdly, the next elections will be the first pan-European vote after the crisis – which can turn the vote into a real referendum on Europe. This may change the climate around the European elections for good.

A call for *Next Social Contract* is not a demand for a new Treaty. In the last twenty years the EU has seen 5 different Treaties[19] that sadly have failed to strengthen democracy in the EU. A mission to frame *Next Social Contract* should be seen as task to draft an alternative pro-European vision. This has to be ideologically distinctive to any other policy scenarios. The philosophy behind should not be an institutionalized one, namely to providing citizens with a formal opportunity to chose - but shall be about enabling democracy by offering citizens a feasible alternative to chose from among many. In this light, social democrats have a window of opportunity in front of them to frame such *Next Social Contract*. Being

16 http://www.europarl.europa.eu/archieve/elections 2009/en/turnout_en.html

17 R. Corbett, F. Jacobs and M. Shackelton, *The European Parliament,* 6th edition, John Harper Publishing, London 2005, p. 9.

18 S. Hix, *What's wrong with the European Union & how to fix it,* Polity 2008.

19 Maastricht, Amsterdam, Niece, Treaty Establishing a Constitution for Europe, Lisbon.

in the opposition in a vast majority of the member states means that they do not need to seek defending the EU for the sake of its legitimacy, but they can afford politicizing issues and proposing a different path[20]. The challenge lies however in the fact that in the aftermath of the crisis it is Europe that is being identified with austerity measures. As much as the EU appears apolitical to public opinion, so do the cuts and sacrifices at this point. The narrative therefore can be successful if not only it takes a stand on the integration, but politicize it, providing ideological criteria for its evaluation. It shall remain a constructive part of the concept of a broad, multilayer and multidimensional *Next Social Contract* that is applicable also on the international, as also national and local levels.

1.3 Defining cornerstones for 21st century society

What is at stake is not a new structure to accommodate people, but a society that one needs to create and institutions that will fit into its needs. This is why the argument should not focus on merely defending *state* and the *system*, but showing on what ground it is indispensible for fulfilling approvable societal ambitions. It should address the issue of fair balance and reciprocity between rights and responsibilities.

There are different traditions concerning transposition of *a social contract* into a vision of a desired society. They depend on a view on what predetermines individuals destiny and in hence what induces their conviction that creating a community would improve their opportunities, both individually and as a whole. Initial instincts would suggest that within a general classification dividing between Hobbesian *contractarians* and Kantian *contractualists*[21], it would be more appropriate from a progressive perspective to opt for the later one. Simplifying, Hobbes argued that people needed to close the contract in order to protect them against evil. Kant was convinced that people had inclination to live in a society, since they believed that they could reach more together than separately. The sense of a contract is therefore to create a society of freedom and social justice, in which everyone is seen as equal and can individually develop contributing to a common good and hence building a fairer society. Following the introductory remarks, **proposing Next Social Contract should therefore not be a mere answer out of the current stage of the crisis and a pledge in defense of the existing common goods (welfare). It should be about redefining the purpose of a society, so that the individuals united in it and working for its creation can equally benefit from its progress and prosperity.** The current Europe of austerity does not hold such a promise and fails to deliver on its side of even 20th century contract, shall one assume that one was popularly agreed upon.

20 A. Skrzypek, *Współczesna egzegeza Europy. Analiza asortymentu kampanii politycznych europartii na przykładzie Partii Europejskich Socjalistów w latach 2007 – 2012.,* in print.

21 W. Kymlicka, *The social contract tradition*, [in :] *A companion of ethics*, P. Singer (ed.) Blackwell 2003.

Politicization is not an easy task in the circumstances in which political process is extremely complex, technocratic and consensus oriented. Anchoring the alternative in the core values of the progressive movement poses further difficulties. The EU is frequently described as a "Community based on values". Even if skeptics claim that their meaning has been lost and forgotten, they are enlisted in "Charter of Fundamental Rights of the European Union" and hence perceived as a set of legally binding guarantees[22]. Within the lawful vocabulary of the EU, there is clearly a distinction between values (such as: human dignity, freedom, equality and solidarity) and principles (such as democracy and the rule of law). But, as the Charter provides relatively abstract descriptions of their respective content, leaving them on the level of nonfigurative notions, it offers much space for interpretation. Such a feature makes them broadly acceptable for different states run by respective governments of diverse political identification[23]. As the reference point is the national level, it is quite possible that their meanings may therefore vary in application within the member states. The vacuum for political interpretation provides however for the European political families to politicize the debate. They are able to do that in a convincing manner, if they reach a pan-European understanding among their own members. This would mean constructing a real vision and not seeking just a common, symbolic and often lowest denominator.

1.4 Identifying signatories of a social contract

The Kantian definition inspires a handful questions[24]. Dworkin, Habermas and Southwood doubt that any *hypothetical* agreement can be binding for any *actual* person, especially due to the level of their idealization and abstraction. These are valid points, which bring about a question on how a European wide values-based agenda could generate identification and could become a social mobilizing factor. The answer is an ideological debate, which leads to their re-interpretation, so that they become tangible guidelines in addressing the most fundamental social challenges of the 21st century. It would require that the European and national levels are seen as complementary[25] on one hand. On the other, Europe would have to be seen much more as a domestic issue. In the aftermath of the crisis, this seems to be anyhow a dynamic at hand. This would mean that the narrative would need to change profoundly – it could no longer be about some taking responsibility for others (as it was during bail-outs' debates), but rather about all sharing responsibility for a common goal. As such, it could constitute ideological underpinning for communitarian method.

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22 Charter of Fundamental Rights of the European Union, Official Journal of the European Communities (2000 /C 364/01) http://www.europarl.europa.eu/charter/pdf/text_en.pdf

23 A. Skrzypek, *Progressive values for the 21st century Europe,* FEPS Next Left 2012, in print.

24 See: *Stanford Encyclopaedia of Philosophy.*

25 P. Diamond, *National and Global Governance in Crisis: Towards a Cosmopolitan Social Democracy.,* [in:] *Building New Communities. Notes from the Transatlantic Dialogue of Dialogues,* Next Left Book Series vol. 5, E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS / IGLP HLS 2012, pp. 90 – 98.

John Rawls[26] also challenged Kantian theory. He doubted if all really dispose of free will, which is based on reason (in which individuals were equipped by nature). And hence also if all are truly aware of the basic conditions of a social contract before giving their consent (the famous *veil of ignorance*). While integration has progressed, Europe has been evolving towards a technocratic form of governance. It has not only to do with the growing competences of the Union itself, but also with changing character of public politics that seeks to interfere in growing number of spheres. Since the political processes on the EU level are long and complicated, the attention is paid usually only in certain momentums – such as the summits. That means that Europe has been present in public debate on average twice a year only and is being assessed predominantly through respective national perspectives. Without a sound European public sphere and political debate, without europarties that would be well-rooted in the national political spectrum, it is hard to believe that individuals would actually get a chance for an appropriate civic education that would allow them to make those choices. It would seem as supportive to previous thesis that multilayered ideological coherence is essential. While seeking a pan-European politicized answer to a pan-European question on Europe's future nowadays, it could eventually be seen as a chance for a new Europeanisation[27] of social democracy.

1.5 Interpreting the starting point

Therefore Rawls' writing is inspiring. He claimed that proposing a contract requires fulfillment of two conditions: an interpretation of an initial situation is needed; and it is necessary to propose a new set of binding rules. In this situation, in which Europe finds itself in the crisis aftermath, this would translate into an obligation to propose a clear elucidation of the predicament and tangible framework to move ahead. This is what social democracy, however, seems to have difficulties in providing.

Historically, the multiple attitudes towards the process of the European integration within the movement, made social democracy omit statements in which it would claim its stake in the history of European integration[28]. The main difficulties social democrats had with the integration process till 1980s were connected with the fact that it was an economy-driven project, which had seriously lacked democratic legitimacy that would have been expressed, for example, through direct elections. Due to historical developments, since the 1990s the pro-Europeanism has been broadly accepted and in some ways institutionalized among social democrats. It is no longer a matter of a debate. It is somewhat by default that

26 J. Rawls, *A Theory of Justice,* Belknap Press of Harvard University Press 1971.

27 For definitions, please see: *The Europeanization of National Political Parties. Power and organizational adaptation.,* Th. Poguntke, N. Aylott, E. Carter, R. Ladrech and K. R. Luther, Routledge Advances in European Politics, Oxon 2007.

28 A. Skrzypek, *Progressive values for the 21st century Europe,* FEPS Next Left 2012, in print.

progressivism equals pro-Europeanism, which assumption disregards the fact that within the movement itself there are many shades of pro-Europeanism and Euro-skepticism as well. Furthermore, though social democrats had anticipated on the crisis well ahead[29], they have failed to communicate one, consolidated and convincing story about the crisis, its causes and its nature. For too long social democrats have been cherishing an a-historical hope that the crisis would expose the evil nature of neo-liberalism and induce support for the left wing[30]. After having dropped that hope, they jumped on defensive agenda in the name of preservation European Social Model. Exceptions were calls to seek new sources of growth. Broadly, therefore, it may rather show on against what they position themselves so far, than what they are promoting. Hence a common and comprehensive explanation of the crisis from the European perspective is required. Also this is the only way to break associations that it is Europe that puts austerity and impossible burdens on all. This is needed to move on, as also to engage with those, who march angrily throughout streets across the continent.

1.6 Reuniting for social justice

There are several other points which in the light of the J. Rawls' theory of *social justice* may appear to be useful guidelines. Rawls reiterates the idea that a *social contract* is about *a society.* It may sound as a tautology, but not in the context of i.e. manifestos that the European parties (and following them respective national parties) present towards subsequent European elections. Though as the years have been passing by they became more and more complex and lengthy, they still are entrapped in a traditional double-folded approach: on one side recalling overall European standards, on the other enumerate policy proposals that the respective political grouping wishes to amend or draft. This makes the texts focused on institutions and procedures, rather than on what goals it serves, as far as creating a better society.

The new vision captured in the new social contract must therefore be the one of a better, fairer European society, which must reach beyond providing a set of generalized guidelines for a sort of an assembly of respective national societies. It is no longer just about a "change agenda" but it is about making the society (instead of economy) the core driver of European integration. As long as there is continuity in speaking about common market, common monetary and fiscal mechanisms as hard policies, while the European social model still remains a compilation of national welfare

29 See i.e. EP Report by Poul Nyrup Rasmussen with the recommendations to the Commission on Hedge funds and private equity, http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A6-2008-0338&language=EN

30 A. Gusenbauer, *Defining the path forward,* [in:] *Progressive Values for the 21st century,* E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS Next Left 2011, p. 13.

settlements[31] and a bunch of soft rules, there can be no hope for an appropriate rebalance or for the complex, comprehensive answer from Europe to its own citizens.

J. Rawls argued that a *social contract* requires that all can make a choice, following their natural instincts for justice and gaining the ability for an informed judgment. Hence, the active involvement of citizens is indispensible. In the context of a *social contract,* linking an ambition of politicization and enhancement of democracy is crucial. The theory stipulates that people enter into such a contract upon their own *rational* choice. As already mentioned, the complexity of the institutional arrangement of the EU (incorporating elements of inter-governmentalism and federalism at the same time) makes it hard to build a true deliberative process. Jürgen Habermas claimed that only if there is a mechanism that allows all to take part in a decision, they will altogether create a definition what common good is and feel responsibility to multiply, share and protect it[32]. Such a process is absent in the context of Europe, and here also lies a great challenge in front of social democrats. The answer needs to be profound, as capacity of launching such a space under its umbrella is also partially a test in how far it is able to think beyond its own boundaries and recreate itself as an organization fit for citizens' expectations in the new century.

Conclusion

A need for next social contract is apparent in the aftermath of the crisis and towards all the future challenges of the 21st century. The ambition connected with it is to create a vision of a better, fairer society that is build on the fundaments of progressive, communitarian values. As such it shall reshape the relations between people, politics and economy, as also stipulate the role of public institutions in guaranteeing the agreements and its fulfillment, while rebalancing rights and responsibilities. It shall be about offering people a feasible choice, to break out of the gloom of crisis and hopelessness of neo-capitalism. Search for purpose by social democrats, as also the contemporary socio-political conditions in Europe are circumstances in which the progressives can succeed, ensuring both their own renaissance and preservation of democracy.

2. Needs and challenges for a Next Social Contract

2.1 The progressive understanding of Social Europe

Until very recently, the signature proposal of social democracy concerning the directions of the European integration has been *Social Europe.* It was used for the first

31 *European Parliament Report on European Social Model for the future,* 2005/2248 (INI)

32 J. Habermas, *Three Normative Models of Democracy.,* [in:] *Democracy and Difference. Contesting the Boundaries of the Political.,* S. Benhabib (ed.), Princeton University Press 1996, pp. 21 – 30.

time in 1973[33], while *Towards a Social Europe* was the title of the 9th Congress of the Confederation of Socialist Parties of the European Communities[34]. The term signified a new dimension of European integration: next to economic policies, a *federative Europe* should undertake efforts aimed at *changing the structure of European society in the direction of social progress.* In its nature it was therefore a certain, modest proposal of a *European Social Contract.* It expressed opposition to developments *accordingly to the capitalist lines,* underlining that *(t)he Community must be something more than an Economic and Monetary Union: it must be developed further into a Social Community*. It meant ensuring translation of economic prosperity into the *betterment of the living and working conditions of Europe's people,* as also that there are *ways for the community as a whole to have a say in production and hence in the future of European society.*

Social Europe was intentionally about establishing the primacy of politics over the economy-driven integration process. The herewith created *Political Union* should be standing on democratic foundations. Social policy was a sort of an emancipator tool, a driving force of a social change, required to create and then subsequently design the future of the European society (societies). This aim of integration was redefined as *a democratic and socially just Europe in which all men can be socially and economically secure, free, at peace and self-reliant and can share in responsibility in equal terms. Protection against insecurity in daily life must also be extended to the family.* The components of the agenda were: *full employment, social security; the need to give a social content to industrial relations and working conditions; growth* (that) *has to be geared to social goals.*

Even though throughout the years the term *Social Europe* made its way also into the general European documents, it has still remained a sort of a *political property* over which social democrats claim ownership. The notion has been repeatedly used in the respective electoral manifestos and Leader's declaration of the PES. Its meaning however has been evolving from: a notion of *alternative proposal* to the exclusively economy driven European integration towards a component of policy agenda that stands for European social policies, social standards, and the principle issues connected with the welfare state[35]. It had naturally then limited the impact it could potentially have had, should it had remained a visionary proposal. Narrowing the scope of the concept stripped it off from its *social contract* character. Losing that feature, it was downgraded to a set policy

33 SEC Nr. 2/1973, 9th Congress of the Socialist Parties of the European Community, BONN, 26 and 27 April 1973, "Towards a Social Europe", Views unanimously adopted by the Congress. Provisional final edition.

34 Organisational predecessor of PES (Party of European Socialists).

35 See for example the *PES Manifesto 1999,* where "Social Europe" is merely one of the key 21 proposals (included as the third one in the first of 4 Chapters: "Europe of work and development"); *The New Europe. 21 Commitments for 21st century. Manifesto for 1999 European Elections,* PES Archives.

proposals which effectively are also anchored too much in the national arrangements to become an inspiration of European identification building process[36].

Despite being deprived from its visionary character, *Social Europe* has remained still a denominator of social democrats' unity. It has been the case even in the midst of the most dividing ideological disputes in the movement – since the content has been frequently readjusted. To give an example, the echoes of the Third Way debates, captured in the PES documents at the end of 1990s and the beginning of the century show the repositioning of the constructs of the progressive socio-economic paradigm. Simplifying; until then the logic was *to translate economic growth into better living and working conditions* while from that point on the focus was rather on *creating jobs which would ensure growth*[37]. It has been accompanied by a pledge to work towards the creation of an *inclusive society based upon sustainable social justice* on one side (with the emphasis on sustainable)[38] and on the other the necessity to provide *more pragmatic* solutions while holding majority within the EU[39]. The European social democratic project became results-oriented, as the outcomes were to be the gear for increasing its democratic legitimacy[40] (and undoubtedly support for social democrats to remain in power). If this approach was to be examined in the context of a social contract, it would perhaps stipulate that it was no longer a vision that would bring politics and society in their common mission together. It would rather be *offer-delivery-satisfaction criteria* that would describe this relationship.

Despite being deprived from its visionary character, Social Europe has remained still a denominator of social democrats' unity.

At the same time, European integration covered more areas, entering deeper in competences regarding labour and welfare. Hence detailed proposals were to replace more general ideological deliberations. It was believed that *defining Social Europe in more specific terms,* anchoring it at same time as a *common collective good at the heart of European cooperation,* will *provide a key for people to be able to identify Europe* with *social justice*[41]. Herewith the social democrats gave also in to the temptation of *technocratisation*

36 D. Sassoon, *Social Europe and European Identity,* [in:] *Social Europe: a continent's answer to market fundamentalism.,* D. Albers, S. Haseler & H. Meyer, European Research Forum at London Metropolitan University 2006, pp. 145 - 159

37 3ème Congrès PSE Malmö 5 – 7 Juin 1997, *Malmö Declaration 'Let's make Europe work', PES Archives.*

38 R. Cook, *The Role of the Party of European Socialists : Social Democracy and the Future of Europe.* [in:] *Visions for Europe. Yearbook of the Party of European Socialists,* H. Fischer (ed.), Policy Network, Zukunft-Verlagsgesellschaft Vienna 2002, pp. 11 - 21

39 See: speech of Tony Blair and speech of Rudolf Scharping at the PES Congress, 3ème Congrès PSE Malmö 5 – 7 Juin 1997, *Malmö Declaration 'Let's make Europe work', PES Archives.*

40 A. Gusenbauer, *European Challenges,* [in:] *Visions for Europe. Yearbook of the Party of European Socialists,* H. Fischer (ed.), Policy Network, Zukunft-Verlagsgesellschaft Vienna 2002, pp. 185 - 191

41 F. Vandenbroucke, *Social Europe : an Operational Perspective,* [in:] *Visions for Europe. Yearbook of the Party of European Socialists,* H. Fischer (ed.), Policy Network, Zukunft-Verlagsgesellschaft Vienna 2002, p. 119

of their European politics[42], using frequently terminology of "concrete proposals" and "capacity to deliver".

The attempt to retrieve the broader meaning of a *Social Europe* took place within the PES in 2006, when PES President Poul Nyrup Rasmussen and former Commission's President Jacques Delors presented their report *A New Social Europe*[43]. Next to the ideological aspects, one shall also recall that the proposal was put on the table in the midst of a profound organizational reform aimed at making PES the stronger. As such, *(New) Social Europe* could have also become as a sort of amalgamate that would help the party recover from both the divisions of the end of the 1990s, as also from the 2004 divide[44].

The report and the declaration (that was drafted on the basis of its finding and subsequently adopted) showed concerns going beyond reclaiming the notion of *Social Europe* within its reformed scope. The characteristic *New* was not a matter of rhetoric. The authors (and the interlocutors, who were involved in the consultation process)[45] considered that even though *Social Europe* understood as *our welfare states* has been an unchallenged story throughout the 20th century. Nevertheless in the *new era of globalization and ageing societies,* the conditions that predetermine the future of these welfare states changed fundamentally. Hence *New Social Europe* was an attempt to offer the roadmap – *a strategic framework for reviewing, rethinking and reforming the European Social Model in its many different versions.* The defined purpose was *to ensure its survival with all its unique values of solidarity, inclusion and social justice for all*[46]*.*

The strategy was based on 10 principles[47] (spinning around principles of inclusion, full employment and sustainable growth). The *New Social Europe* was defined as the one to *represent* 5 features: *A green Europe with more and better jobs; An inclusive Europe; A learning Europe; An innovative Europe; A cohesive Europe.* All these were described not to be a *dream*, but a political choice. All these characteristics echo the modernized social democratic discourse from the beginning of the century. As the proposal came just

42 See also: S. Lightfoot, *Europeanizing Social Democracy? The Rise of the Party of European Socialists,* Routledge Advances in European Politics vol. 59, New & Published Titles, London 2005.

43 *The New Social Europe by Poul Nyrup Rasmussen and Jacques Delors,* Party of European Socialists 2007.

44 The reference is made to the 6th PES Congress in Brussels that took place in 2004 in Brussels and that was the first one to observe the contest between two candidates for presidency of the party.

45 Among them were Ministers for Labour and Social Affairs, MPs and MEPs, EU Commissioners, and also the researchers such as Gøsta Esping-Adersen and Allan Larsson.

46 *New Social Europe. Ten principles for our common future.,* Resolution adopted at PES Congress in Porto, 8 December 2006.

47 (1) Rights and duties for all – the essence of cohesion; (2) Full employment – the basis for the future; (3) Investing in people – we take the high road; (4) Inclusive societies – nobody left behind; (5) Universal child care; (6) Equal rights for women and men; (7) Social dialogue – we cannot do without; (8) Making diversity and Integration our strength; (9) Sustainable societies – tackling climate change; (10) An active Europe for people.

two years before the crisis hit, many of the aspects that the report urged to revise, require revisiting again. The *New Social Europe* was a concept that gained much visibility through diverse activities and publications in between 2006 and 2009. Then it faded away in the light of the crisis. In the recent *PES Declaration of principles* it is only *Social Europe* that is being mentioned in the pre-last paragraph reading: *Alongside a political and economic European Union, an integrated Social Europe is crucial to improve the living conditions for citizens, in all countries indiscriminately*[48]. This may provoke a question if a Social Europe can still be a frame for a social contract.

2.2 Legacy of Social Europe

For further deliberations in this study, it is worth recalling some particular legacy of the last debate on a *New Social Europe.* First of all, it was an attempt to face the criticism concerning sustainability and affordability of European welfare states. This disparagement is unfortunately even more present nowadays[49]. The motivation to respond in 2006 was to find effective solutions and provide credible arguments for *better, not less social policies.* Today, echoes of those debates give a strong footage to think about the welfare arrangements as it fit not only to the post-crisis circumstances, but above all to the needs of the society in the new century.

Secondly, the approach mirrored the trend to speak about the welfare state in categories of rights and duties. Though since then the rhetoric changed from "rights and duties" to "rights and responsibilities", putting emphasis on the ethical character of it – it still remains cultivated among social democrats[50]. Describing a relation between individuals and society, it gave a sense of potential base for the *Next Social Contract,* addressing the mutual, reciprocal relations between community (society) and individuals. This is where the values of solidarity or equality stop being "politically correct" notions. Here they gain sense in economic and societal context.

Thirdly, it aimed at synthesis of different dimensions. In the European context, it tackled the disparity between the national and European levels, appealing to *build bridges* among them. This was supported by the arguments in favour of 'multilayer' democracy. It also sought after considering in parallel the challenges of welfare state arrangements and the new social risks – seeing them as complementary, rather than a mutually exclusive. It showed inclination to restore *(New) Social Europe* as a progressive project in itself, instead of watching the concept to narrow down.

This political inheritance can be seen as a solid starting point, although the political life

48 *PES Declaration of principles,* Adopted by the PES Council on 24 November 2011. www.pes.org

49 See: T. Judt, *Ill fares the Land,* Penguin London 2010.

50 A. Skrzypek, *The core values for the Next Social Deal,* [in:] *Progressive Values for the 21st century,* E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS Next Left 2011.

of the *New Social Europe* notion was such a short one. Having assumed that, one should be particularly cautious to resist two temptations. Firstly, it is impossible to return to pre-crisis ideas, as also it is impossible to hope to develop a new vision while predominantly trying to respond to the crisis. Secondly, the downfall of the last years is a grave one, but one needs to look beyond it and anticipate the aftermath and the foresee conditions that will predetermine the possibilities and limits of politics afterwards.

Conclusion

The idea of *Social Europe* has always been an attempt to provide citizens with a certain compromise between the economically determined process of integration and their aspiration. Through the years the framework of such a compromise evolved, which in the light of the PES documents quoted above could be mirrored in a following way:

	Sense of Social Europe	Compromise
1973	Economic prosperity should translate into betterment of working conditions of Europe's people	European Industrial Democracy
1990s	The mission is to create jobs that would enhance growth for more inclusive society based upon sustainable social justice	Europe for Full Employment
2006	The concept is a framework of renewing, rethinking and reforming European Social Model in order to ensure improvement of living conditions for citizens	A new European Social Model

The proposal of a New Social Contract should be anchored in the tradition of a Social Europe, understood primarily as a vision for a society that is being developed for and with people in a deliberative, democratic process. The term constitutes a historical branding, a certain *political property* of social democrats in Europe – even if in the recent years its content became unclear. *New Social Contract* should bridge from an abstract, general level to the dimension that people care about – allowing them to make an conscious decision (in favour or against). It should clarify the relations between citizens and the EU, which especially now in the crisis aftermath, may become even more restrained.

3. Three challenges of contemporary social democracy

Evolution of the *Social Europe* concept in the light of the PES (and its predecessor's) statements essentially has mirrored political attitudes of social democrats in policy making. **From a visionary project to an agenda of reform and consolidation, Social Europe has always embodied the answers to the most fundamental questions of**

the unification process. It has always been focused on proposing a certain political alternative that would seek popular legitimacy and strengthened with it subordinate economies.

Next to the dynamic described in section 2.1, there is also an extremely relevant external aspect of why *Social Europe* may face further criticism. The crisis put in question the post-war settlement, and herewith all the traditional building blocks of *Social Europe*[51]. Among them are: the paradigm of economic growth and settlement of *Welfare State* (herewith also the concept of welfare as such). The pledges such as *full employment* may appear unrealistic to fulfill, while not much can be offered to those, who due to different reasons) are not part of the labour market. Furthermore the promising concepts such as *knowledge based society*[52] have brought along new and unresolved challenges (such as new risks, new exclusions and deepening divisions within the societies). Lastly, politics seem to have been too late and too rigid to fully anticipate all the societal developments (especially in the sphere of demography). The challenge is how to recuperate from it, embedding the answers in a consolidated vision of a fairer society, binding actors into an approvable *Next Social Contract* and reassuring that this proposal is an economically feasible one.

First of all, social democracy lacks a common, heuristic 'story' to explain societal and economic developments. The erosion of traditional class systems (called by some 'classlessness')[53] deprived progressives from its own vocabulary that traditionally had been used to describe both the current state of affairs and what 'good society'[54] shall be. Herewith they lost their framework to explain properly desired balance between individual's rights and responsibilities. Social phenomena (such as fragmentation, polarization, individualization) and the scale of societal diversification require new approaches, but the readiness to develop those seem to be tempered by fears (not to disobey rules of political correctness and sentiments, not to lose whatever is still left from the core electorate etc.). Historical junctions of nowadays call for a new complex vision that goes beyond traditional sociological dichotomies, but tries to build synthesis going even further in linking the social system with political order.[55] It is indispensible also to recover from the doubts is representative democracy and herewith mission of social democracy as an advocate of

51 O. Cramme, *Social Europe's new battleground.,* Policy Network Social Democracy Observatory, accessed on 21/03/2011. http://www.foresightproject.net/mailout/pno/mobile.asp?h=347

52 Socialists took pride in promoting this concept and embedding it in such roadmaps as the so called "Lisbon Strategy". For reference please see: *Growing stronger together. Five commitments for the next five years. Manifesto of the Party of European Socialists for the June 2004 European Parliament elections.,* PES Archives.

53 M. Kenny, *Identity, Community and the Politics of Recognition,* [in:] *after the third way. The Future of Social Democracy.,* O. Cramme & P. Diamond (eds.), I.B. Tauris / Policy Network 2012.

54 G. Esping-Andersen, *Towards a Good Society,* [in:] *Why do we need a Welfare State,* G. Esping-Andersen, D. Gallie, A. Hemerijk & J. Myles (eds.), Oxford 2002 and reprint 2009, p. 3.

55 The reference here can be the work of A. Giddens, especially in the dimension of his critical assessment of the traditional sociology and proposal of heuristic approach. See i.e. : A. Giddens, *The Constitution of Society. Outline of the Theory of Structuration,* Cambridge 1984.

a certain political direction still makes sense.

Secondly, societal developments seem unparallel to the evolution of the labour market[56]. Naturally, impacts of globalization and technological evolution are well known as factors, which changed the structures of labour markets. Europe's response from the beginning of the 2000s was an announcement that it will soon be ready to compete at the global market as the *modern sustainable economy based on knowledge.* The doubts remain if indeed it is still capable to do so (both due to internal weaknesses, as also observing the developments of the BRICS countries) or even if it should try. There are authors who say that such an approach misses the point that would observe societies developing from post-industrial production mode into services-led-one. This would mean that the neoliberal logic of cross-cutting competition can be replaced by more communitarian one – in which the future of all depends on *how well we can serve one another*[57]*.* Herewith the entire question of what the new communitarian values are would need to seriously examined. Inspiration from such a view would also mean that a new understanding would describe the social relations in different ways. Additionally to that, one could presume that work could regain its moral sense – going beyond being 'just an occupation necessary to uphold in order to afford one's living' and inducing redefinition of what the *productivity* as a term entails.

Another point, from among many, worth mentioning in the context of the labour market, are changed expectations. In the times, in which all realize that there is not only *no job for life,* but also perhaps *no profession for life* (due to a number of factors: from economic instability to personal attitudes connected with an urge for mobility within the labour market) and it is questionable how long one needs to work to gain rights to decent retirement, the terms such as *job security* gain new qualitative characteristics. It is being stipulated that the so called *Generation Z* (born in the second half of 1990s and the beginning of 2000s) shows inclination to be more self-determined, once active on the labour market, and be ready for sudden change (switching jobs)[58]. They are not so much focused on how to reconcile professional and private lives, but rather how to reconcile private ambitions with professional obligation. If social democracy wishes to recreate any communal identity, it must develop an idea what the modern meaning of *work* should be. Perhaps it shall look into possibility of making *labour* a value in itself. Determining it additionally in the context of a common EU labour market would be of a substantial contribution.

Thirdly, societal evolution remains mismatched with the contemporary welfare state. It remains a settlement responding to the needs of industrial society of the previous decades.

56 P. Taylor – Gooby, *New Risks and Social Change, http://fds.oup.com/www.oup.co.uk/pdf/0-19-926727-8.pdf*

57 Ch. Clark & S. Clark, *Global Crisis and The Search for a New Social Contract,* iUniverse Bloomington 2011, p. xi.

58 Study by: A. Ferincz, L. Hortovanyi, R. Z. Szabo, D. F. Tarody, *Changes in the way of work: Generation "Z" at the labour market.,* Corvinus University Budapest.

There is a number of explanations what directly leads to the welfare state crisis, among which 3 elements seem commonly repeated: *rising demand, restricted resources and constraints in the capacity of the governments to reconcile the two*[59]. Defending tradition of welfare state has been pre-occupying social democrats, who lost the two important in that struggle arguments. First of all, that the values that lay fundaments for such a settlement are in fact tangible economic concepts. Without equal opportunities and policies creating egalitarian societies, there will be no equal participation of all in building prosperity and welfare. Hence there will also be no recovery[60] or overall development of a society[61]. Secondly, welfare state is a dynamic concept. The Third Way adopted such a stand point arguing for a life-cycle approach, which perspective would allow identifying *the interconnectedness of social risks and needs over time*[62]. Though these ideas have found their follow up also in recent proposals such as (European) Social Investment Pact[63], they have not gained a larger influence. The challenge remains to answer: *what is the core sense for the welfare state in the context of the ambition of creating a working society of the 21st century? How does it link altogether pre-distribution, distribution and redistribution? Can that still find support, since so many seem disenchanted by it?* Though the questions may appear basic, it stipulates a need for social democrats to take a step back, liberate themselves from the defensive lines and shows that modern welfare states may also *empower,* not only *burden.*

3.1 Selected examples of where Next Social Contract is needed

There are three challenges: a need for a heuristic story, a need for communitarian values and a need for a new societal settlement. They frame thinking about a *Next (European) Social Contract*. The scope of this paper allows only exemplification of the building blocks – which is why three examples were selected for the sake of illustrating each of the respective challenges. The first one connects with the question of progress and solidarity; the second with equality and prosperity; and the third with a dare of democracy.

3.1.1 Retrieving the meaning of progress and solidarity

Next Social Contract is required since the previous, post-War arrangement can no longer

59 P. Taylor – Gooby, *New Risks and Social Change, http://fds.oup.com/www.oup.co.uk/pdf/0-19-926727-8.pdf*

60 J.E. Stiglitz, *The price of inequality. How today's divided society endangers our future.,* WW Norton and Company, New York / London 2012, p. Xii.

61 R. Bazillier, *The economic meaning of progressive values.,* [in:] *Progressive Values for the 21st century,* E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS Next Left 2011.

62 A. Hemerijck, *Social Change and Welfare Reform,* [in:] *Global Europe, Social Europe.,* A. Giddens, P. Diamond, R. Liddle (eds.); Polity 2006, p. 107.

63 F. Vandenbroucke, A. Hemerijck, B. Palier, *The EU needs a Social Investment Pact,* Observatoire sociale europeen, No 5 / May 2011, http://www.ose.be/files/OpinionPaper5_Vandenbroucke-Hemerijk-Palier_2011.pdf

accommodate contemporary society. *Differentiation, commoditization* and *rationalization* of societies observed in 1990s[64] led to already recalled *fragmentation and individualization.* These tendencies are enhanced by the ongoing *polarization*, which manifests itself with growing inequalities among different groups and individuals. They are induced by multiple contexts of modernity, to which the ideologists of the Third Way referred, describing it as an environment of constant uncertainty[65].

The societal anxieties connected with constantly altering circumstances were further enhanced by the recent crisis. For social democrats, who traditionally have been advocating for a change, this presents a particular challenge. The degree of pessimism nowadays affects the ways people think and feel about any modification – having lost already so much within the crisis, they naturally may fear that any change can only be for worse. There is therefore a following dilemma to solve: how to frame a pledge for progress and ensure security? The answer is perhaps in finding balance between managing modernization and steering towards a desired progress. Reaching such a balance requires a broad societal consensus. Hence **social democrats should reformulate definition of progress, embracing in it new, and progressive communitarian values.** That starts from solidarity of course, which can only be generated if people sense that the decision to move ahead was taken consciously and by majority. And from that comes a mission to ensure a space for deliberative democracy, in which all have a voice and take responsibilities for one another.

In that spirit, *managing modernization* would refer to addressing the grand societal challenges. Technological revolution induced changes in all the dimension of human activism. It manifests itself differently in economy (where for example "virtual" transactions with "plastic money" became dominant), in the labour market (where one can exercise a common project with someone seated on the other side of the globe and never even get to meet the person), or in education (where teaching methods have altered with overwhelming presence of the internet). This meant that the traditional categories that society and societal interactions used to be described with, are no longer sound. And politics also loses its grounds, not really shaping or anticipating, but responding only.

Evolution of terminology means that a promise of progress has to be described in a different way as well. To give an example, a concept of a *Social Europe* was essentially based on an assessment that economic integration would ensure a *sustainable economic growth, which would be translatable into improvement of living and working conditions.* Though especially in the times of crisis the social democrats have been rhetorically strong in defense of the notion of growth, it is hard to imagine applying its narrow definition in

64 J. Van Hoof & J. Van Ruysseveldt (eds.), *Sociologie en de moderne samenleving. Maatschappelijke veranderingen van de industriële revolutie tot in de 21 eeuw.,* Boom Open Universiteit Amsterdam 1999, p. 27

65 A. Giddens, *The Consequences of Modernity,* Cambridge 1990, p. 28

post-crisis era. These would also be unlikely to gain larger attention or legitimacy, precisely because people are not united in their approaches to further innovations or application of i.e. green technologies. The crisis and resentment to any new strategies lays fundaments of the long term stagnation that is already predicted for the European Union[66]. It seems that it is not only the replies, but the questions that have been identified by the leaders have been wrong so far[67].

There is an obvious need to reopen a political debate on economy. For social democracy such a debate is crucial, as in the recent past it gave in to accepting capitalism as the system, which if regulated, can provide for prosperity and wealth. What progressives have not consented on, is the financial state of this very same capitalism – *in which firms are no longer bound to any standards, and banks learnt how to privatize gains and socialize loss*[68]. And this is a crucial difference as nowadays the dichotomy capitalism-socialism seems no longer to exist, but rather *different alternatives within capitalism against each other*[69]. Financialisation of economy meant making concepts such as real value or productivity vague and relative. This put the financial activities become more precious than human creativity – and this naturally cannot be agreed upon. Hence the *Next Social Contract* shall provide a bridge to refocus on society and people that create it.

The second part of the *Social Europe* definition relates to improving *working and living conditions.* Polarization of the labour market[70], brought *new social risks* and shook the stability of employment[71], which are not met with adequate safety nets within the welfare system. Societal evolution paired with increasing importance of new individualistic values, inspired also different expectations among people. This made the concepts of the beginning of this century, such as *decent work* truly relative.

Focus on individual needs meant also, that each on the labour market is there on its own. In the times of crisis, those in vulnerable positions seek any sort of security. Statistics indicate that they can hardly hope nowadays on any system, as people of lower education having 2,5 times larger chance to be unemployed and being 5 times more likely to remain in a long term poverty[72]. Those, who reached higher education, wish to preserve their status in turmoil and feel overburdened with providing any assistance to any others. Such a solidarity action stops having a moral dimension, if there is a privileged group in a society

66 Issue was anticipated on during the Conference *The Failure of the Euro,* held by Watson Institute at Brown University. http://watsoninstitute.org/euro/?page_id=146

67 M. Blyth, *Question the Euro Crisis,* [in:] Harvard Business Review, http://blogs.hbr.org/cs/2012/05/question_the_euro_crisis.html

68 C. Crouch, *The strange non-death of neo-liberalism.,* Polity, Cambridge 2011, p. 101.

69 U. Beck, *Twenty observations on a world in turmoil.,* Polity Press, Cambridge 2012, p. 159.

70 See i.e. M. Goos & A. Manning, *Lovely and lousy jobs. Polarization of Work in Britain,* LSE December 2003, http://eprints.lse.ac.uk/20002/1/Lousy_and_Lovely_Jobs_the_Rising_Polarization_of_Work_in_Britain.pdf

71 P. Taylor – Gooby, *New Risks and Social Change, http://fds.oup.com/www.oup.co.uk/pdf/0-19-926727-8.pdf*

72 Ibidem.

that remains impregnated against any sort of social commitment or contribution. There is a lack of holistic approach, which would perceive society as a whole and would try to build a fair system that would use entire societal potential. It means that some have already been forced beyond the parenthesis of the strategy towards progress and prosperity.

Promise of progress is usually the one that attracts the youngest generations. It may be therefore paradoxical, that the youth voters are steering currently away from social democracy (looking at the average age of party activists and the strata of the social democratic voters). In fact it is not surprising, as current youth is the first generation in the post-war history, who believes that they will have it worse off than their parents[73]. There are both macro and micro sociological and economical reasons. First of all, there is no vision that would incorporate all individuals in communities at all stages of their respective lives. People find themselves abandoned, especially that once pushed outside of the certain, regular path (educational system, labour market etc.) they find it enormously difficult to find ways back. The most painful proof of that is the number of young, highly educated Europeans, who can't enter the labour market and if they eventually do, then often face questionable practices (such as unpaid internships)[74]. The phenomena of school drop-outs has also hardly been addressed – and if, then mostly with formal education tools, which are being resented by this group to begin with. Youth guarantee, that is gaining more and more ground in the EU right now, is only a part of a larger, really awaited answer. The underpinning question is also on how to politicize the question of opportunities for the young generations.

Focus on the youth is essential, but it should be taken in the spirit of intergenerational solidarity. Progress must be for all, regardless of age. Ageing society is a long lasting phenomenon of a great scale, which will affect all the EU member states over the period 2011 – 2060. It is projected that at the end of that period one third of Europeans will be more than 65 years old (in comparison to 17,4% in 2010)[75]. In fact, 2012 has been named *European Year for Active Ageing and Solidarity between the generations*. The report that was a political base for this initiative[76] touched upon need to *enable elderly people to realize their potential for wellbeing and participate in society, while providing with adequate protection, security and care when they need it. "Active ageing" means better education and lifelong learning, age-friendly working conditions, and supporting role of older people in family life and society as a whole.* These pledges seem noble; however remain distant from contemporary reality. Europe currently talks on postponing the threshold of the retirement age. Leading argument is that otherwise EU and its member states can't afford

73 See i.e. http://www.presseurop.eu/en/content/article/1619071-thousand-euros-dream-salary

74 http://www.generation-precaire.org/

75 Eurostat, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Population_structure_and_ageing

76 http://www.europarl.europa.eu/pdfs/news/expert/infopress/20110314IPR15479/20110314IPR15479_en.pdf

welfare system. That is even the contemporary, under-delivering one[77]. Same time, there are extensive discussions about cuts on the public services and pension benefits. This is where the previous *Social Contract* breaks down again.

Conclusion

The previous Social Contract has been eroded. In circumstances of predominantly individualistic approaches, the will to enter (or remain in) such a societal agreement is no longer there. Solidarity stopped being the fabric of our societies. What is more, the principle that an agreement should abide by social justice can no longer be upheld. Herewith the opportunities stop being equally available to all. Even if they are grasped by some, they still then do not guarantee better lives – as the system becomes rigid, not open to real social mobility within it. Here with basic contractualist rules have been violated.

3.1.2 Constructing equality and prosperity

The arguments above illustrate the reasoning to base *Next Social Contract* on a logic that progress and modernization shall benefit all in the spirit of solidarity. It points out that the grave imbalances – on the fringe of contemporary capital and modern world of labour have led to rise of different dichotomies within societal context. Unfair *polarization of society* must be overcome, if people are to become a community again – and hence there is a need to bring back the primacy of equality as mainstreaming, communitarian and societal value.

Capitalist economy in the 20th century has been perceived as a two-track one. The first track was the financial economy, in which money produces money – the second track was so called 'productive' (slow) economy, which produces goods and services that make up an economic input. Although they had been mutually influencing, it is the 'money economy' that captured dominant position. It benefits a small elitist, which learnt how to multiply their wealth faster rather than smarter – using the relatively rules-free environment and in the end making the other track vulnerable. The way out of crisis and towards a true recovery would require bringing the two tracks in balance and putting forward the new rules. It must abide by an ambition to put financial profits and wages in a just proportion, inducing also improvement in the living standards overall[78].

Grasping the nature of the financial capitalism and the related challenge is only half of the path. The other half has already been signalized before – which is that the very meaning of labour has evolved. This calls for both a new approach to it, as also modern evaluation criteria to describe how it serves individual, communitarian and

77 J. Vérnon, S. Pennec, J. Légaré (eds.), *Ages, Generations and the Social Contract. The Demographic Challenges facing the Welfare State.,* Springer Doordrecht 2010, pp. 1- 13.

78 S. Lansley, *The cost of inequality. Why equality is essential for recovery.,* Gibson Square, London 2012, pp. 7-12.

societal goals. The definition must be embedded in a more holistic vision of a society, which also gives a place to determine in a modern manner what used to be called (and criticized due to many reasons criticized) life-cycle approach[79]. There must be a clear link with a new understanding of *productivity*, which also relates to the evaluation criteria of the services and knowledge based economy. And last but not least, it must also embrace understanding that quality of life is predetermined by: the value of income, life opportunities, in conjunction with quality of public goods and services available. This is why concepts such as *well-being*[80] shall be seriously considered, as they are reaching beyond risk prevention and include also a challenge of providing opportunities. This would both induce an understanding that equality is economically-meaningful value, as also that progress and solidarity in progressive understanding is not only referring to redistribution, but also to the pre- and distribution sides of economy.

One of the grievances of unequal societies is the gloomy feeling of "self-delusions"[81]. Frustrations and anxieties induce a conviction, which hardly anything can be done. The political counter-reaction, which stipulates that better regulations need to be put in place, is not unjustifiable. The crisis has proven that markets fail and in contemporary constellation they certainly do not have a capacity of any self-correction. Growing unemployment – seen as a total waste of potential in creating growth – is the most exasperating proof of it[82]. Lack of a broader vision leads to disenchantment and resentment to continue contributing to preservation of a system, which does not seem to deliver for nobody anyhow. This falls into concerns that especially so called *squeezed middle*[83] shares. Their members' understanding is that they contribute the most to i.e. sustaining the welfare system, which is neither a gear of social advancement for the most impoverished nor the security for them and their families. This is where the previous *social settlement* fails, as it is still based on the old image of a society. The *Next Social Contract* must address those concerns, as only then it can carry a potential of reframing any majoritarian historical alliance.

Inequality is transversal. In different ways it affects all individuals and hinders the entire society. Women are among those, whose 21st century position on the labour market is

79 D. Bok, *The Politics of Happiness. What government can learn from the new research on well-being,* Princeton University Press 2010

80 The proposal by Gallup evolves 5 elements: career wellbeing; social wellbeing; financial wellbeing; physical wellbeing and community wellbeing. See: T. Rath & J. Harter, *Wellbeing. The Five Essential Elements.,* Gallup Press 2010.

81 U. Beck, *Twenty observations on a world in turmoil.,* Polity Press, Cambridge 2012, pp. 152 – 162. Beck recognises 5 "self-delusions of supposedly unpolitical age" – 1) The self-delusion of unpolitical globalisation; 2) the national self-delusion; 3) the neo-liberal self-delusion; 4) the neo-Marxist self-delusion; and 5) the technocratic self-delusion.

82 J.E. Stiglitz, *The price of inequality. How today's divided society endangers our future.,* WW Norton and Company, New York / London 2012, p. xii.

83 L. Byrne, *The Squeezed Middle and the new Inequality,* [in:] *after the third way. The Future of Social Democracy.,* O. Cramme & P. Diamond (eds.), I.B. Tauris / Policy Network 2012.

not at all part of contemporary social settlement. The increase of women participation in the labour market has been especially visible in the last two decades – and it has been expected that though *men are protagonists of high industrialism – women may occupy centre stage in post-industrial society*[84]. Therefore also the traditional social democratic pledge that women should enjoy equal rights shall be reiterated. Its recalling should echo the logic that *right* to engage in paid work is unquestionable and ideologically anchored in logic of emancipation, which anticipates on the possibility to choose.

The economic developments described before, which decreased the value of personal incomes and deteriorated overall living conditions, induced new reasoning behind women's professional occupation. It may have been seen as a matter of choice before, but now it has become rather a question of necessity for women to engage in paid occupations. First of all, because sustainability of requires that women earn the second of the two incomes, which are necessary to sustain a household. Of course, even this consideration shows a certain limitation of looking at the society – in which families' structures have changed considerably. Secondly, the out-of-crisis-management rhetoric spins around the understanding that as many as possible should be actively involved in the labour market[85]. It is argued that it is unaffordable otherwise to afford all the public goods and services. These two together seem to show regression in conceptualizing emancipation of women.

This mirrors in the way state think about public support for working women. In the 1930s, provision of public services such as childcare was there, so that working women can have children. In the 1960s, the logic was to allow mothers to work. Nowadays, there is a return to the primary idea – however this does not prevent criticizing professionally active women for their reluctance in the family planning[86]. Statistics show that late maternity and tendency to have fewer babies is especially apparent among higher-educated women.

Existing problems of discrimination of women on the labour market, as also opposing societal pressures describe above require being addressed in the framework of the *Next Social Contract.* For that one needs to use *sociological imagination*[87], defining the next wave of emancipation of both genders in fact. First of all, that means reassessing the circumstances that would enable both women and men to enter and remain active on the labour market. Their departure from households means that there needs to be a provision of affordable public services – that will step in to look after children, disabled relatives and

84 G. Esping-Andresen, *A New Gender Contract, Why do we need a Welfare State,* G. Esping-Andersen, D. Gallie, A. Hemerijk & J. Myles (eds.), Oxford 2002 and reprint 2009, p. 68.

85 Following earlier demands incorporated in i.e. *Roadmap for equality between women and men,* Commission of the European Communities, Brussels, 01.3.2006, COM (2006) 92 final.

86 G. Esping-Andresen, *A New Gender Contract, Why do we need a Welfare State,* G. Esping-Andersen, D. Gallie, A. Hemerijk & J. Myles (eds.), Oxford 2002 and reprint 2009, p. 72.

87 After: U. Beck, *Twenty observations on a world in turmoil.,* Polity Press, Cambridge 2012, p. 162

elderly, who remain in their care. The true *reunion* (instead of *reconciliation*) of private and professional lives shall not only be related to the representatives of those specific groups – but also to running of household (*commodified domestic services*)[88]. As such, the notion of *reunification* can be seen as enabling incentive that can be translated to further jobs creation. And will be an answer to how to match progress with solidarity.

This relates directly to the second issue, which is that the provision of such enables is at the junction in between the public and private sector. This is where welfare state's concepts seem to have become ambiguous. The obvious problem there is that working women with the ambition of remaining professionally active on the labour market tend to seek help in coping with the domestic duties. It is not that these are "their" duties exclusively, but it is an unspoken truth that gender stereotypes still make societies perceive women as the primarily responsible for care and housekeeping. The conditions of domestic work are seldom properly regulated and there is much space for the abuse (economic, but also psychological etc.), of which cases the recent ILO Convention 189 remains a proof of. There are over 100 million of workers employed within private households worldwide – the majority of them are women[89] of migrant background. This exposes a great challenge for social democracy – to ensure that in the new century emancipation of some women does not get to be on the costs of the others[90]. The contemporary practice shows that there are neither of the answers given on future of the labour market of welfare state, nor on the specific groups' issues: women or migrant. The holistic *European Social Contract*, binding all people, is therefore a necessary response. It shall be embedded in the holistic, complex approach based on clear indication of how all can achieve progress, respecting core values, rights and responsibilities.

Conclusion

The European dimension of *Next Social Contract* seems to be unavoidable – as the integration brought common labour market and common social policies standard. Nevertheless for this logic to be acceptable for the European citizens, it is necessary to address the feeling of inequality among inhabitants of different member states. During the crisis, people gave into impressions that it is the European Union that in fact is to blame for regression and austerity. In countries hit by the predicament, people think they are *disenfranchised,* while in the lending states people see themselves as *fleeced*[91]. Political reactions calling upon preservations of a European Social Model in the midst of that seem

88 K. Weeks, *The Problem with Work. Feminism, Marxism, Antiwork Politics and Postwork Imaginaries,* Duke University Press Durham 2011, p. 229

89 12 by 12 Campaign, http://www.ituc-csi.org/travailleurs-euses-domestiques,513.html

90 *The Next Women's Move,* Queries – FEPS Scientific Magazine, N°01 (7) 2012, http://www.feps-europe.eu/uploads/queries/2012_03/

91 U. Beck, *Twenty observations on a world in turmoil.,* Polity Press, Cambridge 2012, p. 117.

very abstract, especially that the ESM had not become anything more but a framework[92] and hence had not managed to substantially contribute into creation of a true European Society. To advance and achieve that in a progressive manner, the proposal of *Next Social Contract* will require gaining democratic legitimacy.

3.1.3 Activating democracy and restoring people's trust in politics

Next Social Contract needs to embody holistic, progressive socio-economic approach. Following the definition, it has to regulate also the interdependencies among different actors (individuals, communities, society) and among different spheres of activism (ensuring the pledges primacy of legitimized politics over economy). It shall aim at becoming a prevailing narrative. As such, this **contract shall not be reduced to a scope of an electoral offer or temporary remedy for social democracy in finding its way out of its own crisis. Significance of such a proposal is to break out of the gloomy resignation, to expose and politicize the lines of divisions within contemporary, divided societies. Its sense is about providing citizens with a sound alternative of a new social settlement.** Endowing people with more than one option is essential for democracy[93] – and here is the historical sense of formulating *Next Social Contract.* It shall be bring about encouragement, empowering people to embark into a deliberative process and herewith restore democracy.

Democracy shall be comprehended as triple-folded notion. It is an ideal; it is a system and it is a process. Therefore regular diagnoses on contemporary crisis of democracy are usually incomplete, focusing predominantly on one of the features. If that concerns the ideal, the commentaries reflect on the undemocratic tendencies within the societies and expansion of anti-democratic organizations. If the subject is democratic system, the evaluation criteria concern questions of: balance of power, as also legitimacy and representation. This category includes divagation on falling electoral turnouts. Last but not least, in terms of the process, it refers to civic engagement. This is the scope in which public dissatisfaction is examined. Logic of *Next Social Contract* requires that it looks at all three aspects together.

Democracy as an ideal provides an explanation as far as sense of politics is concerned. Following classical believes, expressed i.e. by Aristotle, democratic politics shall be a form of a moral activity, through which individuals cultivate mutual understanding and construct collective endeavors[94]. The crisis undermined in several ways. First of all, the deterioration of societal values stripped the evaluation criteria of politics from their ethical component.

92 EP report *A European Social Model for the Future, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-374.256+01+DOC+PDF+V0//EN&language=EN*

93 R. Osborne, *Of the people, by the people. A new history of democracy.,* The Bodley Head, London 2011; p. 288.

94 M. Flinders, *Defending politics. Why democracy matters in the twenty-first century.,* Oxford University Press 2012, p. 5.

It is nowadays relatively unclear what the appraisal is nowadays based on – if to skip the pendulum effect in voting (choice based on selecting the least-unacceptable option). Secondly, politics have become a profession[95]. This makes its representatives seen during the electoral campaign rather as candidates for a position than advocates on a certain political mission. This trend was accompanied by development of sophisticated tools of methods allowing discovering population desires and frame, what could be seen as adequate responses. This limited a margin of political choice on one hand (politicians became focused on satisfying the alleged longings and afraid to step aside from their scope), and transformed what used to be a dialogue between politics and society by one side electoral announcements. The logic of politics gained similarities with the one of the market – being focused on performance, production and delivery. Such a weakening was also serving the interests of those, who few, who were interested much more in expanding their opportunities than in having to put up with any limits sets by politics[96].

Democracy understood as a system that its structure embodied certain *compromise in a society*[97]. It would assume that there is a framework put in place, which would serve needs of a society and would guarantee fulfillments of societal ambitions through adequate policies. There are two immediate problems with this understanding. Firstly, in last decades politicians themselves promoted an assessment that politics loses influence due to worldwide phenomena such as globalization. Secondly, politics drifted apart from both society and economy. It failed to correct "the markets" and this has occurred to cause also its own predicament. The challenge is that since the two failures are interconnected, it is to be extremely difficult to bring trust back to politics and make it be the place, where the decisions on the future order are to be taken[98].

Last but not least, democracy can be seen as an evolutionary process, which at any given time should engage people and be the space for deliberations[99]. Reflecting upon popular protests on one hand, and on the other on disentanglement of people from traditional forms of political involvement brings an observation that contemporary democracy seized to uphold its character as a certain practice. The falling numbers of members and above all active members of the political parties – alongside with decreasing figures on core electorates pair with that observation[100].

The deliberations above indicate a deep democratic crisis. Its scope and durability is

95 After : P. Norris, *A Virtous circle. Political Communications in Postindustrial Societies.,* Cambridge University Press 2000.

96 Ibid., pp. 21 - 23

97 C. Crouch, *Post-Democracy,* Polity 2004, p. 7

98 J.E. Stiglitz, *The price of inequality. How today's divided society endangers our future.,* WW Norton and Company, New York / London 2012, p. xii.

99 R. A. Dahl, *On Democracy,* Yale University Press, New Haven / London 2000, p. 3.

100 C. de Vries, *New challenges for social democracy – lessons from the Netherlands,* [in:] *Next Left – Towards a New Strategy,* E. Stetter, K. Duffek & A. Skrzypek (eds.), FEPS Next Left 2011, pp. 30 – 38.

extensive, which publications such as The Economist's Democracy Index 2011[101] indicate additionally[102]. The challenge for *Next Social Contract* is to embody an effective strategy to inspire new wave of democratization. The fact that it is to be a pan-European proposal complicates the issue additionally.

Conclusion

The difficulties with the current social democratic agenda are triple-folded. It does speak about a better society, but it does not relate its vision with modern understanding of economy, labour and welfare. This means that it advocates for a crisis-exit strategy mostly accordingly to the traditional lines. But it lacks proposal on what *value* is in context of economic possibilities, salaries and public services provision. A *Social Contract* requires that it is being tackled, taking into account a need to explain the "contract" entry conditions. The tradition of a *Social Europe* seen as a unifying denominator for social democrats and understood as an alternative can be helpful, however one shall break out of the trap in which it diminished from a vision to a list of policy proposals.

4. Next Social Contract – pass to cross over a historical junction

Global crisis induced a momentum of a greater reflection on sense of politics and the future of the societies worldwide. Diverse socio-economic processes eroded the post-War compromise between the world of capital and labour, both of which evolved substantially. Traditional conceptualizations of the society and hence the ideas about its future appear to have become inadequate. Furthermore, neo-liberal thinking had gained grounds becoming a prevailing narrative. It privileged financial capitalism on one hand, and narrowed the scope of available alternatives, endangering democracy on the other.

At this historical junction, a new narrative is needed. *Next Social Contract* can become one, offering a bridge for progressive politics and society to unite in a mission to build together a better, fairer society. It requires a profound assessment of the contemporary situation with an adequate, political diagnose. It has to frame a vision that goes beyond the out-of-crisis-strategy management. Such a proposal shall be by anchored in progressive values and entail three pillars:

1. Retrieving meaning of progress in solidarity
2. Constructing an egalitarian labour market

101 *Democracy index 2011. Democracy under stress. A report from the Economist Intelligence Unit,* www.eiu.com

102 The index is based on 5 categories (including: electoral process and pluralism; civil liberties; functioning of the government; political participation; political culture), and is concluded in 165 independent states and 5 territories.

3. Activating democracy and restoring people's trust in politics

Detailed elements for this *Next Social Contract* shall be embedded in the European dimension and here also building upon the proud tradition of a *Social Europe.*

The *Next Social Contract* shall emerge as a proposal for a new consensus and herewith a tool of empowerment, which brings in place also *new political decision making capabilities and make them available to politically constituted community*[103]*.* It has to be anchored in coherently interpreted progressive values. Especially solidarity and equality are crucial, as only evenly empowered individuals (politically, socially, economically) can fully exercise equal rights and fair responsibilities. Furthermore, political proposals that are to be debated have to be going beyond the current political determinism. They need to look beyond the horizon of the crisis and pave the way to a better, fairer society. They need to be about providing a feasible, political alternative. Thirdly, progressives need to find new ways to build bridges with citizens. The common, deliberative process is a key to that. Popular legitimacy can only be gained through an extensive dialogue, political will formulation and effective compromise. To achieve such openness, a new idea about the movement, its mission and practices is indispensible.

If successful, the *Next Social Contract* will serve as a modern, visionary platform of progressives across the continent. It shall however not be narrowed to becoming a singular electoral platform. Its sense is by far broader and connects with modernization of progressive movement as such, as well. *Next Social Contract* shall contribute to restoring sense of politics and to revitalization of democracy by empowering citizens with a feasible alternative.

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FOR A NEW SOCIAL DEAL

Patrick DIAMOND

Welfare States after the Crisis: Changing Public Attitudes

Key words

Welfare State – Reform – Social Investment – Austerity – Inter-generational Equity

Abstract

This paper presents a comparative analysis of contemporary and future changes in welfare states, and examines divergent trajectories of social development across Europe in the wake of the global financial crisis[1][1]. It does so principally by focusing on underlying public attitudes to the role of the state, and how different social protection regimes will evolve in the light of fiscal austerity and long-term structural challenges which the crisis has accentuated. It is well known that different welfare states manifest different forms of 'crisis', that welfare states are characterised by a high degree of institutional diversity, and there is no single, dominant model of welfare capitalism in Europe. Nonetheless, it is helpful to trace common underlying patterns and trajectories by observing changing public attitudes to the role of the state. The modern welfare state arguably represents the pinnacle of post-war social democratic achievement in Western Europe. The fate of the welfare state and the likely development of welfare systems in the wake of the financial crisis is an issue of critical importance for the future of the European Left.

Introduction

This paper presents a comparative analysis of contemporary and future changes in welfare states, and examines divergent trajectories of social development across Europe in the wake of the global financial crisis[1]. It does so principally by focusing on underlying public attitudes to the role of the state, and how different social protection regimes will evolve in the light of fiscal austerity and long-term structural challenges which the crisis has accentuated. It is well known that different welfare states manifest different forms of 'crisis', that welfare states are characterised by a high degree of institutional diversity, and there is no single, dominant model of welfare capitalism in Europe. Nonetheless, it is helpful to trace common underlying patterns and trajectories by observing changing public attitudes to the role of the state. The modern welfare state arguably represents the pinnacle of post-war social democratic achievement in Western Europe. The fate of the welfare state and the likely development of welfare systems in the wake of the financial crisis is an issue of critical importance for the future of the European Left.

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This paper reports the findings of a comparative survey on public attitudes towards the welfare state, and the scope for further modernisation and reform. The implication of the survey is not that political parties should merely follow what opinion polls tell them to do. The role of the state ought to be defined on the basis of coherent philosophical and ideological principles. However, the challenges facing the welfare state continue to adapt and evolve, while welfare systems are inherently political constructions. There is no immutable, pre-determined outcome for the welfare state: welfare policies emerge from within conditions of contingency and constraint. Attitudinal surveys assist political actors' in determining how much room for manoeuvre is available, which reforms are likely to be approved by the electorate, what coalitions of support exist for controversial changes, and which reforms may prove politically untenable.

1 The author of this paper would like to thank the Foundation of European Progressive Studies (FEPS) for financial assistance in commissioning the public attitudes data informing this analysis.

The paper proceeds in the following sequence. There is, first, a brief discussion of how we might think about the role of the state and social welfare on the basis of first principles in the light of the different 'worlds' of welfare capitalism that exist across the European Union (EU). Second, the paper considers the politics of contemporary welfare states in the aftermath of the financial crisis, and how different alignments of political support offer protection to key welfare principles and institutional arrangements. This is followed by an analysis of public opinion survey data commissioned for the study; initial conclusions are then drawn pointing towards the emergence of a 'trilemma' in European welfare capitalism.

Since the late 1990s, there has been an emerging consensus within European social democracy about the case for a 'Nordic-style' social investment state creating a virtuous 'equilibrium' between markets and social justice through 'service-intensive' welfare systems. According to this view, European welfare states should focus less on 'old' social risks such as unemployment and old age, and much more on 'new' social risks such as family poverty and relationship breakdown. This has stimulated a degree of policy change within member-states: for example, the UK has moved further in the direction of providing universal childcare with a core entitlement of 15 hours per week for all three and four year olds; in Germany, there has been increased investment in early childhood education enabling parents to better combine paid work and family life: by 2013, all parents will have the legal right to a day care place after the child's first birthday[2]; moreover, Spain is extending maternity and paternity leave for working parents. This indicates that the EU's pre-crisis social agenda helped to stimulate a 'turn' towards the Nordic model.

However, the core argument of this paper that **public support for tackling 'new' social risks is fragile at present, and that the global financial crisis appears to have reinforced the 'traditional' welfare state consensus based on higher pension payments, and prioritising public expenditure on health, education and criminal justice.** In fact, the crisis may be shoring up the 'old' welfare edifice at exactly the moment when Europe's welfare states ought to be adapting in the light of major structural challenges, posing a threat to future equity, growth and social sustainability. The implication of this analysis is that **politicians will need to demonstrate leadership if they're to mobilise sufficient public support behind the transition to a different model of welfare capitalism.**

2 This is somewhat contradicted by the Merkel administration's policy of *Betreuungsgeld* where parents receive a payment to keep their children out of daycare in order to encourage 'freedom of choice' for families.

The role of the state and welfare capitalism

The sociologist T.H. Marshall famously conceived social citizenship as the culmination of a process of democratisation spanning three centuries[3]. The 18th century laid the foundations of legal and civil rights. Political rights then emerged in the 19th century, followed by the evolution of social citizenship in the 20th century. While legal and political rights are considered to be largely secure in the advanced industrialised countries, social rights appeared increasingly vulnerable from the late 1970s. For the last thirty years, there have been increasing doubts about whether welfare states are compatible with modern, globalised post-industrial capitalism. First, there is a view that welfare states distort the market by destroying incentives to work, save and invest while fuelling high dependency ratios. Then, it is argued that demographic and social changes, in particular the ageing society, will make welfare states fiscally unsustainable. Finally, it is claimed that the world economy imposes new disciplines on governments, forcing them to restrain spending and curtail social protection in order to remain globally competitive. There is an extensive literature on the causes of welfare state retrenchment and advance in western industrialised societies, although it is largely beyond the remit of this paper[4].

The financial crisis appeared to give legitimacy to all of these arguments because of the crisis in the public finances; it is now the role and function of the state which is at the centre of political discourse. While there has been much debate about the trade-off between equity and efficiency in contemporary capitalism, and while globalisation has apparently narrowed the scope of domestic political choices, such arguments fail to distinguish clearly between the impact of 'exogenous' and 'endogenous' variables. National welfare states have responded very differently to the disciplines imposed by global competition in the international economy. There has been too little consideration of how welfare states are being restructured in order to cope with new risks and needs, and how the underlying purpose and role of the modern welfare state is being reappraised.

Of course, it is important to acknowledge that there is no single, dominant model of welfare capitalism in Europe. The argument that welfare state regimes are being restructured by the globalisation of labour, product and capital markets points towards convergence of welfare state arrangements, as national governments implement neo-liberal adjustment strategies. However, it is not clear that global forces inexorably reshape national welfare systems, and comparative research demonstrates that different institutional arrangements lead to very different outcomes within nation-states.

3 G. Esping-Andersen, *The Three Worlds of Welfare Capitalism.,* Polity Press, Oxford 1990.

4 For example, S. Steinmo, K. Thelen, & F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis,* Cambridge University Press, 1990; or G. Esping-Andersen, *The Three Worlds of Welfare Capitalism,* Princeton University Press 1990; or E. Huber, C. Ragin & J.D. Stephens, *Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State*, [in:] *American Journal of Sociology*, Volume 99, 1993.

The welfare state sociologist Gøsta Esping-Andersen spoke of 'three worlds' of welfare capitalism in Europe: such patterns seemingly persist today[5]:

- Nordic (social democratic) welfare states are predicated on social investment strategies that promote higher employment and growth, ensuring 'cradle to grave' provision in child care and social care for the elderly.
- Continental (conservative) welfare states maintain contributory social insurance systems that offer high levels of protection to 'insiders', while continuing to regulate employment and the labour market.
- Anglo-Saxon (liberal) welfare states have undergone something of a transition, adopting elements of the social investment approach. Nonetheless, welfare benefit levels remain low, there is significant reliance on targeting and means-testing, and a considerable proportion of state services have been privatised.

Esping-Andersen's categories draw on Weber's methodological approach in constructing holistic 'ideal-types'. These are reflected in the profile of public expenditure and welfare outcomes across social protection regimes prior to the crisis:

Table 1: Expenditure Profiles in Three Welfare regimes[6]

	Public social spending (%GDP)	Private as % total social spending	Family services as % of total public spending	Targeting: % of transfers to bottom (quintile 2)
Nordic	25	5	18	34
Continental Europe	26	8	5	30
Anglo-Saxon	19	19	4	43

Each welfare state 'type' is a reflection of a particular set of political forces and coalitions, as well as distinctive political philosophies, which is reflected in contemporary social policy and institutional regimes. The Nordic and Continental European models essentially converge in terms of expenditure, but 'social democratic' regimes are 'service-intensive', while private welfare provision is low. There is a strong emphasis on 'path dependency' in Esping-Andersen's typology focused on the 'power-resources mobilisation paradigm'[7]. According to this analysis, particular policy pathways are 'locked in' as various groups and

5 G. Esping-Andersen, *The Three Worlds of Welfare Capitalism.,* Oxford Polity Press 1990; G. Esping-Andersen, *The Comparative Macro-sociology of Welfare States*, [in:] L. Moreno (ed.) *Social Exchange and Welfare Development*, pp. 123–36, Madrid, Consejo Superior de Investigaciones Científicas 1993; G. Esping-Andersen, *Welfare States and the Economy*, [in:] N. J. Smelser and R. Swedberg (eds.) *The Handbook of Economic Sociology*, pp. 711–32. Princeton/New York: Princeton University Press/Russell Sage Foundation 1994.

6 Source: calculations from Adema and Ladaique (2005: Table 6) and from Forster and d'Ercole (2005): data refer to *net* social spending and excludes retired households.

7 W. Korpi, *The Democratic Class Struggle.,* London: Routledge & Kegan Paul, 1983.

interest coalitions mobilise to protect the status quo, pressurising politicians to maintain an existing regime of benefits and services[8]. This alludes to the nature of the political process in which interest groups make use of 'veto points' in order to safeguard their interests. This reproduces the distinctive 'worlds' of welfare capitalism over time.

Indeed, it is worth noting the 'paradox of redistribution' across welfare regimes in Europe: social democratic welfare states are more effective at reducing poverty and inequality by making public transfers to all citizens, rather than merely targeting the poorest[9]. As such, centre-left parties have tended to emphasise the importance of welfare 'universalism', a theme returned to later in this paper.

The paper does not seek to test the overall validity of Esping-Andersen's 'regime-types'; we readily concede that this typology tends to neglect the structure of welfare states in the Mediterranean countries and Eastern and Central Europe, while too little attention has been paid to how gender inequality is embedded in welfare states and social policy regimes. Nonetheless, the key argument that **national institutional traditions, from 'consensus-building' corporatism to 'co-determination' at firm level, have an enormous impact on the trajectory of welfare regimes in nation-states remains profoundly important and of ongoing relevance.** First, while European welfare states were conceived as instruments of social integration designed to harmonise the goals of equity and efficiency, how they went about their task varied greatly between countries. Second, welfare states have undertaken the process of adaptation and adjustment in response to structural challenges since the 1960s and 1970s in different ways, depending on institutional legacies, system characteristics, and the capacity for interest group mobilisation.

Welfare states after the crash

Welfare states in Europe currently face two broad sets of challenges. The first concerns the financing of welfare capitalism after the financial crisis: slower growth and productivity are accelerating the process of de-industrialisation in favour of the emerging powers. Many EU member-states are confronting a fiscal crisis, as sovereign debt is contaminated by 'toxic' financial sector debt in the context of plummeting tax receipts. Over the next decade, fiscal austerity is increasingly taken for granted by many governments in the west.

The second challenge relates to the disjuncture between existing social protection regimes, and new social risks and needs. Structural changes in labour markets,

8 P. Pierson, *When Effect becomes Cause: Policy Feedback and Political Change*, [in:] *World Politics* 45 (4) 1993 : 595–628.

9 W. Korpi & J. Palme, *The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries*, [in:] *American Sociological Review* 63 (5), 1998 : 661–87.

demography, and families create new pressures and demands that traditional social protection systems are often poorly equipped to negotiate. There are new 'clusters' of long-term social disadvantage and inequality emerging as the global economy attenuates polarisation in labour markets and real wages, which traditional welfare regimes have rarely addressed. Nonetheless, securing political and public agreement for a structural recalibration of the welfare state will hardly be straight forward.

Responding to the crisis: constructing the case for a social investment state

There is a vast literature on the normative and theoretical tenets of the social investment state in Europe highlighted in the previous section of this paper[10]. The social investment model is associated with particular policy approaches such as 'flexicurity' in labour markets and employment 'activation'. However, the social investment 'paradigm' relates to a broader set of policy strategies responding to demographic challenges such as the ageing society, and the shift towards the service-based, knowledge-driven economy. The core elements of such an approach according to Morel, Palier and Palme include publically funded childcare and education programmes; investment in human capital, skills and lifetime learning; tackling unemployment, particularly youth unemployment, through active labour market policies that prevent 'scarring' effects; and creating a 'learning economy and society' enabling workers to constantly update their knowledge and capabilities by giving employees a democratic stake in the organisation of the firm. Our survey is far from comprehensive, but allows us to probe particular aspects of the social investment model.

The social investment paradigm seeks to address the long-standing trade-off between equity and efficiency, developing credible policy approaches while stimulating organisational and institutional innovation in the welfare state and the wider capitalist economy. The financial crisis underlined that the previous era of high growth was not based on long-term improvements in productive capacity, and the growth model itself was highly unbalanced supported by rising public debt[11]. In the aftermath of the crisis, Wendy Carlin has highlighted the importance of 'pre-distributive' human capital and asset based interventions associated with the social investment approach: producing more egalitarian outcomes while developing a more balanced and sustainable growth model throughout Europe.

10 For example, N. Morel, B. Palier & J. Palme (eds.), *Towards a Social Investment Welfare State: Ideas, Policies and Challenges*, Bristol, The Policy Press 2012.

11 W. Carlin, *A progressive economic strategy: innovation, redistribution and labour-absorbing services*, London: Policy Network 2012.

The Politics of the Welfare State

The political and attitudinal dimensions are rarely considered in academic analysis of the welfare state, but **welfare regimes are always political constructions held together by a particular constellation of democratic and electoral forces.** Many of the key institutions that supported the creation and expansion of the welfare state appear to have weakened over the last thirty years – not merely the trade unions and the major social democratic parties, but many post-war 'neo-corporatist' institutions. On the other hand, welfare states have actually been remarkably resilient in the post-war era. For example, the attempt by neo-liberals to shrink the welfare state in the United Kingdom during the Thatcher governments barely succeeded[12]. Dismantling existing social provisions proved almost impossible, and was a recipe for electoral unpopularity. At the same time, few influential and politically powerful coalitions emerged to persuade sectional interest groups and key electoral constituencies that the welfare state ought to be reshaped. This has led to a politics of retrenchment based on cutting and trimming at the edges, rather than determining priorities on the basis of first principles and reshaping the welfare system accordingly. In fact, centre-right governments have often been most wedded to the status quo ante.

The public choice literature on bureaucratic failure insists that welfare states do not change because they are plagued by vested interests, both public sector professionals and client groups. Indeed, there is a vast political science literature that alludes to the power of administrators and bureaucrats, rather than national legislatures[13]. Another salient fact is that in many countries, it is the middle-class who are the direct beneficiaries of social security entitlements; this makes pensions and welfare payments to older cohorts practically untouchable. This is a manifestation of 'welfare for the wealthy' in many member-states, constructing new political alignments which make reform of the system extremely challenging. For that reason, **many commentators conclude that the politics of the welfare state in the advanced industrialised countries is a politics of the status quo. This serves to perpetuate a structure of social protection that was put in place several decades ago, and is likely to be poorly equipped to deal with the challenges and demands of the next decade. Growing inequalities in electoral participation might further entrench the status quo.** Across the advanced democracies electoral participation is falling fastest among the young and the least affluent, which gives better off and older voters greater influence in the political process. [14] Spending cuts in the UK,

12 A. Gamble, *The Free Economy and the Strong State*, Basingstoke, Palgrave Macmillan 1994.

13 W. Niskanen, *Bureaucracy and Public Economics*, Cheltenham, Edward Elgar 1994.

14 At the 2010 British general election 76% of voters from the top social class voted, whereas just 57% of voters in the bottom social class did so (this turnout gap in social-class has tripled since 1992). The age-gap is even more striking: just 44% of 18- to 24-year-olds voted in 2010 compared to 76% of those aged over 65.

for instance, have disproportionately affected the young and the poor – precisely those groups that vote with least frequency, while universal benefits for the elderly have been protected.[15]

The task remains to forge new electoral majorities for a different model of welfare state capitalism in Europe.

Public Attitudes: survey data

If the key task is to overcome the essentially conservative instincts of the political class and voter interest groups, it is important to examine attitudinal data that considers what potential exists for recasting the welfare state. The quantitative survey informing this paper tracked public opinion in three key EU member-states: France, Denmark and Britain[16]. The countries were selected on the basis of exemplifying Esping-Andersen's 'three worlds' of European welfare capitalism, having distinctive institutional and policy legacies, governing traditions, and reform trajectories. The purpose of the survey was to analyse and assess how far citizens in those countries believed that the welfare state ought to change, and what underlying agreement and 'consensus' existed about the strategic priorities for adjusting social protection regimes. The immediate impact of the financial crisis and fiscal austerity in Europe means that citizens are more aware than ever of the need for prioritisation of resources, cut-backs in services and entitlements, and a potential renegotiation of the welfare contract. Nonetheless, the instincts of voters in most countries remain profoundly 'conservative', while there is some evidence that resistance to change has been institutionalised. The following section of the paper will report the key findings of the survey, followed by an extended analysis of the data[17].

Public attitude survey on welfare states in transition

Question 1: There are three commonly used ways to decide who should be able to access different benefits and services. Which ONE of these do you think is BEST suited to decide who should be able to obtain the following benefits or services (please tick one option per row):

15 S. Birch & G. Lodge (forthcoming) *Divided Democracy,* IPPR. See also: G. Lodge, *How do you get people to vote? Force them when they're young,* [in:] *The Guardian,* May 04 2012, http://www.guardian.co.uk/comment-isfree/2012/may/04/force-young-people-to-vote

16 The survey was carried out by the polling organisation *You Gov* between 8th and 21st August 2012. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1751 adults. Fieldwork was undertaken between 8th and 9th August 2012. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Similar surveys were carried out with French and Danish voters.

17 All figures in the survey refer to percentages.

State pension

	Britain	France	Denmark
They should be targeted at those in need regardless of their payment into the system	18	22	34
They should only be available to those who have contributed into the system (e.g. by working or caring for someone) regardless of their need level	48	44	20
They should be provided equally to every citizen affected, regardless of their need or contribution to the system	26	29	40
Don't know	9	6	7

Social housing

	Britain	France	Denmark
They should be targeted at those in need regardless of their payment into the system	31	39	42
They should only be available to those who have contributed into the system (e.g. by working or caring for someone) regardless of their need level	41	31	15
They should be provided equally to every citizen affected, regardless of their need or contribution to the system	16	22	32
Don't know	11	8	11

Unemployment benefits

	Britain	France	Denmark
They should be targeted at those in need regardless of their payment into the system	24	17	29
They should only be available to those who have contributed into the system (e.g. by working or caring for someone) regardless of their need level	49	57	43
They should be provided equally to every citizen affected, regardless of their need or contribution to the system	16	19	21
Don't know	10	7	8

Question 2: Thinking about the country's public finances and the current economic climate, which ONE, if any, of the following do you think should be the MAIN response from the government?

	Britain	France	Denmark
Scale back benefits that currently go to those on higher incomes	29	46	30
Target benefits more towards those with greatest needs	25	16	30
Limit benefits only to those who have contributed into the system	24	17	13
Increase taxes to maintain benefits at their current level	6	4	7
Reduce benefits for everyone	5	5	8
None of the above	4	5	7
Don't know	7	7	5

Question 3: In which, if any, of the following areas would you support a reduction in public spending so that other areas could receive extra funding?

	Britain	France	Denmark
Unemployment benefit	26	15	12
Maternity/paternity leave	26	12	19
Child benefit	23	19	36
Defence	21	36	52
Pre-school childcare	19	8	8
Social housing	18	11	21
Universities/colleges	17	6	7
Sickness/disability benefit	17	12	7
Housing/community services	12	33	21
Public transport	8	9	11
Health service	5	7	4
Policing	4	8	4
State pension	3	5	5
Primary/secondary education	3	5	1
Other	5	5	8
Not applicable – I don't think there should be reductions in public spending in any area	20	12	13
Don't know	7	8	5

Question 4: In which, if any, of the following areas would you support receiving extra funding gained from reductions made elsewhere (please tick all that apply)?

	Britain	France	Denmark
Health service	45	32	33
Primary/secondary education	23	23	30
Policing	29	29	23
State pension	31	33	22
Public transport	17	6	21
Sickness/disability benefit	12	14	15
Universities/colleges	13	11	15
Pre-school childcare	10	16	12
Unemployment benefit	4	10	12
Social housing	12	19	5
Child benefit	6	13	4
Housing/community services	9	6	4
Maternity/paternity leave	5	4	3
Defence	13	7	3
Other	2	2	3
Not applicable – I don't think there should be reductions in public spending in any area	11	10	11
Don't know	10	11	11

Question 5: For which, if any, of the following situations or events do you think the current welfare system does or does not offer people sufficient protection (tick one option per row)?

	Britain	France	Denmark
Becoming Unemployed			
Does offer sufficient protection	49	42	65
Does not offer sufficient protection	51	58	35
Having a house repossessed or being evicted from the house			
Does offer sufficient protection	37	47	66
Does not offer sufficient protection	63	53	34
Having a child			
Does offer sufficient protection	78	80	92
Does not offer sufficient protection	22	20	8
Relationship/family breakdown			
Does offer sufficient protection	51	70	68
Does not offer sufficient protection	49	30	32
Getting sick or disabled			
Does offer sufficient protection	46	33	47
Does not offer sufficient protection	54	67	53
Retiring from work			
Does offer sufficient protection	42	32	66
Does not offer sufficient protection	58	68	34

Public attitudes: Discussion and analysis

The debate underway in many European countries does not merely concern the rights and wrongs of deficit reduction, and the fiscal choices that lie ahead on tax and spend, but the future role of the state in the aftermath of the financial crisis: what the state will do more of, less of, and differently in the decade to come given the reality of Europe's precarious public finances and rising demographic and social pressures. To be credible, parties of the left will need not just a short-term plan to address public sector deficits, but a strategic account of what this will mean for the future shape of the state. Lean times mean new challenges which no party with a serious claim to the future can fail to address. The key points to emerge from our comparative survey of underlying public attitudes to the welfare state and social attitudes are as follows:

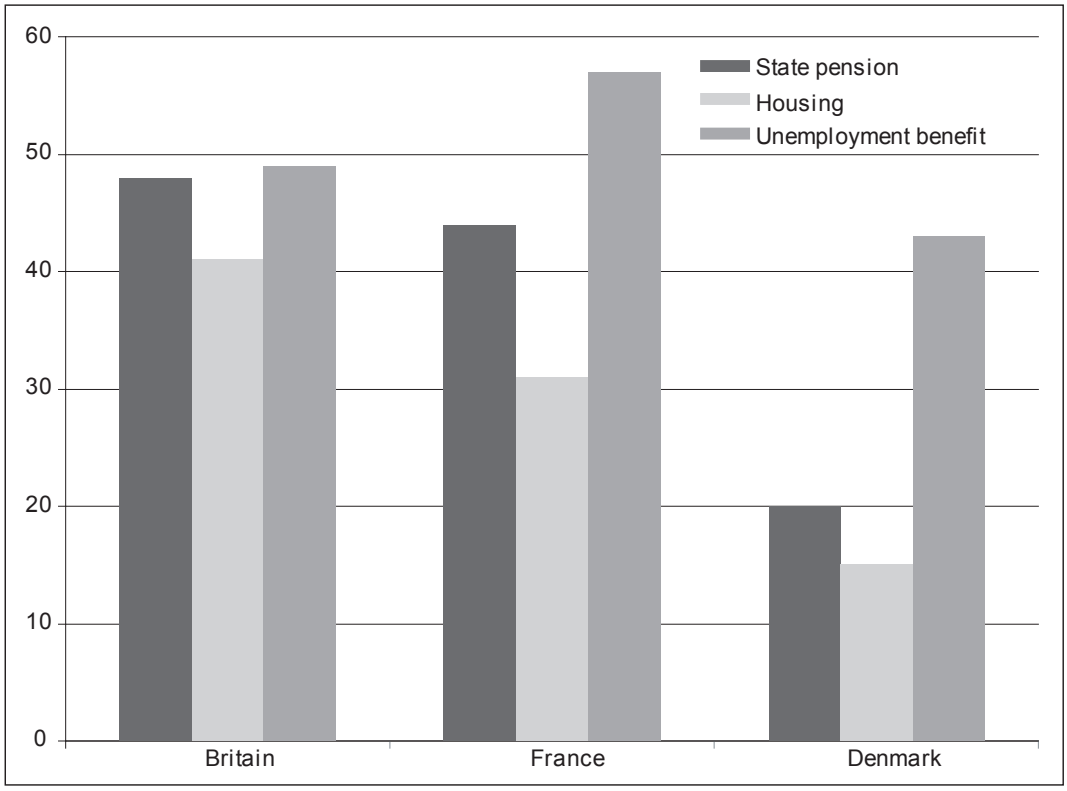
Support for collective welfare provision in Europe remains strong

Unsurprisingly in the wake of the global recession, key principles of the welfare state such as protecting individuals from unforeseen risks and ensuring income security in old age appear to command widespread public support. Those who predicted 'the end of welfare' given the realities of a post-industrial, globalised economy and a crisis in the public finances have largely been proved wrong. The welfare state in Europe remains broadly popular and widely supported among a range of constituencies and classes. Indeed, support for the contributory 'social insurance' principle underpinning the welfare state remains particularly strong (and particularly so in the UK). There was still significant support across countries for a contributory system of unemployment insurance: 49 per cent in Britain, 57 per cent in France, and 43 per cent in Denmark. The contributory principle is supported for pensions by 48 per cent of British voters and 44 per cent of French voters, although the Danes with their strong tradition of welfare universalism are distinctly less enthusiastic (20 per cent). With the exception of social housing provision where the public is more supportive of means-testing (particularly in Denmark and France), there is little appetite for moving away from universal and broadly 'solidaristic' welfare systems towards 'liberal' regimes purely targeted at the poor. The notion that benefits and services should be available to those who have paid fairly into the system has wide currency among voters.

Strengthening the contributory principle may help to underpin support for the welfare state

Indeed, the contributory basis for social security has been eroded over the last thirty years by successive governments of all parties in most European countries, and by major changes in labour markets. Contributory benefits are worth comparatively less, more workers are not covered than ever before, and many citizens fail to claim the benefits they are entitled to. In the UK particularly, the funding basis for the system, National Insurance, has been eroded by successive governments to fund income tax cuts or avoid tax increases, simultaneously reducing fiscal transparency and making the tax and benefit system more regressive. It is little wonder that if citizens see no relationship between the contributions they make and what they can expect in return - Beveridge's founding principle of welfare provision and social insurance in the 1940s - support for social protection regimes is likely to diminish. The survey tested support for the contributory principle in key areas of the welfare state, as Table 2 demonstrates below:

Table 2: Support for the contributory principle in the welfare state



Inevitably, the contributory principle has less resonance in Nordic states such as Denmark which have a long-standing tradition of welfare universalism (Esping-Andersen, 1993); moreover, strengthening the contributory basis of the welfare state is not straight forward. Nonetheless, if we focus on those areas where there is a clear rationale for linking benefit entitlements to contributions, a revived contributory principle would apparently help to deal with some of the major challenges faced by social security in a climate marked by fiscal constraints and rapid population ageing. **Making clear and strengthening links between 'contribution' and 'entitlement' should help to overcome particular problems of public legitimacy which welfare systems face, reinstating the value of reciprocity at the heart of the welfare state, 'making reciprocity manifest'. The idea of 'fair contributions' balancing 'rights with responsibilities' appears to strongly connect with what many citizens feel the welfare state is for.**

However, at the same time, citizens are willing to countenance greater 'targeting' in an era when public finances are unusually weak: scaling back benefits for wealthier groups and targeting benefits on the poor in order to reduce the public sector deficit are preferred to an unequivocal defence of the contributory principle by 54 per cent to 24 per cent in Britain, 62 per cent to 17 per cent in France, and 60 per cent to 13 per cent in Denmark. This indicates that citizens do not want contributory welfare to the exclusion of focusing on

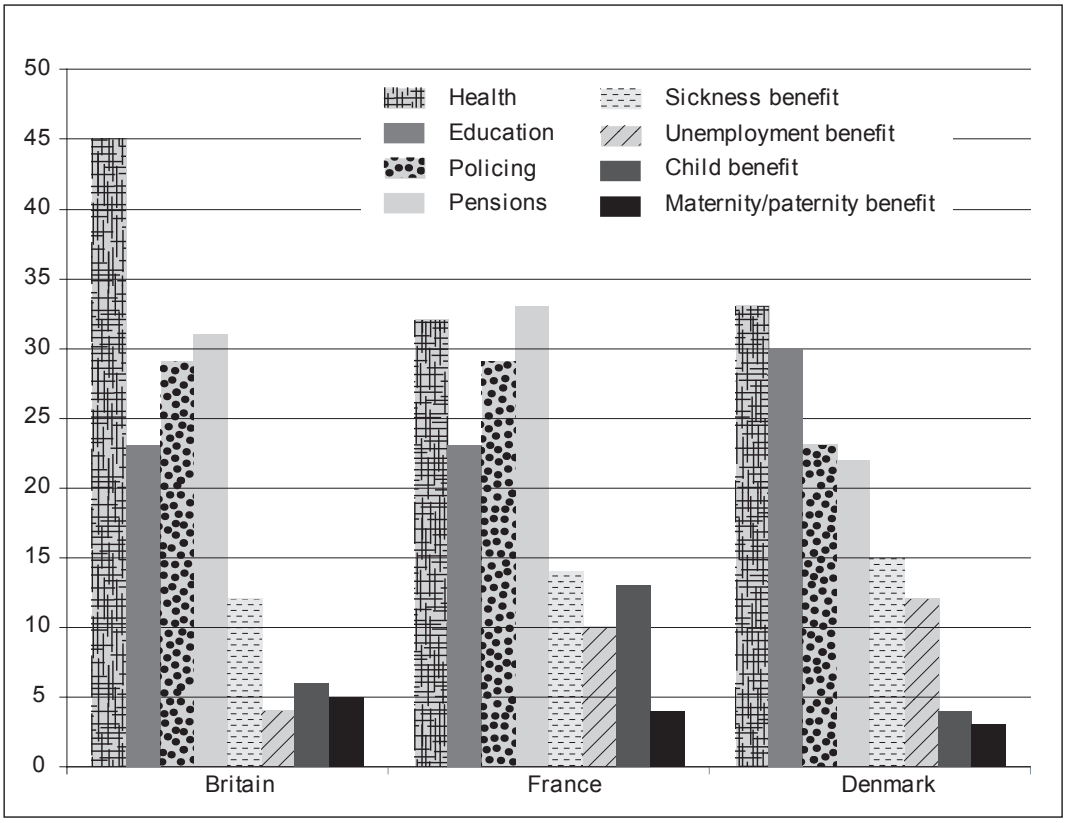
'need'. This poses a question in the light of the 'paradox of redistribution' alluded to earlier in the paper: social democratic welfare regimes have been successful in reducing poverty and inequality, offering universal welfare entitlements and guarantees embracing all classes and constituencies. The shift towards a more residualised welfare model in response to fiscal and public finance pressures may be necessary, but risks impairing the long-term redistributive capacity of European welfare states. The welfare system is not merely intended to provide social insurance, but to redistribute risk across the life-course, between the generations, and within the income distribution. The redistributive function of the welfare state ought to remain a key priority.

The redistributive function of the welfare state ought to remain a key priority.

In redesigning the welfare contract, public support is strongest for services such as health and lower for welfare benefits:

Table 3 below illustrates that with the exception of pensions, which are strongly supported as an entitlement that ought to be protected there is little appetite for additional spending on benefits; the public's priority is to invest in key public services:

Table 3: Which areas of the welfare state merit greater funding in the light of reductions elsewhere?



Again, this poses an important challenge for European welfare state regimes. Although the intensions of the welfare state's founders were never explicitly egalitarian, social protection systems are redistributive by definition, since their key instruments are about 'taxing and spending' resources. The post-war erosion of economic inequality and equalisation in the distribution of 'opportunity goods' such as education and employment in Western Europe were achieved by balancing income redistribution with investment in welfare services. A lynchpin of the Nordic social democratic model is the 'service-intensive' nature of the welfare state: spending on 'social services' (including universal childcare and family services, but excluding healthcare) amounts to over 20 per cent of total expenditure in Denmark and Sweden, compared to an average of 4-5 per cent across the OECD. The egalitarian impact of a 'service-orientated' welfare state can be shown in the example of childcare services. Since standards and quality are identical for children of low income and wealthier parents, the marginal welfare improvement of universal spending is usually much larger for low-income families. Another important example is the 'female employment dividend' of 'family-friendly' policies. Here, the distributive effect is once removed[18], as the model achieves higher levels of employment: the most decisive redistribution occurs through the equalization of primary, pre-redistribution incomes, enabling more women to access the labour market and increasing the proportion of 'dual earner' households. The universality of employment opportunities translates into exceptionally low poverty risks in the Nordic countries.

The conundrum posed by the survey data is that public support for shifting further towards 'service-orientated' models of welfare capitalism in Europe is currently weak. **At present, voters do not appear to support a shift in the orientation of the welfare state from 'old' to 'new' social risks.** This is especially true of Britain where voters rank reductions in maternity and paternity leave (26 per cent), child benefit (23 per cent), and pre-school provision (19 per cent) as more legitimate than many other areas of welfare provision. These are not regarded as key areas for an expansion in the coverage afforded by the welfare state. Indeed, in straightened financial times, the public mood appears to favour strengthening 'core' social security and welfare entitlements in pensions and healthcare. This appears to be the case even in Denmark, which among our three country case studies is the welfare model that most closely resembles a social investment welfare model. Focusing additional spending on pre-school childcare (12 per cent), child benefit (4 per cent) and maternity and paternity leave (3 per cent) elicits little support from Danish voters.[19] There appears to be little enthusiasm for extending the 'frontiers' of the welfare state to address new risks and needs.

18 G. Esping-Andersen, *The Comparative Macro-sociology of Welfare States*, [in] L. Moreno (ed.) *Social Exchange and Welfare Development*, pp. 123–36, Madrid, Consejo Superior de Investigaciones Científicas 1993.

19 These results might reflect the fact that Danes are satisfied with existing levels of provision, which are some of the most generous in the world. Also relevant is that while few Danes support diverting additional revenue to pre-school childcare, very few advocate cutting spending on these services (8%).

As a consequence, support for transitioning to a 'social investment' state in Europe is relatively muted

Given the immediacy of the current recession, it is hardly surprising that the incapacity of the welfare state to deal with the risk of unemployment is a major concern to voters. 58 per cent of French citizens and 51 per cent of British voters do not believe that coverage is currently adequate (less so in Denmark at 35 per cent). Reflecting acute pressures arising from demographic change and an ageing population, we should not be surprised that inadequate income in retirement is a major concern for 68 per cent of French and 58 per cent of British citizens. Danes think there is the least sufficient protection for becoming 'sick or disabled' (53 per cent). Across countries, there is apparently little support for the proposition that the welfare state does not provide adequate provision to children and families. 92 per cent of Danish voters, 80 per cent of French voters, and 78 per cent of Britons believe that social protection for families is already sufficient. This may reflect a perception that many European countries have already moved towards more 'family-orientated' welfare policies, particularly in Denmark; but there is no great clamour for any further extension in the family-friendly 'frontiers' of the welfare state.

This raises a very significant issue for the future of European welfare capitalist regimes. There is now a considerable danger that productive social investment strategies will be significantly reduced under conditions of austerity. There is compelling evidence that shifting expenditures towards 'growth-orientated policies' in education, active labour markets, and family assistance will help to build-up long-term human capital and innovative capacity, while underpinning the 'gender revolution' in paid work and household labour underway in many industrialised countries[20]. Nonetheless, the example of Germany, Sweden and the United Kingdom since 2009 demonstrates that budgetary consolidation in times of financial crisis leads to drastic reductions in social investment. The data on public attitudes infers that this is a rational response by vote-seeking politicians: in other words, 'family-friendly' service-orientated areas of welfare provision are among the easiest to cutback in comparison with healthcare and pensions entitlements[21]. This may reflect a political context in which the population of many EU member-states is getting older, and voters over fifty are those with the greatest propensity to vote[22].

Indeed, the data suggests that support for traditional aspects of the welfare state is felt most strongly among this increasingly influential demographic cohort. In Britain, for example, older respondents are more likely to support the contributory principle in the

20 G. Esping-Andersen, *The Incomplete Revolution: Adapting to Women's New Roles,* Cambridge, Polity Press, 2009.

21 J. Myles, *Old Age in the Welfare State: The Political Economy of Public Pensions*, Boston, Little Brow 1984.

22 A. Goerres, *Why are older people more likely to vote? The impact of ageing turnout in Europe*, [in:] *British Journal of Politics & International Relations*, 9, 2007, pp. 90-121.

welfare state by a margin of 31 to 16 per cent compared to 18 to 24 year olds, particularly for unemployment and housing. They are strong supporters of the National Health Service (51 to 37 per cent), state pensions (44 to 13 per cent), and policing (36 to 18 per cent). Older voters are less likely to support increased investment in primary and secondary education by 16 to 32 per cent of the youngest age group. Moreover, older voters support cutting back maternity and paternity benefit by a margin of 37 to 15 per cent compared to younger voters; the ratio is 29 to 12 per cent for child benefit and 24 to 9 per cent for pre-school childcare.

As a result of the financial crisis, social investment may converge to an undesirably low 'equilibrium' in Europe, impairing both equity and efficiency. The capacity for effective redistribution will be diminished, while Europe's ability to compete with emerging market economies will be weaker over the long-term. As such, new 'life-course' and 'intergenerational' inequalities may go addressed, adversely effecting Europe's long-term growth potential, while leading to rising gini co-efficients across member-states.

Conclusion

The politics of the welfare state have been the dominant theme of this paper. First, there was a brief discussion about how we might think about the role of the state and social welfare in the light of the different 'worlds' of welfare capitalism that exist across the European Union (EU). Second, the paper considered the politics of contemporary welfare states in the aftermath of the financial crisis, and how different alignments of political support might help to protect particular welfare principles and institutional arrangements. This was followed by an analysis of public opinion survey data commissioned for this study; initial conclusions are then drawn. Of course, it is clearly not just public attitudes that matter in determining the size and nature of the welfare state: the balance of social forces and the EU-wide drive for austerity have led to retrenchment across the Eurozone.

Since the late 1990s, there has been a growing consensus within European social democracy about the case for a 'Nordic-style' social investment state, creating a virtuous 'equilibrium' between markets and social justice. Welfare capitalism in Europe operates at the level of the nation-state, alongside the social dimension of European integration manifested in recent approaches such as the Lisbon agenda and the Europe 2020 strategy[23]. This paper maintains that effective policies are needed both at the national level, and within the key European Union (EU) institutions.

However, the evidence indicates that public support for tackling 'new' social risks is not particularly strong at present, and the financial crisis appears to have reinforced the

23 The Europe 2020 strategy: http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF

consensus for the 'traditional' welfare state, promising higher pension payments, social security benefits, and public expenditure on health and education. Indeed, the crisis may be shoring up the 'old' welfare state edifice at precisely the moment when Europe's welfare states ought to be adapting in the light of major structural challenges, threatening future equity, growth and social sustainability.

The argument of this paper is that a new 'trilemma' is emerging in the politics of European welfare capitalism between conservatism, targeting and social investment:

- First, the welfare state remains broadly popular among the electorate, despite the wave of neo-liberal restructuring in the 1980s and 1990s. However, this is accompanied by a considerable degree of resistance to change among key voter groups and an underlying 'conservative' bias.
- Second, support for the welfare state is anchored in the contributory principle, but in the light of the financial crisis, many voters accept the need for greater targeting which impairs equity in the long-term.
- Finally, equity and efficiency necessitate a shift from passive income maintenance and 'old' social risks to social investment strategies that address 'new' social risks. However, the preferences of voters reinforce the 'elderly bias' of existing social security and welfare state arrangements.

As such, an apparent conflict has emerged between the objective of securing support for the traditional welfare state, responding to the crisis by accepting higher levels of targeting and means-testing, and securing agreement for social investment approaches that divert resources from existing social security benefits and guarantees. Politicians will be able to achieve two of these objectives simultaneously, but it is unlikely they can secure all three. For example, shifting to greater means-testing will increase the scope for social investment, but is likely to erode popular support for the welfare state. Sustaining support for the traditional welfare state by minimising the use of means-testing will reduce the resources available for addressing 'new' social risks. Maintaining existing welfare guarantees while extending the 'frontiers' of the welfare state through social investment without any further means-testing of social security is likely to be fiscally unsustainable. This paper has sought to highlight the danger that such a trilemma will merely reinforce the status quo ante in European welfare systems.

Moreover, the challenges outlined in this paper will require a very different model of how to conduct welfare state politics in the future. Social democratic parties have been adept in the past at using higher public spending commitments to build coalitions of voters based on appealing to 'sub-sections' of the electorate by dispensing benefits to working parents, poorer pensioners, public sector workers, and so on. There is, as yet, no real sense that any of the parties has fully grasped the painful implications of moving from an era of 'plenty'

to an era of 'less', while addressing the in-built conservative 'bias' of the welfare state.

Indeed, **the biggest threat to social justice in Europe is not radical institutional change, but the 'frozen' welfare state landscapes where resistance to change is institutionalised, and major interest groups are able to define how welfare systems operate.** The strategy of shifting resources from passive income maintenance to employment and family promotion remains optimal both for equity and efficiency, and does not obviate the case for continuing to undertake income transfers and redistributive measures. This approach is now widely favoured among European social democratic parties, including the UK Labour party, accompanied by repeated references to the inherent virtues of the Nordic model. However, major obstacles to the promulgation of social investment strategies persist. It will require skilled political leadership to secure the consent of the electorate for a different balance of resources and priorities in the European welfare states of the next decade and beyond.

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Ignacio URQUIZU

The Main Challenges of European Social Democracy

Key words

Social Democracy – Challenges – Welfare State – Representation – Institutions

Abstract

In the last years, developed countries have faced once of the most important economic crisis since 1970s. This recession has moved on political and social crisis, challenging our political systems and the feasibility of the welfare state. But the economic crisis is not the unique factor that explains the questioning of our democracies and social policies. In the last years, our societies have changed so much and, for that reason, social democracy ought to revise its ideological positions. This chapter analyses the ideological evolution of socialist parties. Thus, after analysing the different stages of socialism, the author proposes some solutions to our main political, economic and social problems.

Introduction

The aim of this paper is double-folded. On the one hand, I'm going to analyse why social democracy has changed its election manifestos in the last 80 years. Thus, using the literature and empirical evidence, I'll summarize the main factors that influence on the ideological evolution of social democracy. On the other, I'll present the main challenges of socialist parties. As we shall see, if circumstances change, social democracy will have to adapt to the new settings. Political institutions, economy and society are so different if we compare with 30 years ago. For that reason, socialist parties have to update their ideological project.

But I deal with these issues from *positive political economy*. It means that I avoid historical and normative approaches. Following Alt and Shepsle's words[1], "positive political economy is the study of rational decisions in a context of political and economic institutions". Thus, I'll analyse the micro and macrofoundations of ideological evolution of social democracy.

The next question that emerges is: Why is this analysis relevant? If we want to suggest new challenges and proposals for leftist parties, we need to understand why socialist parties have changed since the beginning of their existence. Or, in other words, in order to anticipate the future, we need to know the past in depth.

The paper is divided in three sections. The first one analyses the ideological evolution of socialist parties. In this part, I'll cover the main debates since the end of 19th century. The second section deals with the political and economic circumstances that explain the ideological evolution of social democracy. Thus, I'll summarize the main arguments of the literature about social democracy, focusing on the most recent researches. The third section presents the main challenges of socialist parties in three different fields: democracy, economy and welfare state.

The three stages of socialism

All authors have divided the history of socialist parties in three different stages. They differ over the names and the dates. But they agree with the idea that the political and economic proposals of social democracy have gone through three phases.

1 J. E. Alt & K. A. Shepsle, *Perspective on positive political economy*, Cambridge University Press 1990, p. 2.

Przeworski[2] and Maravall[3] name these stages: reformism, remedialism and resignation. Sejersted[4], talking about Nordic social democracy, refers to these periods as growth and social integration, the golden age of social democracy and a richer reality. Urquizu[5] accepts these divisions, although he questions their stories of the ideological debates.

The first stage goes from the end of 19th century to 1930s. As Sejersted[6] argued, we may name this period as "integration". Socialist parties face two challenges. On the hand, they debate about their participation in liberal democracy and representative institutions. On the other, they refuse capitalism and markets, although at the end of this phase, socialist parties reached to the government and had to manage markets.

During these decades, the "guardians" of ideological purity refused to participate in elections. They consider that representative institutions did not permit to achieve socialist goals. For that reason, they pointed out that liberal democracy was not the mean to improve workers' welfare.

But once social democracy started to compete in elections, its' parliamentarian representation increased. Thus, in 1896, Hjalmar Branting, leader of Swedish Social Democratic Workers' Party (SAP), took part in elections in coalition with liberal party. He was the unique deputy until 1903, when SAP achieved four deputies. In 1915, Swedish Social Democratic Workers' Party was the biggest group in the Parliament. A similar story happened in other countries as, for example, in Spain.

The increase in the electoral support permitted that the socialist parties took part in governments. The first incumbent experience was in Denmark in 1916[7]. One year later, in 1917, Swedish social democracy incorporated too to a coalition government with the liberals. And in 1919, the German SPD decided to participate in an incumbent as well. But in 1920 we find the first time that a socialist party formed a single-party government. It was in Sweden.

To take part in governments implied that social democracy started to "collaborate". It was one of the points of division between socialism and communism[8]. Another issue that divided both leftists projects was First Wold War[9].

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2 A. Przeworski, *How many ways can be third?,* [in:] *Social Democracy in Neoliberal Times. The Left and Economic Policy since 1980*, A. Glyn (ed.), Oxford University Press 2003.

3 J. M. Maravall, *Promesas cambiantes. Una análisis de la socialdemocracia*, [in:] *Democracia y socialdemocracia*, A. Przeworski & I. Sánchez-cuenca (eds.), Centro de Estudios Políticos y Constitucionales, Madrid 2012.

4 F. Sejersted, *The Age of Social Democracy. Norway and Sweden in the Twentieth Century*, Princeton University Press 2011.

5 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012.

6 F. Sejersted, op. cit.

7 A. Przeworski; op. cit., str. 317.

8 Ibidem.

9 R. Luxemburg, *La crisis de la socialdemocracia*, Fundación de Estudios Socialistas Federico Engels, Madrid 2006.

From an economic point of view, the main debate during this period was about the socialization means of production by workers. Leftists leaders had to decide their level of participation in markets and capitalism and, as the political challenge, socialism and communism had different point of view: "This is summed up in Marx' phrase that socialism's allocative rule is 'from each according to his ability, to each according to his work', while more advantage communism was defined as one in which distribution would not be according to work but to *need* (….) Social democrats, however, were not concerned with the elimination of capitalist exploitation, but rather with achieving a more equal distribution of income than was associated with laissez-faire capitalism"[10].

The renunciation of part of its initial proposals meant that social democracy reached to the end of 1920s without clear election manifestos. Thus, socialist parties faced the 1929 crisis without an economic program. However, the management of conservative governments gave social democracy an ideological chance.

Once the Great Depression started, rightist incumbents decided to follow the orthodox economic ideas and implemented austerity plans. Some leftist governments accepted this economic policy and, for instance, Labour government decided to reduce its budget as well[11]. But economic situation got worse[12].

At the end of 1930s, socialist parties presented an alternative: to use the government as an active economic agent. Gunnar Myrdal, Knut Wicksell and John Maynard Keynes were the economists that inspired the new economic policy of social democracy. Its proposals worked and it opened a new stage in the ideological evolution of socialist parties.

The second period goes from 1940s to 1970s. During these decades, socialist plan focused on employment and redistribution. From an economic point of view, this stage was successful. Western Europe's average economic growth rate was 4.8 per cent, whereas in the previous period it was 2.1 per cent[13].

But the most important issue of this period was the welfare state. The development of social policies pursued to reduce the different inequalities. First, welfare state tried to increase equal opportunities and social mobility. Second, it wanted to reduce the income differences between the richer people and the poorer people. And third, some social policies pursued to increase the welfare of the poorer people. However, there are doubts that part of these inequalities was reduced. Empirical evidence showed that the results were not so satisfactory: social mobility did not differ from the past and, then, socioeconomic roots continued influence so much on the

10 J. E. Roemer, *Socialism vs. social democracy as income-equalizing institutions*., [in:] *Eastern Economic Journal* 34, 14-26.

11 L. A. Rojo, *Keynes, su tiempo y el nuestro*, El Hombre del Tres, Madrid 2012.

12 J. V. Sevilla, *El declive de la socialdemocracia*, RBA, Barcelona 2011, p. 52.

13 Ibidem, p. 90.

income of individuals[14],[15] . Although, unlike the majority of countries, in Norway, Sweden and Denmark social mobility increased[16]. Perhaps, the main explanation was that, in Nordic countries, the welfare state developed universalistic social policies.

This period finished with the petrol crisis and the end of Bretton Woods system in the 1970s. Thus, a new stage emerged in the 1980s. Przeworski[17] has named this period as "resignation". The economic circumstances changed so much after the 70s crisis. Perhaps, the most important novelty was that economic openness increased a lot. In 1950, the average economic openness rate per country was 35.2 per cent. In 1980, this average was doubled: 72.1 per cent[18].

In the new economic situation, monetarism theories emerged as predominant. They criticized Keynesianism because they considered that government intervention was inefficient. They argued that, in the medium and long term, the economic effects of expansive fiscal policies would disappear. But the predominance of these ideas was something else that an influence on economic policy. Monetarism theories win the ideological battle. Hence, between 1940s and 1970s, Keynesianism was the mainstream, whereas, after the petrol crisis, monetarism was the predominant economic policy.

The main aim of conservative governments was to deregulate markets and to reduce the weight of public intervention in the economy. Margaret Thatcher and Ronald Reagan were the most representative politicians of these ideas.

At least in the 1980s, some socialist governments presented an alternative. However, we find two different points of view. On the one hand, Felipe González and Spanish Socialist Workers' Party (PSOE) developed a supply-side economic strategy. Because of globalization and the economic competition among countries, Spanish social democracy decided to use part of the public budget in improving the economy. It means that they invested in human (education and research) and fixed (infrastructure and technology) capitals. They pursued to attract investments and to increase economic growth[19].

On the other hand, French Socialist Party and Greek Socialist Party (PASOK) followed the opposite economic strategy. They considered that demand-side economic strategy was still possible. But their economies went into crisis. They only had two alternatives: autarky or economic orthodoxy. Both opted for the second option.

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14 R. Erikson & J. H. Goldthorpe, *The constant flux: a study of class mobility in industrial societies.,* Oxford University Press 1992.;

15 H. – P. Bloosfeld & Y. Shavit, *Persistent inequality. Changing educational attainment in thirteen countries*, Westview Press, Boulder 1993.

16 G. Esping – Andersen, *Igualdad con una burguesía feliz. La vía socialdemócrata hacia la igualdad.*, [in :] *Democracia y socialdemocracia*, en A. Przeworski & I. Sánchez-Cuenca, Centro de Estudios Políticos y Constitucionales, Madrid 2012, p. 252.

17 A. Przeworski, *How many ways can be third?*, [in:] *Social Democracy in Neoliberal Times. The Left and Economic Policy since 198*0, A. Glyn (ed.), Oxford University Press 2003, pp. 320 – 323.

18 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012, p. 33.

19 C. Boix, *Political Parties, Growth and Equality*, Cambridge University Press, New York 1998,

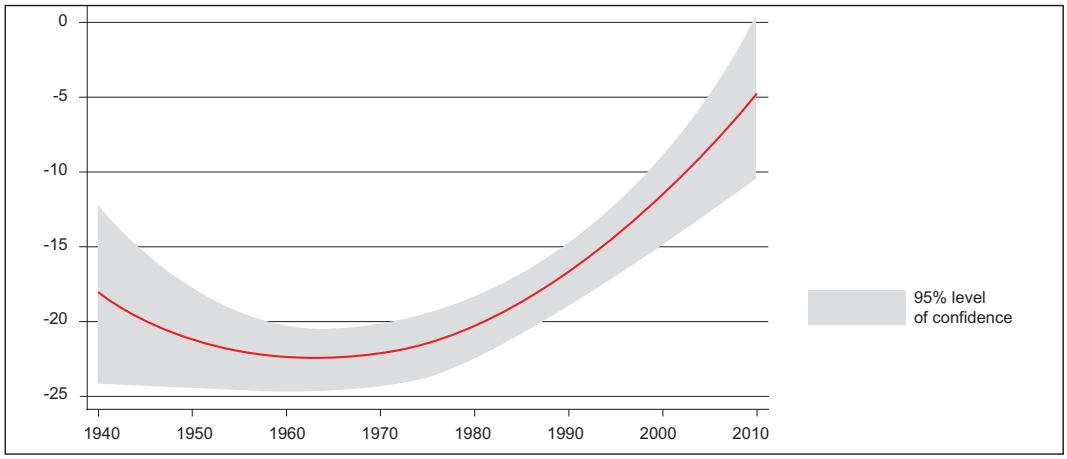
In the 1990s, social democracy enhanced its proposal of market deregulation. The Third Way of Tony Blair and Bill Clinton and the New Centre of Gerhard Schröder were examples of this ideological evolution about markets. In fact, if we analyse the socialist election manifestos during this decade, empirical evidence shows that this ideological change was as big as between 1940s and 1980s[20].

If we analyse the proposals about welfare state in election manifestos, during the last 30 years its defence has increased[21]. It means that socialist parties have passed from the establishment and development of social policies to their defence.

In sum, **if we study the ideological evolution of social democracy, we observe that, in each phase, socialist parties have moderated their political and economic proposals. Following the labels from the literature, social democracy has gone from integration to resignation.**

Graph 1 shows the evolution of 30 socialist election manifestos[22] from 1940s to 2010s. The source is *Manifesto Data Collection*[23]. The y-axis measures the socialist party ideology in a two hundred-points scale, in which 100 correspond to the extreme right and -100 to the extreme left. Zero means the centre. The empirical evidence shows that, as I argue before, socialist parties have moderated their ideological proposal. Henceforth, data corroborates the previous ideological story of social democracy.

Graph 1. Evolution of socialist election manifestos



Source: Urquizu[24]

20 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012, p. 92.

21 Ibidem, p. 120.

22 The leftist parties are from Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Island, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, North Ireland, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States

23 A. Volkens, O. Lacewell, P. Lehmann, S . Regel, H. Schultze & A. Werner, *The Manifesto Data Collection. Manifesto Project (MRG/CMP/MARPOR)*, Wissenschaftszentrum Berlin für Sozialforschung (WZB), Berlín 2011.

24 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012, p. 44.

Why does social democracy change?

After summarizing the ideological evolution of socialist parties, the question that arises is: why did social democracy moderate its ideological proposals? Several social scientists have tried to answer this question. I'm going to focus on three works: Przeworski and Sprague[25], Maravall[26] and Urquizu[27].

Przeworski and Sprage conclude that socialist parties moderated because of electoral competition. Once socialist leaders decided to participate in liberal democracy, they observed that workers were not a majoritarian social group and a percentage of workers voted for other political parties. Therefore, socialist parties had to look for alliances with other social classes. In Przeworski and Sprague's words: "when socialists seek to be effective in electoral competition they erode exactly that ideology which is the source of their strength among workers".

Maravall tries to answer a similar question: why does social democracy shift its promises? His empirical evidence shows that there are three variables that explain ideological evolution: shifts in programs of parties of the Right, years in the opposition and years in the government. Thus, when rightist parties move away from moderate positions, social democracy has tried to keep close to the ideological centre. The causal mechanism that explains this behaviour is median voter. But time matters as well. It means that if socialist parties stay a long time in opposition or in government, both produce moderation. In the first case, the causal mechanism is the impatience of rank-and-file members. In second case, grassroots members pressurize into maintaining the ideological purity.

Finally, Urquizu has elaborated a general theory that explains socialist moderation. He observes that there are political and economic circumstances that influence on the ideological evolution of social democracy. Moreover, two relevant actors, voters and unions, may have an influence as well.

His statistical analysis shows that the two main economic variables that support socialist moderation, are inequality and worker income per capita. Graph 2 summarizes his empirical evidence. The X-axis presents the income of 5% richest and worker income per capita, whereas Y-axis measures the ideological position of party manifestos[28]. We observe that as inequality increases in a country, social democracy moves to leftist positions. However, if worker income per capita improves, socialist parties goes to moderate proposals.

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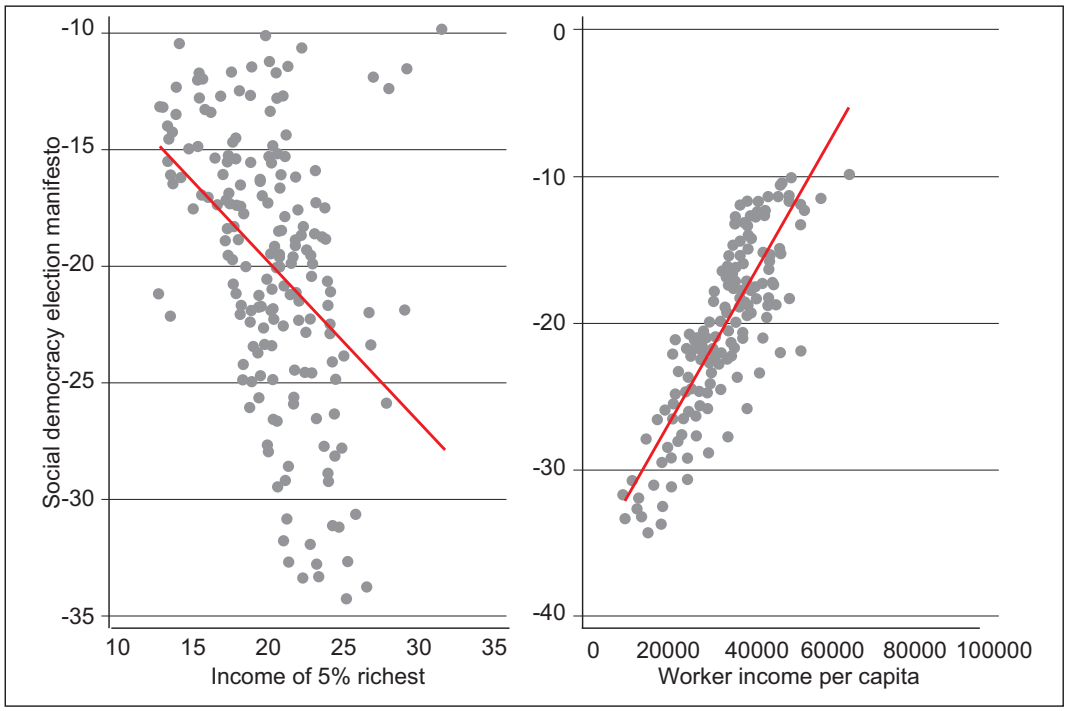
25 A. Przeworski & J. Sprague, *Paper Stones. A History of Electoral Socialism*, The University of Chicago Press, Chicago 1998.

26 J. M. Maravall, *Promesas cambiantes. Una análisis de la socialdemocracia,* [in:] *Democracia y socialdemocracia*, A. Przeworski & I. Sánchez-cuenca (eds.), Centro de Estudios Políticos y Constitucionales, Madrid 2012.

27 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012.

28 Ideological positions of party manifestos are measured on a 200-point scale in which 100 corresponds to the extreme right and -100 to the extreme left. Therefore, 0 is the centre.

Graph 2. Relation between social democracy election manifesto and inequality and worker income per capita



Source: Urquizu

If we analyse the political factors, the most important one is the Economic and Monetary Union (EMU) of the European Union. Its institutional design presents relevant challenges for socialist parties. First, it constrains the use of public debt and public deficit. Maastricht Treaty and the membership to euro establish limits to governments when they manage their expenditure. It means that socialist governments have to use demand policies with several constraints.

Second, the economic priority of European Central Bank (ECB), inflation, may be considered a conservative priority. Incumbent parties have to choose between inflation and unemployment[29]. Rightist parties usually prefer to reduce inflation, whereas leftist parties have a strong preference for unemployment[30]. Thus, taking into account the difference among parties about economic objectives, ECB gives priority to conservative economic policies.

29 Phillips curve shows that there is a strong relationship between inflation and unemployment. When inflation increases, unemployment reduces and, vice versa, when inflation decreases, unemployment rises. Then, parties have to choose the economic objective that they prefer.

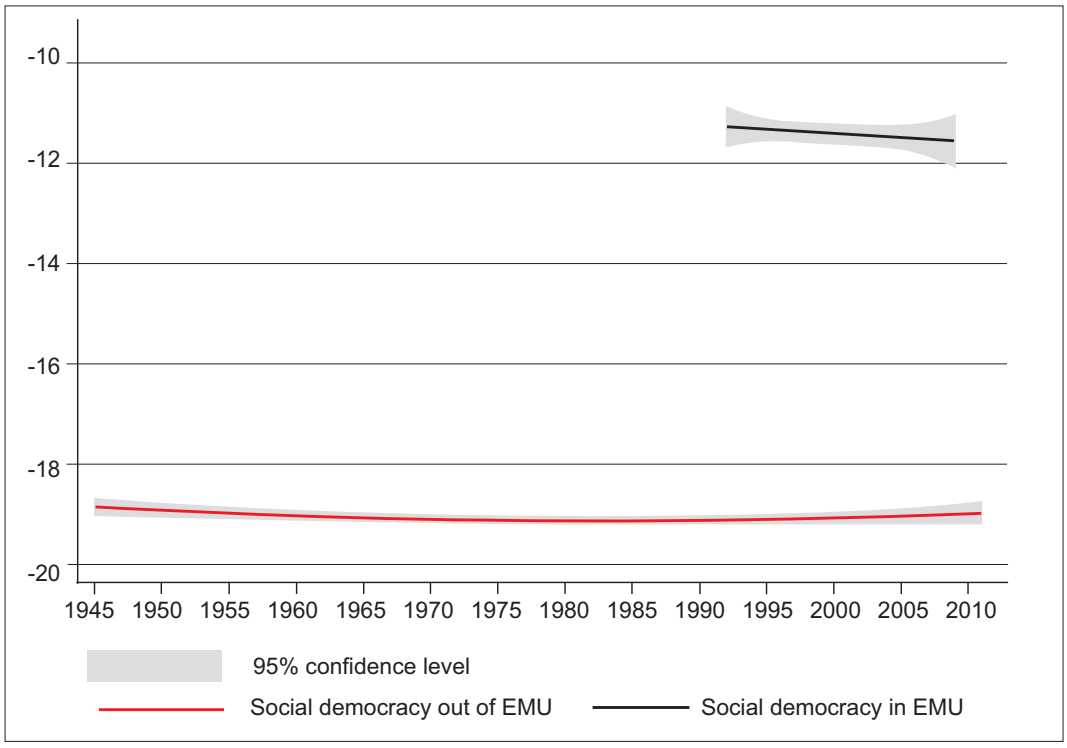
30 D. A. Hibbs, *The political economy of industrial democracies*, Havard University Press, Cambridge 1987.

Third, the design and competences of ECB is so different from the Central Bank of United Kingdom and the North American Federal Reserve. It means that ECB cannot manage monetary policy as the rest of central banks. Moreover, its governance and the economic asymmetries in European Union make its task more difficult[31]. For these reasons, we hope that EMU has influenced on the moderation of social democracy.

Graph 3 corroborates these arguments. It shows that socialist parties in the EMU are more moderate than those out of the EMU. Therefore, the institutional design of Monetary Union constrains economic policies of socialist incumbents and, thus, they have to moderate their political positions.

Finally, using statistical analysis, Urquizu[32] observes that socialist parties are insensitive to two important actors: voters and unions. Public opinion and the strength of unions do not influence on the ideological evolution of social democracy.

Graph 3. Social democracy and Economic and Monetary Union of the European Union



Source: Urquizu[33]

31 P. de Grauwe, *The Fragility of the Eurozone's Institutions*., [in:] *Open Economies Review* 21 (1), 167-174.

32 I. Urquizu, *La crisis de la socialdemocracia: ¿Qué crisis?*, Catarata, Madrid 2012.

33 Ibidem

The three challenges of social democracy

At this moment, Western Europe faces an historical moment. Economic crisis changed to political crisis and the unique solution for socialist parties is to present a renew project. In fact, social democracy is starting its fourth stage. As we saw in the first section, socialist parties have gone through three phases and each stage started after an economic crisis. Because of the size of 2008 crisis, we are facing a similar event as 1929 Great Depression or 1970s crisis.

Hence, European social democracy has to resolve the problems that 2008 crisis has revealed. These challenges are: quality of democracy, modernization of the economy and a new welfare state. In the following lines, I develop the main ideas and why these three issues are relevant for socialist parties.

Democracy

At this moment, socialist parties ought to recover Willy Brandt's word when, in 1969, he said: "dare more democracy". Our democracy has changed so much in the last decades. One of the most relevant changes is the emergence of non-representative or countermajoritarian institutions[34]. This type of institutions has the following features:

Citizens do not elect their members

Their term of office is longer than representative institutions

Minority interests are over represented and, for instance, economic power control most of these non-representative institutions

But it does not mean that countermajoritarian institutions are not necessary in democracies. They have an important aim: to protect minorities and to counteract the possible despotism of majorities. However, in the last decades, their presence has increased so much and, at this moment, they control the most relevant economic decision in our democracies.

In fact, economic power has taken advantage of these non-representative institutions. Several journalists have denounced that these countermajoritarian institutions work as "revolving doors". Thus, relevant financial workers go from banks to these institutions and, after "making" their work, they come back to banks. It may explain why minority and financial interests are over represented in non-representative institutions.

This institutional design has had consequences in European public opinion. Once the 2008 crisis emerged, South European citizens begun to consider that these non-representative institutions have decided their economic policy. Therefore, for these Europeans, austerity and budget cuts are not a result of a democratic debate but rather that an imposition from non-representative institutions.

34 I. Sánchez-Cuenca, *Más democracia, menos liberalismo*, Katz, Madrid 2010.

The second change is economic opening. As Rodrik[35] has developed, societies face a trilemma. They have to choose between democracy, deep economic integration and autonomy as nation-state. Societies can combine two of these three issues. It means that they have to give up one of them. Economic opening has increased so much in the last decades and nation-state has lost part of its power. However, as Rodrik points out (2011), to combine deep economic integration and democracy is not easy. Societies and economies are so different among them and, hence, a common economic policy is unlikely. For that reason, we observe several economic asymmetries that undermine democracy.

But globalization has a second consequence and it is related with the first change. Economic opening has increased the power of non-representative institutions.

These changes undermine democracy and European Union as well. For that reason, the first important challenge of socialist parties is to improve the quality of democracies. Countermajoritarian institutions need more control and transparency. Moreover, to combine deep economic integration and democracy implies to change the democratic institutional design. If social democracy does not face these problems, the political crisis will mutate into a democratic problem. It does not mean that citizens stop being democrats, although the emergence of populism and technocracy are serious threats. In fact, at this moment, South European countries face these problems.

Economy

The second challenge is the modernization of economies. In a deep economic integration, European social democracy has only one strategy: productivity. Why?

First, when economies compete in environments with great economic opening and they want to export their products, they need to improve their competitiveness. There are different economic strategies: low salaries, devalued currency or high productivity. The first one, low salaries, cannot be an option for socialist parties, because it will imply that workers impoverish. And the second possibility, devalued currency, is not possible as well. Independent central banks do not allow managing arbitrarily monetary policy. Hence, the unique economic strategy is productivity. It means to invest in human and physical capitals.

Second, there is a strong relationship between productivity and redistribution and, as Bowles[36] develops, this is the unique feasible strategy in a competitive world. In the last decades, in order to get redistribution, socialist theorists have emphasized the importance of fiscal policy and social spending. However, globalization has changed the economic

35 D. Rodrik, *The globalization paradox. Democracy and the future of the world economy*, W. W. Norton & Company, Inc., New York 2011.

36 S. Boles, *The New Economics of Inequality and Redistribution.*, Cambridge University Press 2012.

framework. Economic opening implies several risks for low-income class and "alters, but does not cramp, the space in which egalitarian political and economic initiatives must operate"[37]. Hence, the main aim of socialist parties is to reduce these risks and it involves investing in human and physical capitals.

The main criticism is that we cannot combine European welfare state with productivity. However, data and empirical evidence show that this combination is possible. If we analyse the evolution of productivity in United States and Europe, we'll observe that it has gone through three stages: 1950-1973, 1973-1995 y 1995-2006[38]. In 1950, European productivity per hour worked was 39.5 per cent above North American productivity. During these decades, European countries develop different strategies that permitted to recover competitiveness: technology imitation, wage bargaining and the emergence of large "national champions" companies. Thus, in 1973, European productivity per hours worked was 75.4 above North American productivity.

The second stage was from 1973 to 1995. During this period, European Union recovered competitiveness as well. European productivity grows 2.4 per cent per year, whereas North American productivity increases 1.2 per cent. Thus, in 1995, UE-15 productivity per hour worked was 98.3 per cent above North American productivity. The main explanation is that European welfare state permitted to reduce hours worked, whereas European economies rise.

However, in the last stage, between 1995 and 2006, United States has increased its advantage and European productivity per hour worked reduced to 90.3 per cent above North American productivity. Why do we observe this change? First, during 1980s and 90s, European economies stimulated the inclusion of low-educated workers in labour markets and they are less productive[39]. Second, European enterprises invested 17 per cent of their investment in technology, whereas North American enterprises invested 30 per cent.

Hence, European model is compatible with productivity increase. It will depend on institutional design of wage bargaining, the private and public investments in technology and the emergence of large "national champions" companies.

Welfare State

The last challenge is the reform of welfare state. But why do socialist parties ought to propose its reorganization? There are two reasons.

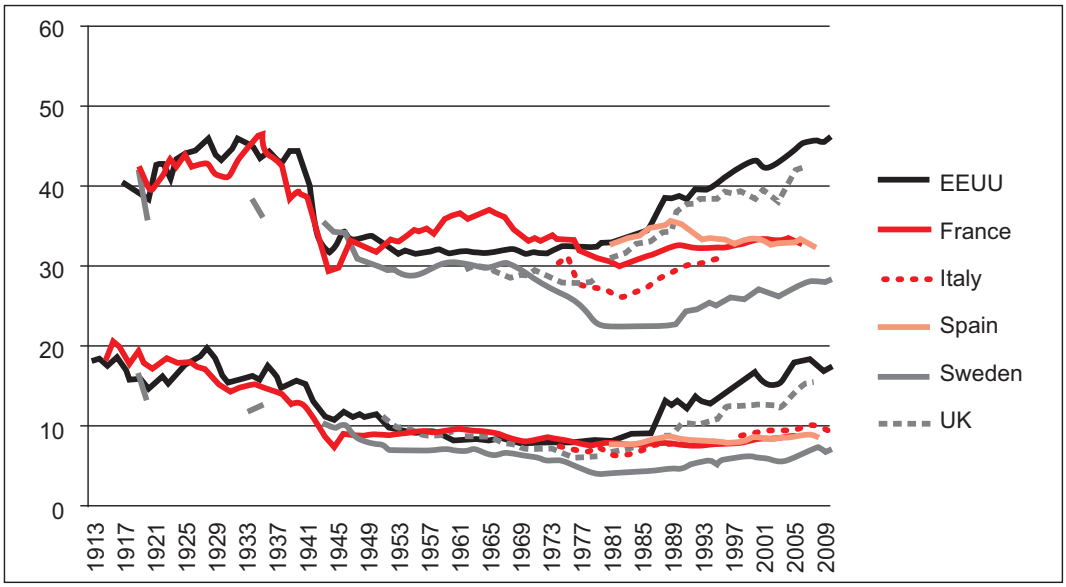
37 S. Bowles, Op; cit., p. 162.

38 B. van Ark, R. Inklaar & R. H. McGuckin, *ICT and productivity in Europe and the United States. Where do the differences come from?*, [in:] *CESifo Economic Studies* 49, 3/2003, 295–231.

39 B. van Ark, M. O'Mahony & M.P. Timmer, *The productivity gap between Europe and United States: Trends and causes*., [in:] *Journal of Economic Perspectives* 22(1) 2008., 25-44.

First, if we analyse inequality –see Graph 4-, we shall observe that it has reduced since 1910s. However, in the last 30 years, the top income distributions have changed and the wealthy have increased their percentage above total national incomes. Graph 4 shows the evolution of top incomes for six OECD countries. Up lines reveal the evolution of the top 10 per cent incomes and down lines present the evolution of the top 1 per cent incomes. Since the end of 1980s, all lines show that inequality has increased.

Graph 4. Evolution of top income share of national income



Source: Alvaredo et al., The World Top Incomes Database[40]

The main implication is that we need to improve redistribution. We know that social spending is the main instrument to change how income is distributed. However, some parts of public budgets do not produce redistribution. For instance, Verbist et al[41] show that education and health are the social spending that produce more redistribution. However, if we divide education expenditures in different parts, we shall observe that to finance private education benefits middle and high classes[42].

Another education spending that presents some problems is higher education. Academic literature shows that the probability of going to university depends on the social

40 F. Alvaredo, A. B. Atkinson, Th. Piketty & E. Saez, *The World Top Incomes Database*,. http://topincomes.g-mond.parisschoolofeconomics.eu/

41 G. Verbist, M. Förster & M. Vaalavuo, The Impact of Publicly Provided Services on the Distribution of Resources. Review of New Results and Methods, [in:] *OECD Social, Employment and Migration Working Papers 2012.*

42 M. J. Mancebón & D. Pérez, *Conciertos educativos y selección académica y social del alumnado,* [in:] *Hacienda Pública Española/ Revista de Economía Pública* 180, 77-106.

social democracy is facing a new stage. After going through three phases –reformism, remedialism and resignation-, 2008 crisis is the point of departure of a new stage. Hence, socialist parties need to rethink their projects. It implies resolving the main challenges that we face: quality of democracy, modernization of economy and a new welfare state

class. Thus, middle and high classes have 60 per cent of more probability of achieving tertiary education than low-income class[43]. Moreover, in some countries like Spain, university students only finance 11 per cent of their studies[44]. It means that this type of expenditure does not produce redistribution.

In sum, inequality has increased in the last 30 years and some expenditures of welfare states do not produce redistribution. Hence, social democracy needs to reconsider the design of social spending.

The second issue that leads to changes in welfare states as well, is that societies have transformed: life expectancies have increased, fertility ratios have decreased, women have incorporated to labour market and migrations have risen. These social changes imply that we need to introduce several changes in education systems, public health systems and retirement systems.

Therefore, both factors, inequality and social changes, lead to a new welfare state. But we are talking about something more relevant than simple variations. The welfare state needs to change its philosophy. Until now, social expenditures have tried to resolve the existence of social problems. However, we need to anticipate to these problems and to give tools to people. That is, social democracy would have to defend a new welfare state where citizens get resources for facing future difficulties. Moreover, this new welfare state would have to focus on three important groups: children, women and old men. They are the origin of inequalities. If we resolved their social problems, inequality would not appear.

Conclusions

This paper shows that social democracy is facing a new stage. After going through three phases –reformism, remedialism and resignation-, 2008 crisis is the point of departure of a new stage. Hence, socialist parties need to rethink their projects. It implies resolving the main challenges that we face: quality of democracy,

43 J. Calero, *Desigualdades socioeconómicas en el sistema educativo español.*, Ministerio de Educación y Ciencia 2007, p. 37.

44 J. J. Dolado, *Disfunciones en el sistema universitario español: diagnostic y propuestas de reforma.*, [in :] *Propuestas para la reforma de la Universidad española*, D. Peña, Fundación Alternativas y Grupo Parlamentario Socialista, Madrid 2010, p. 15.

modernization of economy and a new welfare state. All these issues involve changes and new ideas.

A second relevant conclusion is that the hypothetical crisis of social democracy is not so serious. Socialist parties are doing something that they have done in the past: to renew their political project. When circumstances change, social democracy change. Socialist theorists did in the 1930s and in the 1970s and we need to do again.

In sum, political and economic factors explain the ideological evolution of social democracy. At this moment, because of the 2008 crisis, we are in a new "crossroad". If social democracy presents solution to its challenges, socialist parties will be majoritarian again.

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FOR A NEW SOCIAL DEAL

2

FOR A NEW SOCIAL DEAL

Ensuring Fair Distribution of Income, Wealth and Power

AL

Rémi BAZILLIER

Equality Must be the Core of Economic Policies[1]

17 Propositions for Equality and Efficiency

1 I would like to thank the members of the FEPS Next Left Focus group for their fruitful remarks that help to improve the present paper significantly. I also thank Julien Vauday for his suggestions.

Key words

Equality – Efficiency – Economic Policy – Redistribution – Labour Market

Abstract

Equality and Efficiency are not necessarily antagonistic. In numerous cases, inequality can also be inefficient economically. From this analysis, an equalitarian policy can be seen from two perspectives : after or before redistribution through taxes. Fiscal policy should of course be one pillar of progressive policies. We will show why redistribution can be also efficient. The progressivity of our fiscal systems has been eroded in the past decades due to international fiscal competition mainly. It is time to come back to stronger progressivity in our fiscal systems. But relevant policies can also tackle this issue of inequalities by intervening directly in the production process. We will see why labour market policies should also play a major role. We have to change the paradigm about the vision of labour market institutions. Too large wage dispersions create negative incentives for firms and are sub-optimal in lots of cases. On contrary, wage setting mechanisms favouring wage equality, and strong labour market institutions increasing low wages, are a condition for positive dynamics leading to more productivity and more efficiency. Firms should get the right incentives. Cheap labour does not push them to increase their productivity which lets the workers trapped with low wages and poor working conditions.

In a recent paper[2], I argue that the economic meaning of progressive values could be understood from a double perspective: an individual and a collective one. Concerning the latter, different theories of justice can be used to reinforce the progressive narrative. In particular, the progressives should seriously redefine concepts such as equality or justice. I think that a more ambitious concept than *equality of opportunity* is needed and that the concept of equality of autonomy[3] may bring positive insights for progressives. By combining individual objectives such as individual emancipation, by taking into account the heterogeneous nature of individuals and their different aspirations and efforts, this concept take into account main sociological evolutions observed in modern societies. But at the same time, this frame maintains collective protections and proposes to have a look to the global distribution of incomes, and not only to the situation of the worst-off. This is justified by inherent risky choices of individuals in an uncertain World, by deeply-rooted social and cultural inequalities, and by the right to dignity that should be guaranteed to everybody. This renewed progressive theory of justice may help progressive politicians to justify new social policies and investments.

The concept of equality of autonomy may bring positive insights for progressives.

But social policies cannot be studied independently from the macroeconomic framework. More precisely, the economic conjuncture has a strong impact on the capacity for the State to finance and develop this kind of policies. It is therefore important to have *efficient*[4] macroeconomic policies able to develop sustainable growth and create decent jobs for everyone. These two debates (the one on social policies and the other on macroeconomic policies) cannot be completely separated. The goal of this paper is to see how this debate about justice theories may help to the definition of progressive macroeconomic policies.

If the literature on normative principles in economics is rather broad (see for instance Konow[5]), economists working on this field generally use microeconomic tools to develop their theories. Based on the comparison between different individuals, they develop axioms

2 R. Bazillier, *The economic meaning of progressive values*., [in:] E. Stetter, K. Duffek, A. Skrzypek (eds.), *Progressive values for the 21st century,* Brussels, Foundation for European Progressive Studies 2011, pp. 68-96.

3 M. Fleurbaey, *Fairness, Responsibility and Welfare,* New York, Oxford University Press 2008.

4 Efficiency is defined as the optimal allocation of scarce resources in the economy (Pareto efficiency). It reflects a distribution of income which is impossible to change without making anyone worse-off.

5 J. Konow, *Which is the Fairest One of all? A positive Analysis of Justice Theories., Journal of Economic Literature*, XLI (December 2003), pp. 1188-1239.

to define their conceptions of concepts such as equality or justice. From this axiomatic approach, they propose general principles that can be used to manage social policies. At the macroeconomic level, the approach is radically different. First, the first concern is *efficiency*. The goal is to maximize an aggregate (consumption, output…) or to reach a defined target (inflation, deficit…). The efficiency of the policy is then evaluated. The only concern for the distribution of this outcome may come from a concern about equity. Lots of macroeconomists have then worked on a trade-off between efficiency and equity (see for instance the chapter on efficiency and equity in Stiglitz[6]). There is a need to fill the gap between these two literatures and bring the input of the normative economics into the design of macroeconomic policies. I suggest here different lines of research.

There is a need to refute the idea of a permanent trade-off between efficiency and equity. This trade-off suggests that there is a permanent division between the Left whose goal would be to defend equity and the Right, concerned about "efficient" economic policies. But equity, or equality[7], can be efficient. I then propose to review the economic effects of redistribution policies and show how policy-makers can overcome this supposed trade-off between efficiency and equity. I will propose some policy implications, based on the main results in the literature about the economic effects of redistribution policies. But I also argue that we need to have a look to the *ex-ante* distribution of income. In other words, the goal for progressives cannot be only to let the markets generating a certain level of inequality and then to allow the State correcting this distribution of income *ex-post*. A too high level of inequalities may create negative externalities that would reduce the economic optimum. It is then necessary to propose different policies aiming at reducing inequalities also in the production process. The role of institutions and economic incentives are therefore crucial. It echoes the recent debate on *predistribution* in the UK[8], [9] but also the emphasis on the *"égalité reelle"* (the "equality for real") in France and the definition of a *Socialism of redistribution* and a *Socialism of production*[10].

After briefly reviewing the roots of this trade-off between equity and efficiency and presenting the main theoretical arguments to refute it, I will show why inequalities are inefficient economically. From this analysis, an equalitarian policy can be seen from two perspectives: after or before redistribution through taxes. Progressives have mainly

6 J. E. Stiglitz, *Economics of Public Sector,* lectures on public economy, 1989.

7 Equity and equality are different concepts. But our goal in this paper is not to discuss the relevance of such concepts. I discussed in Bazillier (2011) the implications for progressives of advocating for one or the other. Here the approach is broader. We will mainly focus on the macroeconomic implications of different levels of inequality. The distinction between equity and equality therefore goes beyond the scope of this paper.

8 J. Hacker, *The institutional foundations of middle-class democracy*, Policy Network, 6.5.2011.

9 E. Miliband, Speech on predistribution., Policy Network conference (Sept. 2012), available here: http://www.politics.co.uk/comment-analysis/2012/09/06/ed-miliband-s-redistribution-speech-in-full

10 D. Strauss-Kahn, *Pour Egalité Réelle, Eléments pour un Réformisme Radical., Les Notes de la Fondation Jean Jaures,* n°41, Juillet 2004.

focused on redistribution. This can be understood as an *implicit* recognition of this trade-off between efficiency and equity. In other words, lots of progressive have been convinced that the best way to make social policies is to let markets maximizing the economic output before putting in place redistribution through the State. Of course, fiscal policy should be one pillar of progressive policies and we will show why redistribution policies can also be considered as efficient economically in the fourth section. The progressivity of our fiscal systems has been eroded in the past decades due to international fiscal competition mainly. It is time to come back to stronger progressivity in our fiscal systems. Recent economic studies show that there is a huge space for such policies. But relevant policies can also tackle this issue of inequalities by intervening directly in the production process. We will see in the fifth section why labour market policies should also play a major role. We have to change the paradigm about the vision of labour market institutions. Too large wage dispersions create negative incentives for firms and are sub-optimal in lots of cases. On contrary, wage setting mechanisms favoring wage equality, and strong labour market institutions increasing low wages, are a condition for positive dynamics leading to more productivity and more efficiency. Firms should get the right incentives. Cheap labor does not push them to increase their productivity which lets the workers trapped with low wages and poor working conditions.

We will conclude coming back to the debate on different conceptions of equality. We give, in this paper, additional arguments to consider that the concept of equality of opportunity is too limited for progressives. The main reason is that we *do* care about equality of outcome. As we will show, inequality of *outcome* has negative economic consequences. The goal of an equalitarian policy cannot be to compensate these differences of opportunities only. We have strong economic arguments to make such a claim.

I. There is (nearby) no trade-off between equity and efficiency

The idea of a trade-off between equity and efficiency comes from a long tradition in economics. The "First Welfare Theorem"[11] states that any competitive equilibrium leads to an efficient allocation of resources. It can be seen as a confirmation of the "invisible hand" theory proposed by Adam Smith. The idea is very simple: let the market do and the distribution of income will be "efficient". The conditions to reach such equilibrium are rather restrictive. Perfect competition is needed and this "theoretical World" does not take into account any externalities or market imperfections. Despite these limitations, this theoretical framework is still widely used to analyze the effects of various policies. But the conclusions of such analysis are relatively clear-cut: any shift away from this market optimum would worsen-off the social welfare.

11 The two fundamental welfare theorems are generally attributed to Arrow (1951) and Debreu (1959).

The second welfare theorem states that any allocation of resources leads to an efficient allocation through competitive markets. This theorem lets a space for redistribution policies but the conditions of verifiability are rather restrictive and the type of redistribution policy is very narrow. The idea is to completely separate redistribution and the process to reach an efficient allocation. The State first can decide an initial distribution of resources. The markets then ensure that the distribution becomes efficient. But redistribution can only be achieved though lump-sum transfers. Any other form of redistribution would affect the economic incentives and then have a negative impact on the optimum.[12] The implication of this second welfare theorem is strong: there should be a complete separability between equity and efficiency concerns. The State and policy makers should only be concerned by equity. They can choose the initial distribution of income, corresponding to their values, by imposing lump-sum transfers. But this is the only thing they can do! Then, economists should only be concerned by efficiency. Let the market defines the optimum and focus on the conditions required to reach such equilibrium: perfect competition, no rigidities…

Following the insights of the two welfare theorems, Okun[13] in a very influential book argued that this trade-off between equity and efficiency is somehow "*inescapable*".[14]

Fortunately for progressives, lots of economists have shown the limitations of such theorems. Incomplete markets, imperfect information and imperfect competitions change completely the scope concerning the role of economic policies.[15] As stated by Stiglitz[16], *"Adam Smith's invisible hand may be invisible because, like the Emperor's new clothes, it simply isn't there; or if it is there, it is too palsied to be relied upon."* In these situations, it has been proven that State interventions can make everyone better-off[17]. In other words, **we have strong economic arguments to argue that the role of the State should not be limited to lump-sum redistributions and to the correction of a limited set of market failures.** The huge literature on market imperfections gives credit to the ones who claim that equity and efficiency cannot be treated separately.

12 But Stiglitz (1987) has shown that it is almost impossible for the State to set the level of this lump-sum tax and to decide who should pay it and who should receive a lump-sum transfer. Due to information imperfection, the only observable measure that can be used to do so is the level of income. But this level of income can be distorted by individuals to not pay or to receive these lump-sum transfers…

13 A. M. Okun, *Equality and Efficiency: the Big Tradeoff.*, Washington D.C.: Brookings Institution 1975.

14 However, it should be noticed that Orkun acknowledge that attacking some inequalities could improve efficiency concerns in the case of some inequalities of *opportunities*, such as racial and sexual discrimination in jobs and barriers to access to capital.

15 See: J. E. Stiglitz, *Information and Economic Analysis: A Perspective*., [in:] *Economic Journal,* 1985, pp. 21-61 for the implications of incomplete markets and imperfect information.

16 J. E. Stiglitz, *The invisible hand and modern welfare economics*., NBER Working Papers 3641, National Bureau of Economic Research, Inc, 1991 , p. 7.

17 B. C. Greenwald & J. Stiglitz, *Examining Alternative Macroeconomic Theories*, [in:] *Brookings Papers on Economic Activity*, No. 1, pp. 207-270.

II. Inequality is inefficient

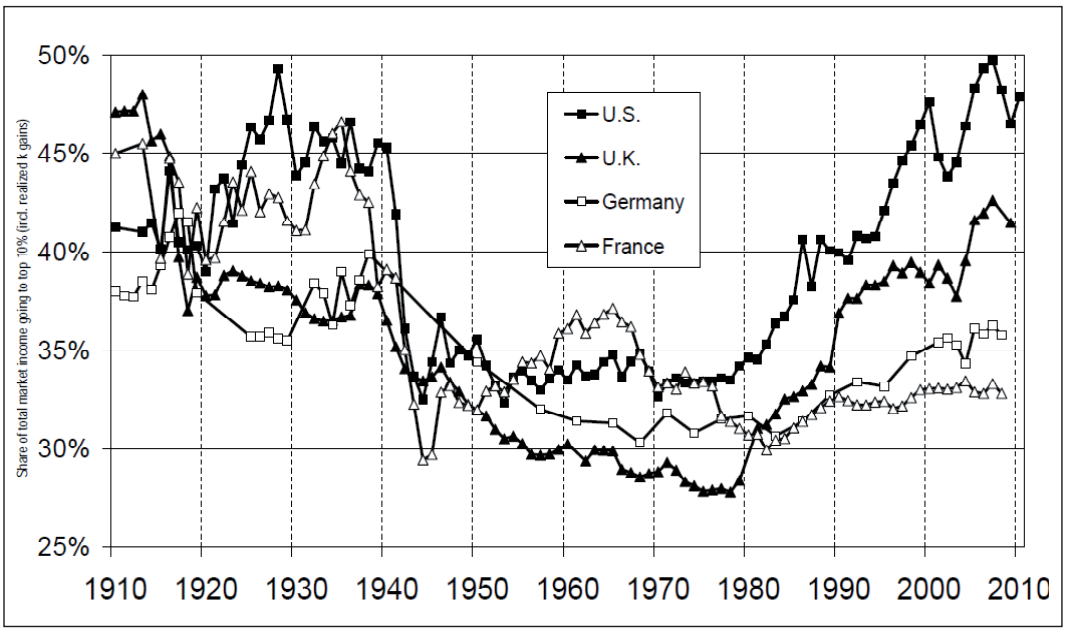
The Okun statement on the "inescapability" of the trade-off between equity and efficiency can be refuted from different perspective. The first one is to challenge the idea that equity is by definition inefficient. We can easily show that too large *inequalities* may be the cause of additional market failures that lead to economic *inefficiencies.* We will in this section briefly review the main causes of such inefficiencies.

Which inequalities?

We need first to define which inequalities we are talking about. **Inequalities indeed are multidimensional phenomena, including monetary and non-monetary factors.** Concerning monetary inequalities, one should distinguish income inequality, wealth inequalities and consumption inequalities.

We will mainly focus here on the issue of *income inequality*. Income can be of two types (mainly): labour income or capital income. Figure 1 shows the evolution of the top decile in the US, the UK, France and Germany over the last century. It shows a strong increase of this share since the beginning of the eighties. But this increase is less pronounced for France and Germany.

Figure 1: Top Decile Income Shares, 1910-2010



Source: World Top Income Database 2012, in Piketty and Saez (2012a)

Concerning consumption inequality, Krueger and Perri[18] show that the increase in income inequality does not lead to a similar increase in consumption inequality, due to the capacity of households to smooth their consumption through borrowing. But it is sustainable only if this income shock is transitory. If the income shock is permanent, the gap between income inequality and consumption inequality would lead to a credit boom which dramatically increases the probability of a crisis (see Jorda et al.[19] for an investigation of the link between credit boom and financial crisis). And as shown in Kopczuk, Saez and Song[20], the increase in inequalities observed since 1970 reflects a permanent rather than a transitory shock. In the long run, consumption and income inequalities should therefore be correlated. Even if consumption inequality may matter for households, we will ignore this issue in that paper, considering it is very much linked with income inequality.

On contrary, evolutions of wealth inequalities are a major topic with strong political implications. Piketty and Zucman[21] recently show that the wealth-income ratio has increased over the 1970-2010 period. Today's ratios are returning to the high value observed in the 19th century. Kopczuk and Saez[22] show that top wealth share in the US has increased since 1980 without reaching the highest level observed in the first decades of the twentieth century. Alvaredo and Saez[23] point out that wealth concentration in Spain has been stable from 1982 to 2006 due to the real estate bubble which has benefited the middle class. But financial wealth concentration has increased over the period.

Most of the arguments we raise in this section are both valid for wealth and income inequalities. Political implications are however slightly different. Income taxation is not sufficient to tackle wealth inequalities. Additional fiscal measures such as wealth or inheritances taxes may be appropriate tools (see section 3).

Non-monetary inequalities are also fundamental. It is a cumulative process. Inequalities in education for instance explain larger inequalities in the long-run. Geographical inequalities and stratification may also explain a low level of social mobility which has strong implications in terms of efficiency. We will see that a full and coherent equalitarian policy should therefore take into account its geographical and educational component. Investments in education, health or child care may also be powerful tool to reduce inequalities in the long run. One

18 D. Kruger & F . Perri, *Does Income Inequality Lead to Consumption Inequality? Evidence and theory.,* [in:] *The Review of Economic Studies,* 73(1) / 2006, 163-193.

19 O. Jorda, M. Schularick & A. M. Taylor, *Financial Crises, Credit Booms, and External Imbalances: 140 years of lessons*, [in:] *IMF Economic Review*, Palgrave Macmillan, vol. 59(2), pages 340-378, June 2012.

20 W. Kopczuk, E. Saez & J. Song, *Earnings Inequality and Mobility in the United States: Evidence from Social Security Data since 1937.*, [in:] *The Quarterly Journal of Economics,* 125(1), 2010, 91-128.

21 Th. Picketty & G. Zuckman, *Capital is Back: Wealth-Income Ratios in Rich Countries 1870-2010.*, Working Paper, Paris School of Economics 2012.

22 W. Kopczuk & E. Saez, *Top Wealth Shares in the United States, 1916-2000: Evidence from Estate Tax Returns.*, [in:] *National Tax Journal*, 57(2) / 2004, Part 2, 445-487.

23 F. Alvaredo & E. Saez, *Income and Wealth Concentration in Spain from a Historical and Fiscal Perspective*, [in:] *Journal of the European Economic Association,* 7(5) / 2009, 1140-1167.

has also to consider the level of political inequalities. The decreasing level of turn-out of the poorest in elections contributes to not taking into account their interest in political decisions, and *in fine* to reinforce the level of social and economic inequalities. This issue has to be addressed by progressives.

Inequality is found to have adverse effects on social and political stability

Even without speaking about market failures, this negative influence of income inequality on efficiency has been identified by authors such as Ayres[24] or Myrdal[25].

According to Park[26], the institutionalist literature has identified social and political instability as a major cause of the negative influence of inequalities on growth: *"It can be inferred from the writings of institutionalists that an increase in income inequality within a country would cause social and political instability because of deprivation and social discontent and that this instability, in turn, would adversely affect economic performance due to various economic disincentives, disruption in business activities, and disunity in the country."* Using the number of death from political crimes, he then shows empirically that inequality has a positive impact on such deaths, which are negatively correlated with the level of GDP per capita. More generally, Kelly[27] shows that inequalities tend also to be associated with a higher level of violent crime.

Alesina and Perroti[28] identify political instability as the major cause of the negative relationship between inequality and growth. Inequality tends to increase the probability of coups, revolutions, mass violence, and more generally to increase policy uncertainty and threatening property rights. This has adverse effects on investments which lead to a lower level of growth. This is confirmed by an empirical study made on 70 countries over the period 1960-1985.

Of course, one can argue that this framework is more relevant for developing countries and/or countries with high level of inequalities and long history of political violence or instability. Nevertheless, we have observed in several developed countries a rise of social tensions due to the social and unequal consequences of the Great Recession. The long-term consequences of such tensions on the level of investments and growth should not be underestimated.

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24 C. E. Ayres, *The Theory of Economic Progress*, Chapel Hill, the U. of North Carolina 1944.

25 G. Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations*., New York: Random House1968.

26 K. H. Park, *Income Inequality and Economic Progress: an Empirical Test of the Institutionalist approach.*, [in:] *Americal Journal of Economics and Sociology*, 55(1) / 1996, pp. 87-97.

27 M. Kelly, Inequality and Crime, [in:] *Review of Economics and Statistics,* 82(4) / 2000, 530-539.

28 A. Alesina & R. Perotti, *Income distribution, political instability, and investment.,* [in:] *European Economic Review*, 40(6) / 1996: 1203-1228.

Proposition 1: Inequalities are a factor of social and political instability which has adverse effects on growth.

Inequality is found to have adverse effects on human capital

Different approaches are used to analyze the linkages between inequalities and human capital. The first one relates to the stratification and local dynamics. Benabou[29] shows that a high level of inequalities tends to reinforce the level of social stratification and the development of ghettos. This stratification is proved to have negative consequences on economic efficiency: *"the typical pattern of city-suburb pattern is likely to be inefficient. The concentration of human wealth on one side and low skills on the other depresses the growth rate of the metropolitan surplus"*. That stratification makes inequalities more persistent. Spatial inequalities tend to be correlated with social and income inequalities, one reinforces each others. This analysis makes the case for redistribution even clearer: as we will see in the next section, efficiency of redistribution is high when social mobility is low due to the weak impact of work efforts on the individual outcome (see the paper of Piketty[30] and the analysis of Blank[31]). And Benabou[32] shows that spatial inequalities are endogenous phenomena that may appear because of minor differences in wealth (among other factors). To avoid such vicious cycle of spatial stratification, income inequalities and low efficiency, policies should aim at tackling these different dimensions. A global approach needs to include an urban policy, an income policy but also an appropriate education policy that take into account such differences. The poorest areas need higher investments in education. The goal of a public education system is therefore to compensate these inequalities by higher level of investments in such areas. It means that the public spending by pupil should be "unequal" by giving more to those who has less. But it is not be enough, and beyond the redistribution policy, the urban and housing policy should also promote social diversity. Several countries like France had imposed for instance quotas of social housing in every city. Because of the effect of such policy on the level of stratification, it should be seen as a fundamental part of a policy promoting equality. As shown by Benabou[33], it can also have positive effects on efficiency.

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29 R. Benabou, *Equity and Efficiency in Human Capital Investment: The Local Connection.* [in:] *Review of Economic Studies*, 63(2) 1996, pp. 237-64, April ; and R. Benabou, *Heterogeneity, Stratification, and Growth: Macroeconomic implications of Community Structure and School Finance*, [in:] *American Economic Review*, 86(3), pp. 584-609, June 1996.

30 T. Plcketty, *Social mobility and redistributive politics*., [in:] *Quarterly Journal of Economics* 110 (3) / 1995, pp. 551– 584.

31 R. M. Blank, *Can equity and efficiency complement each other?*, [in:] *Labour Economics*, Elsevier, vol. 9(4), pages 451-468, September 2002.

32 R. Benabou, *Heterogeneity, Stratification, and Growth: Macroeconomic implications of Community Structure and School Finance*, [in:] *American Economic Review*, 86(3), pp. 584-609, June 1996.

33 Ibidem.

Proposition 2: A progressive equalitarian policy should include more public spending in education for the poorest pupils and in the poorest areas. It should also include an urban and housing policy tackling the unequal geographical distribution of social housing (through quotas for instance) in order to minimize social stratification.

The second approach is mainly based on the work of Galor and Zeira[34]. They focus on the role of heterogeneity on the determination of the macroeconomic output. In presence of credit imperfections, income inequality has adverse effects on the human capital formation and thus economic development. Due to fixed costs of investing in education and credit constrained, higher level of inequalities tends to generate sub-optimal investments in education. Due to intergenerational transfers, this short-term effect is reinforced by a long-term persistence in inequalities.

Galor and Moav[35] propose a unified framework reconciling the approach developed just above with the classic approach stating that inequality enhances the process of development by giving more resources towards individuals with a higher marginal propensity to save. Following their idea, inequality would be growth-enhancing when the first motor of growth is the accumulation of capital. That would correspond to the first stages of development. But in the latter stages of development, human capital emerged as a prime engine of economic growth and equality starts stimulating the growth process because of its capacity to overcome the adverse effects of credit constraints. This theoretical view of economic development is interesting and meets the intuition of Simon Kuznets and his famous inverted-U shape between economic development and inequality[36].[37] As stated by Galor and Moa[38], this model stems from the recognition that human capital and physical accumulation are fundamentally asymmetric: *"The aggregate stock of human capital would be therefore larger if its accumulation would be widely spread among individuals in society, whereas the aggregate productivity of the stock of physical capital is largely independent of the distribution of its ownership in society"*[39]. This unified theory provides *"an intertemporal reconciliation between the conflicting viewpoints about the effect of inequality on economic growth"*[40].

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34 O. Galor & J. Zeira, *Income Distribution and Macroeconomics*., [in:] *Review of Economic Studies,* 60(1)/1993, pp. 35-52.

35 O. Galor & O. Moav, *From Physical to Human Capital Accumulation: Inequality and the Process of Development*, [in:] *Review of Economic Studies*, 71(4), pp. 1001-1026, October 2004.

36 S. Kuznets, *Economic Growth and Income Inequality*., [in:] *The American Economic Review*, vol. 45, nº 1, 1995, p. 1-28.

37 However, the causal interpretation of this inverted-U shape is the opposite. In Kuznets' view, the process of economic development had distinct effects on income inequalities, depending on the stage of development.

38 O. Galor & O. Moav, op.cit.,

39 Ibidem, p. 1001.

40 Ibidem, p. 1002.

We can however propose an alternative interpretation of this result. The human capital-oriented or the physical capital-oriented types of growth crucially depends on political choices and development strategies. It is of course possible to endogeneize such political choices in a model of political behavior. But we can argue that governments and more generally countries may have chosen, at different stages of their development, one or the other strategy focusing either on the accumulation of physical or human capital. It may depend on the specialization of the country, and its industrial structure. The globalization may have influenced such choice, depending on the comparative advantage of the country. In other words, one hypothesis is that the difference between egalitarian or anti-egalitarian growth is not a difference of timing but rather a political decision (that of course can be explained by external factors).[41] That may explain why empirical studies on the evolution of such dynamics between growth and inequality are rather inconclusive. This hypothesis may give interesting insights for progressives. They can choose the more appropriate model of growth for their country. But a more equalitarian society may be seen as a good starting point to finance a more skilled-oriented growth. This is crucial because we know that the capacity to raise wages, improve working conditions or even decrease the working-time crucially depends on the capacity to generate productivity gains (see the last section of this paper). In this framework, redistribution is not a consequence of economic growth. Redistribution is a condition to get a more inclusive growth and a condition to increase the potential of productivity gains. Another strategy based on physical accumulation can also be successful economically. But government then would have to face the consequences of the *"inescapable trade-off"* between equity and efficiency, to keep the words of Okun.

Proposition 3: Different models of development are possible. But investing in a more equal society will lead to a more skill-oriented type of growth.

Aghion et al.[42] argue there are at least three reasons to explain the negative consequence of inequality on growth:

(1) it reduces investment opportunities,

(2) it worsens borrowers' incentives, and

(3) it generates macroeconomic volatility.

41 A good example where political decisions explain the fact to invest or not in education is the case of resource-rich countries. Lots of these countries are trapped in a low level of development. This phenomenon known as the *resource curse* are often explained by the capture of the rent created by the exploitation of such resources by an elite. This elite does not have the interest to promote investments in human capital that would put in danger their social and economic situation. By maintaining this level of inequality, they protect their rent but undermine the economic potential of the country.

42 P. Aghion, E. Caroli & C. Garcia- Penalosa, *Inequality and Economic Growth: The Perspective of the New Growth Theories*., [in:] *Journal of Economic Literature*, American Economic Association, vol. 37(4), pages 1615-1660, December 1999.

The first argument is similar to the one used by Galor and Zeira[43]. Due to credit market imperfections, redistribution is growth-enhancing by increasing investment opportunities and consequently aggregate productivity. The second argument relies on a problem of moral hazard for borrowers in a context of limited liability. As the repayment of a borrower cannot exceed his wealth, the incentive to not reimburse is high when the initial level of wealth is low. Increasing this level of wealth through redistribution will then have a positive impact on the borrowers' efforts. Overall, one fundamental reason explaining such negative relationship is the diminishing returns to capital. The poorer faces a higher return when they have the possibility to invest but credit market imperfections limit their ability to borrow. Aghion et al.[44] note that these diminishing returns to capital are even higher concerning investments in human capital. Redistribution should therefore foster growth as it increases the capacity of the poorest to invest in education. They also call for *persistent* redistribution mechanisms: *"a one-time reduction in after-tax inequality that would foster investment incentives and growth in the short-run would result in a (maybe temporary) upsurge in inequality as a consequence of the accelerated technical progress it induces"*[45]. In other words, a successful policy for equality may indeed lead to a higher level of inequalities if this policy is not sustained. By increasing education opportunities, we also increase the wage surplus defined as the difference between wages of skilled and unskilled workers. The increase in investment opportunities would also lead to the same effects. This calls for a long-term vision for equalitarian policies.

Proposition 4: Due to the diminishing return on capital, redistribution is growth enhancing as it increases the capacity of the poorest to invest both in physical and human capital.

Inequality is found to have destabilizing effects on the financial system

Several authors consider that income inequalities in the US have played a major role in the starting of the current financial crisis. Rajan[46] argues that it has explained this increased pressure for subsidized housing finance that lead to the lending boom observed prior to the crises. Using similar arguments, Kumhof and Rancière[47] show theoretically how increased inequalities may explain a rapid increase of leverages which possibly leads to crises. They also present some stylized facts showing that similar

43 O. Galor & J. Zeira, *Income Distribution and Macroeconomics.*, [in:] *Review of Economic Studies*, 60(1)/1993, pp. 35-52.

44 P. Agnion, Op. cit.

45 Ibidem, p. 1656.

46 R. Rajan, *Fault lines.,* Princeton University Press, 2010

47 M. Kumhof & R. Rancière, Inequality, laverage and crisis., 2011, www.voxeu.org

evolutions were observed before the 1929 crisis. Inequalities are possibly creating both social and financial instabilities.

There is no evidence that inequality *always* lead to financial crises. On contrary, Bordo and Meissner[48] have shown that inequality cannot explain significantly the occurrence of a crisis over the period 1920 – 2008 in 14 mainly advanced countries. But it seems that inequality was one of the explanations of the two most important crises we never had. This is a sufficient argument to tackle seriously this issue of inequalities.

The logic is quite simple. When wage compression is high, the poorest households have two options. They can adjust their living standards by contracting their level of consumptions. Or they can sustain their living standards by increasing their level of borrowing. This latter case was observed in most developed countries, especially in the US. It was facilitated by the deregulation of the financial system. Financial innovations were indeed largely used to lend to poor households who were traditionally excluded from the credit market (the famous subprimes in the US). The poorest therefore contributed to the increase of credit demand. And in the same time, the richest, whose income had exploded, were looking for new financial investment possibilities. It contributes to the increase of credit supply. This leads to a boom of private debt which was indeed not sustainable in the long run.

Proposition 5: A fall of inequalities will reduce the incentives for households to borrow, which will reduce the level of leverage and increase the financial stability of the country.

Empirical evidences showing this negative relation between inequalities and development

Empirical studies globally confirm this idea of inefficient inequalities. Benabou[49] surveys 13 papers on inequalities and growth (or investment). 10 of these papers find a negative and significant relationship between inequality and growth. The three remaining papers do not find any significant relationship. This negative relationship has been confirmed by more recent studies such as Easterly[50] or FEPS & ELCM[51]. In the former, Easterly shows that the causal relation goes this way: inequality causes underdevelopment: *"high inequality*

48 M. Bordo & C. M. Meissner, *Does inequality lead to a financial crisis?*, [in:] *Journal of International Money and Finance,* 2012.

49 R. Benabou, *Inequality and Growth*., NBER Macroeconomics Annual, MIT Press 1996.

50 W. Easterly, *Are aid agency improving?*, [in:] *Economic Policy,* Volume 22, Issue 52, pages 633–678, October 2007.

51 FEPS & ECLM, *High inequalities lowers wealth*, Economic council of the labour movement, Jonas Schytz Juul, September 2011.

is found to independently be a large and statistically significant barrier to prosperity, good quality institutions, and high schooling".

To sum up, there are strong arguments showing that inequalities cannot be seen as a "necessary evil" at the macroeconomic level. Policies aiming at reducing income inequalities are potentially also interesting from an efficiency point of view. We have seen that an equalitarian policy should be broad, and include an education policy, an urban policy and of course a fiscal policy. Benabou[52] emphasizes that the interactions between different dimensions are strong and Galor and Moav[53] that a more inclusive society leads to a more human capital-oriented type of growth.

Redistribution policies (through the fiscal system) are efficient

Okun[54] describes in his book the *leaky bucket experiment*. He showed that any dollar transferred from a rich to a poor individual will lead to a less than 1 dollar increase in the recipient's income. Three main factors explain such phenomena:

(1) the administrative cost of redistribution,

(2) the change in work effort due to redistribution, and

(3) the change in saving and investment behavior due to redistribution.

The last two reasons explain why the only possible redistribution according to the second fundamental welfare theorem is an *ex-ante* lump-sum transfer, in order to ensure that behaviors are not affected by this transfer. But we already saw that this kind of transfer is very difficult to put in place in practice, because of the imperfect level of information on the real characteristics of people. This argument may be seen as a convincing manner to reject any kind of redistribution, or at least to accept the idea of this "inescapable" trade-off between equity and efficiency. Nevertheless, even if we retain this very restrictive framework, based on very questionable assumptions, it is possible to show that redistribution policies can be both equitable and efficient.[55]

Even we assume that taxes lead to a reduction in labor supply (which is questionable), Blank[56] identified different cases where redistribution policies do not lead to a decrease of

52 R. Benabou, *Equity and Efficiency in Human Capital Investment: The Local Connection.* [in:] *Review of Economic Studies*, 63(2), pp. 237-64, April 1996 ; R. Benabou, *Heterogeneity, Stratification, and Growth: Macroeconomic implications of Community Structure and School Finance*, [in:] *American Economic Review*, 86(3), pp. 584-609, June 1996.

53 O. Galor & O. Moav, *From Physical to Human Capital Accumulation: Inequality and the Process of Development*, [in:] *Review of Economic Studies*, 71(4), pp. 1001-1026, October 2004.

54 A. M. Okun, *Equality and Efficiency: the Big Tradeoff.*, Washington D.C.: Brookings Institution 1975.

55 The definition of efficiency proposed by Okun is the capacity to produce more given a certain amount of available resources.

56 R. M. Blank, *Can equity and efficiency complement each other?,* [in:] *Labour Economics*, Elsevier, vol. 9(4),

economic efficiency and can further improve it. This is mainly due to the fact that reducing inequalities may create positive externalities but we will come back on this point later. An additional argument made by Blank is that redistribution programs may actually positively change behaviors in a dynamic framework. The basic assumption of Okun is that any redistribution program decreases the work efforts of people. But redistribution programs may actually have different, and more positive, consequences depending on the design of such redistribution mechanisms. She identified three specific cases where redistribution is more likely to have positive effects on the economic outcome.

The first case is when redistribution programs target specifically groups of people that cannot change their behavior due to individual characteristics. This may be true for disabled people, the elderly or children. If they are not able to work, they cannot by definition change their labor supply. In that case, the transfer would not lead to a loss of efficiency. It can also be the case if the level of social mobility is so low that the real effort of people does not affect their income. In a society with strong discrimination against a group, a redistribution mechanism towards this group would not affect their labor supply, because their level of income is already largely predetermined by their family background[57]. In a society with no social mobility, any redistribution policy would lead to a positive outcome due to the lack of loss in the work effort. As these redistribution mechanisms may increase this level of social mobility, it may actually have a positive impact on the work effort of people that did not have any positive perspective of social mobility without such redistribution mechanism.

Political implications of such result are relatively straightforward. Support for redistribution will be higher when targeting people that cannot change their behavior due to individual or social characteristics. Also, societies characterized by a high level of social stratification due to historical or cultural reasons, should therefore increase their redistribution mechanisms, both because efficiency loss are most likely to be insignificant, but also because these mechanisms may increase social mobility, which may have positive effects on the incentives for people to work more, to invest in human capital…

Proposition 6: Redistribution does not lead to loss of efficiency when programs are targeting people who cannot change their labour supply (children, disable people), or when social mobility is low. The lower is social mobility; the more efficient is the redistribution system.

The second case raised by Blank is when redistribution mechanisms impose behavioral requirements. We can quote welfare-to-work programs or job search requirement to get unemployment insurance. By definition, the condition to receive a transfer is then

pages 451-468, September 2002.

57 T. Picketty, *Social mobility and redistributive politics*., [in:] *Quarterly Journal of Economics* 110 (3) / 1995, pp. 551– 584.

to adopt a "positive behavior" that is supposed to have beneficial effects on the society as a whole. The efficiency loss of the transfer is then counterbalanced by the positive effect of the behavioral requirement. We have however to underline that such mechanisms can contradict other goals or be in conflict with individual rights. Concept of equality of autonomy[58] includes for instance the right to dignity for every individuals whatever is the level of past efforts or behavior of individuals. Any mechanism that requires working freely in exchange of a minimum income is therefore questionable for various reasons. First, people who for any reason do not work would not receive this minimum income, which will let them in a situation of extreme vulnerability. This goes against the right to be protected against any kind of indignity. Second, it is not clear whether such mechanism would help them entering into the formal labor market.[59] And lastly, this system may create a situation of social dumping within the society, as these people benefiting from such programs are generally paid under the level of the minimum wage.

Another limitation that we have to take into account is the general assumption of the competitive market economy that underlines Blank's framework. We already mentioned that these assumptions are somehow difficult to meet in an economy. One trivial example is the issue of unemployment. According to the general equilibrium framework, only two reasons may explain such phenomena: rigidities or laziness of the unemployed. Two fundamental causes of unemployment such as a too low level of the aggregate demand (Keynesian unemployment) or information imperfections in the labor market are neglected. The problem is that if the diagnostic is wrong (Is unemployment mostly voluntary?); unemployment programs would be more likely wrongly designed. The "behavioral requirement" that will push the unemployed to accept a job is definitively irrelevant if unemployment has other fundamental causes. There is a risk that such mechanisms lead to an unnecessary stigmatization of the unemployed and to unjustified sanctions against them. We should therefore be very cautious in the use of such behavioral requirement and first have a look to the relevance of the general theoretical framework explaining such behaviors.

I do not refute by principle such mechanisms but advice to be cautious in their use. Blank's paper mentioned several successful programs, such as the Minnesota family investment program or the self-sufficiency project in Canada with the goal to increase women labor force participation. The result of these programs was a strong increase in women employment along with a strong decline in poverty due to the financial assistance offered by the State. The cost of both programs on public finances was more than offset by the economic benefits of such mechanisms. It gives perfect example where generous transfers are associated with an increased level of labor supply, which contradicted the initial point of Okun.

58 M. Fleurbaey, *Fairness, Responsibility and Welfare,* New York, Oxford University Press 2008.

59 Specialists of social policies often argue that any coercion targeting people who are too far away from the labor markets would not be efficient due to their incapacity to assuming a job without support mechanisms. For these people with a too low level of employability, financial sanctions are therefore counterproductive.

Proposition 7: Redistribution is more likely to be efficient when programs are including behavioral requirements. But these behavioral requirements may also be counter-productive when targeting people in situation of extreme social exclusion, or when insufficient level of demand explains unemployment. In times of economic crisis, the conditionality of redistribution programs should therefore be limited.

The last case mentioned by Blank is when transfers can be seen as investments.[60] It is generally the case of any kind of health or education expenses, that may have redistributive effects if they are mainly targeted to poor people but also have a positive cumulative effect on the level of human capital which leads to higher level of economic growth in the long-run. Programs subsidizing child care have mostly the same effects. These last examples are at the core of the *social investment* paradigm (see for instance Morel, Palier and Palme[61]). The main goal of the promoters of social investments is to make public spending more productive. Any transfer that meets this goal thus can be seen as an *investment* realizing both objectives of equity and efficiency. An example quoted in the report mentioned just above is the publicly funded child care and education programs: *"The development of publicly funded child care and education programs constitutes an essential dimension of the social investment approach. Such services express the goals of this perspective in two ways: they invest in the human capital of mothers by helping them remain in paid work; and they invest in the human capital of children by providing them with quality educational stimulation at an early age."* [62]. More generally, lots of European countries are facing an increased level of *intergenerational* inequalities. The younger generations are poorer (relatively to other generations) than they were a generation ago. And if level of inequalities within the oldest are high, their *average* standards of living have exploded in the last decades. These evolutions call for new investments in the youth and changes in the structure of the redistribution policies all over Europe.

Proposition 8: A progressive equalitarian policy should include social investments in education and child care, and more generally more investments for the younger generations.

60 We have to acknowledge that Okun mentioned such possibility in his 1975 book: "*Techniques that improve the productivity and earning potentials of unskilled workers might benefit society with greater efficiency and greater equality*" (p. 4).

61 N. Morel, B. Palier & J. Palme, *What future for social investment?*, Institute for future studies, Research report, 2009.

62 Ibidem, p. 9.

What is the optimal income tax policy?

If redistribution policies may be efficient economically, we should also study more in depth the more appropriate fiscal system to put in place. We will firstly focus on the *income* tax policy, before reviewing the effects of wealth taxation.

The goal of the *optimal tax theory* is to determine the rate that would optimize social welfare. *"Social welfare is larger when resources are more equally distributed, but redistributive taxes and transfers can negatively affect incentives to work, save, and earn income in the first place. This creates the classical trade-off between equity and efficiency which is at the core of the optimal income tax problem."*[63] These authors calculate the optimal top marginal rate, ie the one that maximize tax revenues taking into account the negative effect on economic activity through behavioural responses (a decrease in labour supply). Using an elasticity of reported income with respect to the net-of-tax rate equal to -0.25 (which corresponds to the result of most empirical studies in that field); they find that the optimal tax rate for the first percentile[64] is about 73%. It means that for any tax rate lower than 73%, the effect of any increase in the marginal tax rate on tax revenues would exceed the negative effect on the labour supply.[65] Figure 1 gives the top marginal rate in 2011 for OECD countries. It clearly shows that there is a space for the use of fiscal policy to tackle inequalities and to increase tax revenues. *"An increase in the marginal tax rate only at a single income level in the upper tail increases the deadweight burden (decreases revenue because of reduced earnings) at that income level but raises revenue from all those with higher earnings without altering their marginal tax rates. The optimal tax rate balances these two effects—the increased deadweight burden at the income level and the increased revenue from all higher levels."*[66]

Proposition 9: Fiscal systems among OECD countries are not enough redistributive. An increase in top marginal income tax rate can increase tax revenues without a negative effect on economic efficiency.

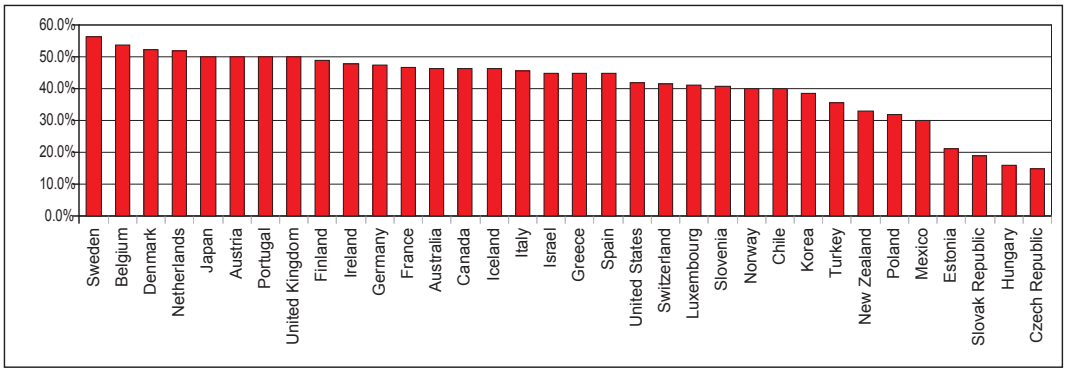
63 P. Diamond & E. Saez, *The case for a progressive tax: from basic research to policy recommendations*., [in:] *Journal of Economics Perspectives,* 25(4) / 2011, pp. 165-190.

64 For the US, it corresponds to people with income higher than $400000.

65 Of course this result is very sensitive to the elasticity chosen. However, the authors found higher top optimal marginal rate than the ones currently applied (from 0.46 to 0.76); even when they use restrictive assumptions such as very high level of elasticity or no "tax externality". See: E. Saez, J. Slemrod & S. H. Giertz, *The elasticity of taxable income with respect to marginal tax rates: a critical review*, [in:] *Journal of Economic Literature,* 50(1) /2012, pp. 3-50 for a survey on the elasticity of taxable income.

66 P. Diamond & E. Saez, *The case for a progressive tax: from basic research to policy recommendations*., [in:] *Journal of Economics Perspectives,* 25(4), p. 170.

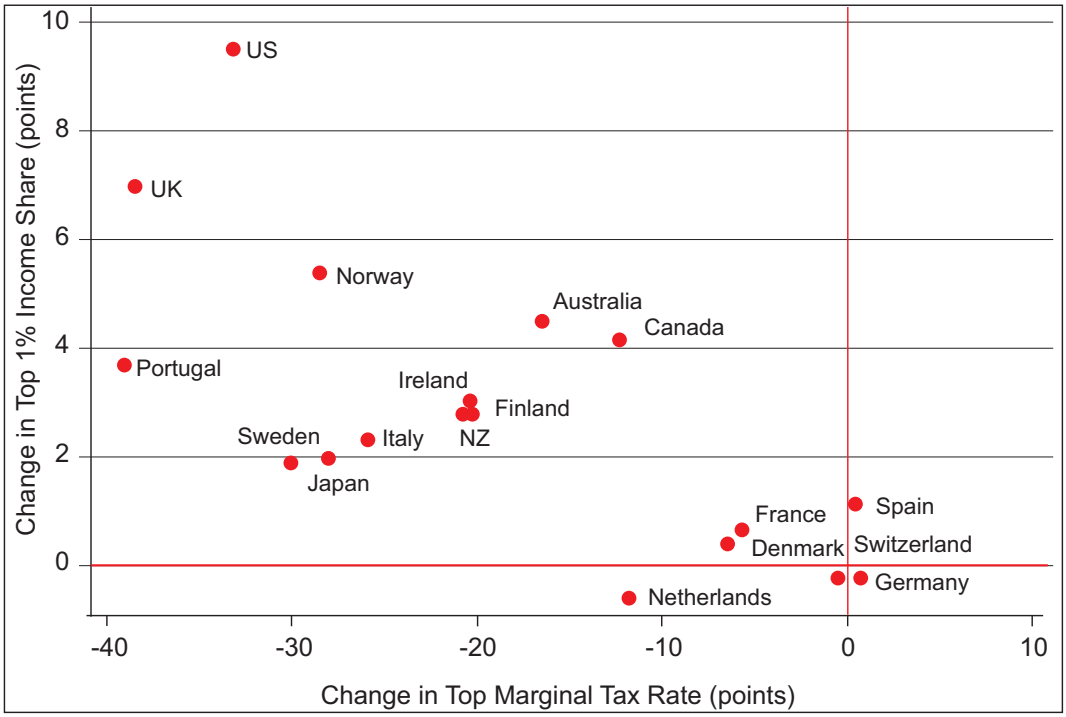
Figure 1: Top marginal income tax rate in OECD countries (2011)



Source: OECD Tax database (www.oecd.org/ctp/taxdatabase)

This focus on the top marginal rate is not only important for analyzing the distribution of income *after taxes*. Piketty, Saez and Stantcheva[67] have shown that evolutions of the top marginal rate were strongly correlated with changes in the top *pre-tax* income (see figure 2).

Figure 2: Changes in top 1% pre-tax income shares and top marginal tax rates since the 1970s



Source: Piketty, Saez and Stantcheva (2011). See also the article published in Vox: http://www.voxeu.org/index.php?q=node/7402

67 T. Picketty, E. Saez & S. Stancheva, *Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities.*, NBER Working Papers 17616, National Bureau of Economic Research 2011.

Proposition 10: Because of the strong correlation between pre-tax income and top marginal tax rate, increasing the latter is a good tool to reduce pre-tax inequalities.

These authors also show that cuts in top tax rate did not have any effect on economic growth. Both observations (the strong correlation between change in top marginal tax rate and change in top 1% *pre-tax* income share, and the lack of correlation between cuts in top tax rate and economic growth) are explained by the wage-determination for top income. As effective productivity is very difficult to observe for such workers, it is easier to manipulate the wage through bargaining or by influencing compensation committees. This can be seen as a "rent-seeking" phenomenon which may explain why any increase in their wage does not have any impact on economic performances. The corollary of such analysis is that the level of tax for these specific workers will have a strong impact on the incentive for rent-seeking. If level of top wages is not primarily influenced by their productivity but by rent-seeking, any policies aiming at lowering such wages can then be seen as both efficient and equitable. Piketty, Saez and Stantcheva[68] propose a framework analyzing the relative importance of three mechanisms explaining the relation between *pre-tax* top income and the top marginal rate. This relation can be either explained by

(1) the supply-side option (any increase of the top marginal rate decreases the labour supply of top income workers),

(2) the tax avoidance option (any increase of the top marginal rate) increases the incentive to use all possible mechanisms to avoid paying taxes,

(3) and the compensation bargaining option where top income can easily their increase their wage through bargaining.

Diamond and Saez[69] focused on the first mechanism. These authors propose to take into account two additional ones. They estimate empirically the scale of these three elasticities using data from OECD countries since 1975. They find that the two first effects are rather limited and that the overall effect comes mostly from the third elasticity. This leads them to find a socially optimal top marginal rate of 83%, even higher than in the paper of Diamond and Saez. This brings new evidences to make equity and efficiency compatible.

Proposition 11: Evolution of top incomes is mainly explained by a rent-seeking phenomenon. Increasing top marginal rate of income taxes is a way to minimize such phenomenon.

68 T. Picketty, E. Saez & S. Stancheva, *Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities.*, NBER Working Papers 17616, National Bureau of Economic Research 2011.

69 P. Diamond & E. Saez, *The case for a progressive tax: from basic research to policy recommendations*., [in:] *Journal of Economics Perspectives,* 25(4) / 2011, pp. 165-190

Tax avoidance is often seen as a limit of the State's capacities to increase level of taxes, especially for the richest. Globalization increases the incentives for States to use fiscal dumping as a way to attract firms and high incomes. This phenomenon was particularly important in Europe because of the lack of fiscal harmonization in a context of free mobility of capital. Fiscal competition may explain why top marginal rates and corporate tax rates decreased in most European countries. But this should not be seen as a sufficient argument to refute any ambitious fiscal policy aiming at reinforcing the fiscal progressivity. First, it calls for a relaunching of the debate in Europe on fiscal harmonization. Second, because articles like the one of Piketty, Saez and Stantcheva[70] show that other factors such as wage bargaining for the top incomes are much stronger determinants to explain the relation between pre-tax top income and the top marginal rate.

Proposition 12: Fiscal harmonization in Europe will reinforce the efficiency of fiscal redistribution and should therefore be promoted.

Capital income taxation and wealth taxes

The optimal taxation literature largely focuses on *labour* income. Concerning capital income there is a large literature stating that the optimal capital income taxation should be zero in the long run[71], [72], [73]. However, as noticed by Piketty and Saez[74], this theoretical result does not meet the reality. In average, the European Union raises 9% of GDP in capital taxes. Diamond and Saez[75] see at least four arguments for positive taxation of capital income: the difficulty of distinguishing between capital and labour income, the positive correlation between earning opportunities and saving propensities, the role of capital income taxes in easing the tax burden on those who are borrowing constrained, and the role of discouraging savings in encouraging later labour supply. Piketty and Saez (2012) formalize this proposal. First, by taking into account inequalities in inheritance, they show that bequest capital taxation is desirable even with perfect capital markets. It is due to the fact that labour income is not anymore the only source of life-time income as inheritance is also part of this income. They find that the optimal inheritance tax should be around 50-60% if government has

70 T. Picketty, E. Saez & S. Stancheva, *Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities.*, NBER Working Papers 17616, National Bureau of Economic Research 2011.

71 C. Chamley, *Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives.,* [in:] *Econometrica,* 54(3) / 1986, pp. 607–22.

72 K. L. Judd, *Redistributive Taxation in a Simple Perfect Foresight Model*, [in:] *Journal of Public Economics,* 28(1)/ 1985, pp. 59–83.

73 A. B. Atkinson & J. E. Stiglitz, *The Design of Tax Structure: Direct versus Indirect Taxation.*, [in:] *Journal of Public Economics,* 6(1–2) / 1976, pp. 55–75.

74 T. Picketty & E. Saez, *Top Incomes and the Great Recession: Recent Evolutions and Policy Implications.*, Paper presented at the 13th Jacques Polak Annual Research Conference hosted by the IMF, Washington DC. November 8-9, 2012.

75 P. Diamond & E. Saez, Op. cit.

a meritocratic preference. Top wealth holders should be even more taxed (around 70-80%). If these rates seem high, it should be noticed that it corresponds to the ones observed in most advanced economies from the 1930s to the 1980s. When introducing uncertainty in the model, capital income taxation can be more beneficial than inheritance taxes. The optimal capital income tax can be higher than the optimal labour tax or the optimal inheritance tax. Political implications of this paper are very important. Contrary to the previous literature, this very recent researches show that there is a strong case to claim for equalization between labour income taxation and capital income taxation.

Proposition 13: Capital income tax rates should be set equally with the level of labour income tax rates. Inheritance tax rates should be set at a much higher level than those currently observed in most countries.

There is also a rational to tax wealth and not only capital income. Taxing wealth is an incentive for wealth owners to invest their capital which is positive for the economy. Altman[76] recently proposes to tax wealth in replacement of income taxation.

IV. Tackling equality through labour market policies

We have seen that

(1) inequalities generate inefficiencies and that

(2) redistribution policies can be efficient.

From an economic perspective, equalitarian policies are mainly seen as redistribution policies. But the negative externalities created by inequalities should also push the progressives to have a closer look to *pre-taxes* inequalities. Redistribution is not everything. Education policy enhances *equality of opportunity* and increases social mobility and social diversity. Both phenomenons have strong link with spatial stratification that should also be tackled through public policy. But tackling inequality can also be done directly at the work place. The dynamic of wage inequality is influenced by the institutional context, by labour market institutions. Koeniger *et al.*[77] show empirically that changes in labour market institutions can account for much of the change in wage inequality.

Progressive policies should also keep the goal to overcome this trade-off between efficiency and equity in the labour market.

A relative wage compression at the workplace is a good way to overset some labour market imperfections. It case of misallocation of labour across firms or sectors, wage inequalities can make this misallocation more persistent. It is for instance often argued

76 D. Altman, *To reduce inequality, tax wealth not income.*, [in:] *New York Times* Op-Ed, November 18th 2012.

77 W. Koeniger, M. Leonardi & L. Nunziata, *Labor Market Institutions and Wage Inequality.*, [in:] *Industrial and Labor Relations Review*, ILR Review, Cornell University, ILR School, vol. 60(3), pages 340-356, April 2007)

that the high wage in the finance sector creates misallocation by attracting high-skilled / high-productivity workers. These workers cannot by definition be employed elsewhere. A study on French data has shown that finance, which accounted for only 3% of private sector employee, is responsible for a half of the rise in inequalities at the top end of wage distribution[78]. It is very difficult to argue that the real level of productivity for workers in finance is higher than in all other sectors, all things being equal. This contributes to the growing of the finance sector which seems to have counter-productive effects on the economic growth. Recent studies have indeed shown that most developed economies face a "vanishing effect" of financial depth[79]. Arcand, Berkes and Panizza[80] have shown that finance starts to have a negative effect on output growth when credit to the private sector reaches 100% of GDP.

This is just a concrete example that shows how wage inequalities may create inefficiencies. Further researches are needed to clearly establish the link between the raise of wages in finance and economic efficiencies. But if finance does not contribute to growth as much as it explains the raise of wages in that sector, it is clear that wages in that sector are not explained by the evolution of productivity and growth opportunities. The hypothesis of compensation bargaining made by Piketty, Saez and Stantcheva[81] is a much more realistic one (see section III).

What are the implications of such observation? First, the progressivity of the fiscal system should be reinforced as top wages appear to be highly sensitive to the level of top marginal rates. Second, institutions should prevent such evolutions. How to explain the dynamic of development of the size and wages in that sector? How to impede rent-seeking strategies that reduce the size and the skill of the labour force available for more productive sectors? These are open questions for policy-makers

Proposition 14: A wage-setting mechanism reducing wage inequalities among sectors is an efficient tool to stop attracting high-skilled workers towards non-productive sectors

A similar argument has been made by Moene and Wallerstein[82] in a very different context. They argue that wage compression may fuel the process of creative destruction

78 O. Godechot, *Finance and the rise in inequalities in France.*, *Working paper N° 2011 - 13, Paris School of Economics* 2011.

79 P. Rousseau & P. Wachtel, *What is happening to the impact of financial deepening on economic growth?,* [in :] Economic Inquiry 49/2011, pp. 276-288.

80 J. – L. Arcand, E. Berkens & U. Pianizza, *Too much finance?*, 2011, http://www.voxeu.org/article/has-finance-gone-too-far

81 T. Picketty, E. Saez & S. Stancheva, *Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities.*, NBER Working Papers 17616, National Bureau of Economic Research 2011.

82 K. Moene & M. Wallerstein, *Pay Inequality*, [in:] *Journal of Labor Economics* 15 / 1997, pp. 403-30.

by forcing out older, less productive production units and stimulating the entry of new plants. The wage setting mechanisms explain such dynamic forces. These authors show that centralized bargaining can result in higher profit than decentralized bargaining or competitive labour market. The reason is simple. When bargaining is decentralized at the firm level, level of wages is theoretically adjusted to the level of productivity in that firm. Less productive firms then propose lower wages and hire less productive workers. When bargaining is centralized, firms cannot adopt their wage to their real level of productivity. They should propose the negotiated wage, which is more or less equal to the average level of productivity in a specific sector. What does it mean for less productive firms? Wages exceed their productivity which pushes them to fire workers. But on contrary, most productive firms can propose wages lower to their real level of productivity. This pushes them to hire new workers. In a dynamic framework, the reallocation of workers between less and more productive firms allows wage increase in a medium run. As these workers are hired in more productive firms, their individual level of productivity is increased which should lead to an increase in wages. This gives a good example of what should be a model of development based on productivity and increase in wages. The wage setting mechanism, by imposing more equality among firms whatever is their level of productivity, may give the "right incentives" to firms to increase their productivity.

Proposition 15: More wage compression among sectors smooth the transition from low productivity sectors and jobs to high productivity sectors and jobs.

We should also note that the current dominant model in labour economics emphasizes that unemployment is explained by "frictions" in the labour market, and the difficulties of matching labour supply and labour demand (see: Mortensen and Pissarides)[83],[84] . In these models, labour market flexibility is an *ad-hoc* mechanism to increase the "quality of matching" between this demand and this supply. This contributes to explain why labour market deregulations have taken so much importance in political debates. We should however emphasize that wage equality among firms appear to be a strong tool for smoothing these transitions and this may have positive effects on both productivity and wages. The starting point of the analysis is relatively similar to the one made in these Mortensen-Pissarides models, but the scope is radically different. The role of institutions is to give the right incentive for increasing the average level of productivity. Job destruction and job creation is one way to do so but this can be done more easily through more equal

83 These authors have received the Nobel Prize in Economics in 2010 for their contribution to the unemployment theories.

84 D. T. Mortsen & C. A. Pssarides, *Job creation and Job destruction in the theory of Unemployment., The Review of Economic Studies,* 61(3) 1994, pp. 397-415

wages among firms. In such framework, more flexible labour market is not anymore the dominant strategy.

Wage setting mechanisms is not the only way to get more equal wages. Strong labour market institutions also reinforce the wage bargaining of low wage workers and then increase their relative wage. By doing so, level of wage inequalities may decrease.[85] Neo-liberals often argue that this kind of policies is not efficient and leads to more unemployment. Most of their analysis is based on traditional version of the Mortensen-Pissarides model where minimum wage and bargaining create additional frictions and decrease the quality of the matching on the labour market. This type of argument neglects the influence of minimum wage on productivity. As shown by OECD, an increase of minimum to median wages ratio by 10 percentage points increases labour productivity by almost 2 percentage points. It may be explained by improved incentives for investing in training and a result of substitution of skilled labour for unskilled labour. These dynamic effects have possibly positive effect on welfare.

This has been shown by Acemoglu[86] and can explain why empirical studies on the economic consequences of minimum wage are rather inconclusive (see Neuman and Washer[87] and Freeman[88] 2010). The interesting point of the Acemoglu's paper is that he uses a Mortensen-Pissarides like model, that are normally used to demonstrate the need to get more flexible labour market. But Acemoglu gets opposite conclusions by studying the dynamic of *good* and *bad jobs* creation. He shows that both unemployment insurance and minimum wage leads to a higher level of higher productivity jobs, and that may increase welfare in the medium run. In a dual labour market based on a division between low-wage / low productivity and high wage / high productivity jobs, higher unemployment benefits make the waiting for high wage job less costly. With lower unemployment benefits, productive workers may be pushed to accept low-productivity jobs which results in efficiency loss, both at the private and social level.

Minimum wages increases the relative cost of *bad jobs.* For lots of these jobs, the wage becomes higher than their marginal utility. It makes this kind of jobs less profitable. This may increase the average level of productivity and thus increase the welfare. Some argue that low wage jobs are a way to increase labour participation rate for low-skilled workers. It may be true in the short-term. But it also increases the incentives for firms to create less

85 Barany (2011) shows that a 30 percent *reduction* in the real value of the minimum wage, as in the early 1980s in the US, accounts for 15 percent of the subsequent rise in the skill premium, 18.5 percent of the increase in overall inequality, 45 percent of the increase in inequality in the bottom half, and 7 percent of the rise in inequality at the top half of the wage distribution.

86 D. Acemoglu, *Good Jobs versus Bad Jobs*., [in:] *Journal of Labor Economics,* 19(1) / 2001, pp. 1-21.

87 L. Neuman & A. Washer, *Equality and Efficiency: the Big Tradeoff.*, Washington D.C., Brookings Institution 2007.

88 R. B. Freeman, *Labor Regulations, Unions, and Social Protection in Developing countries*., [in:] *Handbook of Development Economics,* vol. 5, 2010.

productive jobs. In a dynamic approach, this may be counter-productive in the long-run if it reduces incentives for firms to innovate and to increase their level of productivity.

Minimum wage may also have a positive effect on human capital accumulation outside the firms, and thus have long-term positive effects.[89] This analysis can easily be extended to other labour market policies that may increase the cost of cheap labour while increasing equality among workers.

Proposition 16: Strong unemployment insurance mechanisms and high minimum wage increase the proportion of high productivity jobs in the economy, which may increase welfare in the medium run.

Strong institutions are a way to push firms to improve their efficiency. Porter and van der Linde[90] has shown how tight environmental regulations can be efficient by fostering innovations within firms and thus productivity. A similar approach can be adopted for labour laws. Acharya, Baghai and Wubramanian[91] investigate under which extent labour laws foster innovations. They show that *"more stringent labour laws can provide firms a commitment device to not punish short-run failures and thereby spur their employees to pursue value-enhancing innovative activities"*. Based on an index of labour laws available for the US, the UK, France, Germany and India over the period 1970-2006, they show that a one standard deviation increase in the dismissal law index explain a rise in the annual number of patents, number of patenting firms, and citations by 6.1%, 7% and 9.2% respectively. The effect is stronger in innovation-intensive sectors. The argument is that a stronger employment protection gives an *ex ante* incentive for firms to innovate. The literature largely focused on the *ex post* effect of labour laws but has neglected this *ex ante* effect.

However, they find that dismissal laws are the only type of labour laws that exhibit this positive effect on innovation. The other dimensions which have no effect on innovation are the alternative employment contracts, the regulation of working time, the industrial action and the employee representation. Concerning the latter, the effect is positively significant only when considering the impact on the number of patents and the number of patenting firms. They also find that these dismissal laws have a positive and significant

89 Sutch (R. Sutch, *The unexpected long-run impact of the minimum wage: an educational cascade*., NBER Working Paper 16355, 2010) suggests that an increase of minimum wage would also increase the amount of schooling attained by a cohort that experiences the increases while in high school. According to his estimates, *"the cumulative effect of the minimum wage increases beginning in 1950 was to add 0.7 years to the average high school experience of men born in 1986"*. An *"educational cascade"* may follow an increase of minimum wage.

90 M. E. Porter & C. van der Linde, *Toward a New Conception of the Environment-Competitiveness Relationship, [in:] Journal of Economic Perspectives, Vol. 9, No. 4 (Autumn, 1995), pp. 97-118.*

91 V.V. Acharya, R.P. Baghai & K.V. Subramanian, *Labor Laws and Innovation,* NBER Working Paper 16484, 2010.

effect on economic growth. As innovation is an important factor of growth, this result is not surprising. The effect is quite large, a one-standard deviation increases in the dismissal law index results in an 2.2% increase in the growth in value-added.

Proposition 17: More stringent dismissal laws increase innovations and thus have positive effects on growth. They can be promoted in a global strategy in favour of innovation and equality.

Overall, labour market policy can be seen as a fundamental part of a renewed equalitarian policy. Labour market institutions should not be studied in a static framework, seeing them only as costs for firms that will reduce their competitiveness. At the macroeconomic level, they can also be part of a successful strategy aiming at reducing *pre-tax* inequalities, and increase in the long-run the share of "good jobs", offering good wages and working conditions.

Conclusion

I present in this paper strong evidences showing that the trade-off between equality and efficiency can be avoided in most cases. Inequalities are inefficient. On contrary, redistribution policy can increase economic efficiency if they are rightly designed. Also, an equalitarian policy in the labour market can increase productivity, and *in fine*, the welfare.

To come back on the debate about *Equality of What* I reviewed[92], it gives new insights to progressive for advocating a more ambitious concept than equality of opportunity. Often accused by conservatives to be against individual responsibility by defending an equalitarian society, progressives have adopted a defensive position focusing on the need to equalize opportunity. It is of course essential and one should not give up this goal. But we do care about equality of *outcome* also. And we are not only interested by the situation of the worse-off like Rawls advocated. We do have to care about the whole distribution of income because inequality is a major source of inefficiency.

Equality of autonomy sums up all these constraints: the need to equalize opportunity of course, the need to protect the dignity of everybody but also the need to maintain an acceptable level of income inequality. Strong institutions are needed to reach these different goals.

92 R. Bazillier, *The economic meaning of progressive values*., [in:] E. Stetter, K. Duffek, A. Skrzypek (eds.), *Progressive values for the 21st century,* Brussels, Foundation for European Progressive Studies, pp. 68-96.

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FOR A NEW SOCIAL DEAL

Andrius BIELSKIS

The Challenges for the Left in the 21st Century: Lessons from Marxism

Key words

Politics of Social Pact – Alienation – Exploitation –
Democratic Socialism – Marx

Abstract

First, the paper aims to explain a well-known thesis that the political Left in Europe is in deep ideological crisis. It is thus engages with two inter-related issues: it provides a brief historical outline of the Left prior to the project of neoliberalism and confronts the shift in the post-Cold War power balance during the dominance of neoliberalism. The second part of the paper is theoretical and normative and engages briefly with Marx's conceptions of alienation and exploitation. It will argue that despite the essential significance of Marx for the Left today we need to find new theoretical resources for the renewal of Marxist thought. The teleological notion of practice in Alasdair MacIntyre's work and the idea of immaterial labour are, among other things, also employed to serve us in the important task of providing new fuel for the politics of the Left.

Crises are moments of paradox and possibility out of which all manner of alternatives, including socialist and anti-capitalist ones, can spring.

David Harvey, *The Enigma of Capital,* p. 216

I. Introduction: the Ideological crisis of the Left and the 21st Century

The end of the Cold War and the collapse of the Soviet Union were truly joyous events. Alluding to Edmund Burke's *Reflection on the Revolution in France*, Ralf Dahrendorf celebrated the velvet revolution of 1989 urging a *Polish gentleman* to see the events in Eastern Europe as a revolution of *Europe*[1]. Far from being a social theorist of the political Left, Dahrendorf understood well the dangers of the parochialism of the Western market capitalist ideology for the emerging new Europe. According to him, the collapse of communism in Eastern Europe should not be understood as a necessity to learn the anti-communist language of the "West". Free European societies do not and should not be seen as coinciding with any single system and they need not adopt a single language. Rather, Europe's free societies should constitute an open political space with variety and multiplicity and the Cold War ending revolution in Eastern Europe should be seen as enlarging this space.

According to this view, the collapse of the Berlin Wall, contrary to what Francis Fukuyama famously claimed, was not and should not have been seen as the victory of "Western capitalism" over "Soviet communism" ("Soviet Socialism", as many theorists have argued[2], is an oxymoron). Unfortunately, such a perspective is exactly what gained prominence: it was seen as just such a victory. Because of this, a large part of the ideological framework that lay behind the Cold War prevailed. As a result, the chance to imagine a truly free Europe, a Europe that lives beyond "the iron law" of market capitalism[3], with the possibility of challenging the neoconservative American-led ideology of "no democracy without capitalism," was unfortunately missed at the very dawn of post-Cold War Europe.

1 R. Dahrendorf, *Reflections on the Revolution in Europe*., Times Books, New York, 1990.

2 See, for example: G. Mitrulevičius, *Ar buvo SSRS socializmas?*, http://www.lsds.lt/documents/Ar%20buvo%20SSRS%20socializmas.%20SD%20poziuris.%20%20i%20SDMI%20tinklapi.pdf

3 *Make profit or perish* is the iron law of capitalism which is now compulsory by law first of all in the USA, but also in other capitalist societies (on the legal issues of the profitability of corporations see: J. Bakan, *The Corporation: The Pathological Pursuit of Profit and Power.*, New York/ London/ Toronto, Free Press, 2004).

The weakness of the political Left ever since the collapse of the Soviet Union has been lamented by many people far too often. This banality, however, does not change the substance of the matter. Given the massive shift in the global balance of power and the enormous changes that most advanced postmodern "Western" societies[4] have undergone over the past forty years, the conditions and main challenges of the Left require renewed analysis. In this paper, the weaknesses of the Left will be considered against the background of two related factors – the neoliberal sociopolitical reality and the ideological crisis of the Left ever since the collapse of the Berlin Wall.

Reference to ideological crisis is important not merely because the Leftist organizations of Central and Eastern Europe are now part of the mainstream European political scene, but also because the collapse of Soviet pseudo-Marxism played an important role in the gradual process of weakening the identity of the Left. That is to say, the mere proximity of Soviet Union and its East European satellites, for better or worse, strengthened the political Left in Western Europe. This took place both as a source of ideological inspiration and as an external national threat to capital owners. Furthermore, it is precisely because of the historical experience of brutalities and crudities of Soviet pseudo-Marxism that the region of Central and Eastern Europe is so important in interpreting Leftist thought today.

The methodological approach in this paper is based on what may be called a mild version of conflict-driven class struggle. The most prominent contemporary Marxists such as David Harvey and Daniel Bensaïd have argued that neoliberalism is the political project of top economic elites who via lobbyists and key politicians advanced deregulation and other national policies in order to increase the share of their wealth[5]. According to this approach the weaknesses of the Left are due to the onslaught of neoliberal pro-market reforms by business elites. On the other hand, thinkers such as Anthony Giddens have argued[6] that it is the cultural changes of modern societies, on the one hand, and globalization together with the societal emphasis on individual self-expression on the other hand, which give rise to identity politics that gradually distance the Left from the Marxian politics of emancipation broadly understood. Thus, in postmodern societies people chose the idea of a consumer life in a free-market economy for its general appeal. In short, the difference between two major theoretical approaches is Karl Marx's historical materialism in contrast with post-

4 Here by "postmodern society" I will mean those societies whose economies are dominated by services or are so called knowledge/information-based economies. Although the formulation "knowledge-based economy" is both outdated and inaccurate (knowledge and information have always played a key role in any economy), it is meant to designate what post-industrial society is in: D. Bell, *The Cultural Contradiction of Capitalism,* Basic Book, 1976 and a society dominated by immaterial labour in M. Hardt & A. Negri, *Multitude*., Penguin, London 2005)

5 D. Harvey, *A Brief History of Neoliberalism*., Oxford, Oxford University Press, 2005..

6 See, for example: A. Giddens, *Modernity and Self-Identity: Self and Society in the Late Modern Age*., Cambridge, Cambridge University Press, 1997.

Marxist (or non-Marxist) sociology of democratic societies. My own position in this paper is somewhere between these two approaches. One of the tasks of this paper is to clarify an intermediary position and to elaborate on its importance in our debate on the future of the political Left.

The paper will thus engage with two inter-related issues: it will give a brief historical outline of the Left prior to the project of neoliberalism *and* confront the shift in the post-Cold War power balance during the dominance of neoliberalism. The second part will be theoretical and normative, briefly looking at Marx's conceptions of alienation and exploitation. It will argue that despite the essential significance of Marx for the Left today we need to find new theoretical resources for the renewal of Marxist thought. The teleological notion of "practice" in Alasdair MacIntyre's work[7] and the idea of "immaterial labour" developed by Michael Hardt and Antonio Negri[8] are, among other things, also employed to serve us in the important task of providing new fuel for the fire of Leftist politics.

II. The Politics of Social Pact and the Role of the Left in Post-War Europe: A Brief Outline

Our core theoretical approach, as mentioned above, lies in the methodological presupposition that social conflict is at the heart of developing industrial society. Karl Marx's notion of class conflict was significantly modified in the work of Ralf Dahrendrof[9]. The central thesis of the class tension in post-World War II Europe was acutely formulated, among many others, by Theodor Geiger:

> The tension between capital and labor is recognized as a principle of the structure of the labor market and has become a legal institution of society…. The methods, weapons, and techniques of the class struggle are recognized – and are thereby brought under control. The struggle evolves according to certain rules of the game. Thereby the class struggle has lost its worst sting, it is converted into a legitimate tension between power factors which balance each other. Capital and labor struggle with each other, conclude compromises, negotiate solutions, and thereby determine wage levels, hours of work, and other conditions of work.[10]

While Karl Marx argued that class struggle between labour and capital was fierce and uncompromising (and of course he was right as far as the 19th century was concerned),

7 A. MacIntyre, *After Virtue.,* London, Duckworth, 1985.

8 M. Hardt & A. Negri, *Multitude.*, London, Penguin, 2005.

9 R. Dahrendorf, *Class and Class Conflict in Industrial Society*., New York, Random House 1990.

10 Th. Geiger, *Die Klassengesellschaft im Schmelztiegel*., Köln und Hagen, Gustav Kiepenheuer 1949, c.f. *ibid.*, p. 65.

the postwar social theorists in the 1950s argued, also rightly, that class conflict gradually became institutionalized within the institutional setting of European industrial societies[11]. What was fundamental for Marx *and* his critics of the mid 20th century then was the idea that at the very heart of industrial capitalism was fundamental conflict between the two social groups that represented opposing economic-productive realities; capital, as the institutionalized private property used to produce commodities *and* labour, as the physical or intellectual human power needed for production. Marx's genius subsisted in, among other things, the accuracy of his insight that despite numerous social groups (landowners, peasants, petty bourgeois, state bureaucrats, etc.) the structural core of industrial capitalist society in the 19th century was the Hegelian master-slave interdependence between capital owners and workers forced to sell their labour power for a miserable wage. The key to this insight was that the conflict between labour and capital was a *political* conflict within capitalist societies.

Where Marx was wrong, however, was in his prediction that the development of capitalism would lead to the pauperization of the vast majority of workers who would become a relatively homogeneous and self-conscious class ready to overthrow the capitalist mode of production. This, as we know, did not happen. What happened instead, for a number of important reasons, was the aforementioned postwar institutionalization of class struggle in the form of, tripartite councils that negotiated the humane conditions of work and pay on the highest political level. This became a secondary system of industrial citizenship, as T. H. Marshall called it[12], citizenship of the social and economic rights of ordinary working men and women. **The institution of postwar European welfare states, especially as they became embodied in the Northern model of the welfare state, was therefore the result of a bargaining process between trade unions, employers and representatives of the state**.

Of course, there were other important factors in establishing the institutions of the welfare state among which two of them deserve our attention: the rise of Keynesian political economy and the proximity of the Soviet Union to "Western" Europe. The first was important since it served policy makers with economic theory that justified macroeconomic planning and regulation as well as argued for the active role of the state in domestic national economies (that is, mainly through state ownership of key industries). Keynesian economic policies resulted in mixed economies when, for example, in Scandinavian countries the market was removed from approximately half of the economy and controlled through political means[13]. Thus, no matter how one interprets the role of Keynesian

11 One of the most notable theorists of the institutionalization of class struggle thesis, besides Dahrendorf and Geiger, was the British sociologist Th. H. Marshall, a so called "new liberal" influenced by T. H. Green and L. T. Hobhouse. See: Th. H. Marshall, *Citizenship and Social Class*., Cambridge, Cambridge University Press, 1950.

12 Th. Marshall, *Citizenship and Social Class*., Cambridge, Cambridge University Press 1950.

13 A. Wahl, *The Rise and Fall of the Welfare State.*, London: Pluto Press 2012, p. 39.

policies – either as ideological superstructure of the postwar class compromise or as an economic theory which was able to provide a better and more convincing explanation of economic processes – its key role in shaping the political and economic institutions of post-war Europe cannot be denied. On the other hand, the proximity of the USSR was also an important factor, because, as many theorists have argued[14], it gave yet another external reason for capital owners to make concessions to trade unions in order to prevent "the terrible" fate of soviet communism. Yet there was a more important influence: the free movement of capital was pretty much limited within the "West" (or within OECD countries) during the Cold War, which played a key role in restricting the further advancement of economic globalization. Thus, to outsource cheap labour to the rest of the world was far more difficult in the Cold War than it is now.

However, where the theorists of the institutionalization of class compromise such as Ralf Dahrendorf were *wrong* was in their mistaken belief that the politics of a successful social pact was established for good. Furthermore, Dahrendorf erred in thinking that the politics of class compromise, the decomposition of capital and labour, and the stabilization of institutional structures of the social pact brought about post-capitalist industrial societies[15].

14 See, for example, *ibid*. and Sh. Berman, *The Primacy of Politics: Social Democracy and the Making of Europe's Twentieth Century*., Cambridge, Cambridge University Press 2006.

15 Dahrendorf (1959) argues that the changes of postwar industrial societies brought about the decomposition of capital in the form of functional separation between ownership and management (i.e. in joint-stock companies), on the one hand, and fragmentation and specialization of the working class, on the other. Following Joseph Schumpeter and Marx, Dahrendorf defines capitalism as 1) the private ownership of means of production, 2) the regulation of production process through private contracts, 3) creation of a private credit system, and 4) the union between "private ownership and factual control of the instruments of production" (*ibid*: 42). It is the fourth that is most essential to Dahrendorf. He uncritically accepts the misinterpreted (and potentially wrong) view of Marx, where Marx in the third volume of *Capital* argues that the formation of joint-stock companies, when capital is utterly divorced from production, means "the abolition of the capitalist mode of production within the capitalist mode of production itself" (304). Accepting a "radical" reading of this passage, Dahrendorf argues that this is one of the reasons why we can talk about post-capitalist industrial societies: managers, as "functionaries without capital", have different functional interests to those of capital owners, the legitimacy of their authority lies in the need to find a consensus between owners and workers, therefore both classes – capitalists and workers – cease to be homogeneous and therefore become less antagonistic. It is therefore feasible to claim that Dahrendorf's conception of capitalism is far more informed by so-called vulgar Marxism than some of his Marxist opponents. Given that capitalist societies are necessarily societies of two antagonistic classes, postwar industrial societies are no longer capitalist (that is, they are post-capitalist) since both classes have become decomposed and fragmented. This argument is utterly unconvincing and must be rejected as ideological obfuscation. Marx's insight about joint-stock corporations and the financialization of production – "It reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors; a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation. It is private production without the control of private property" (*ibid*.) – despite questionable emphasis and misleading wording ("abolition of capitalist mode of production") is especially relevant today. A growing alienation of capital in the form of speculative financial capital, its alienation from production (financial capital stopped financing production long ago, nowadays it finances itself) does not change the existing power relations. If anything, financial capital has gained "absolute control (…) over the capital and property of others" (*ibid*). In short, capitalism, despite its contradictions and periodical crises, is here with us, it has penetrated even the most intimate spheres of human life. Therefore its grip on human lives is stronger than ever before. It is therefore essential for the political Left not to lose sight of capitalism's influence. Key to the renewed definition of capitalism should be the following aspects: 1) institutionalization of the principle of profit maximization, 2) subordination and control of labour to/by capital, 3)

By stressing the institutionalized aspect of class conflicts, the conflict between the political Left and the Right, their own methodological emphasis on social conflict gradually faded away. Furthermore, the argument that policies institutionalizing class compromise resulted in the transformation from class conflict-driven capitalism of the 19th century to post-capitalism of the postwar era is also deeply flawed. Even in the heyday of Keynesian mixed economies, European industrial societies were capitalist societies[16]. Yet the theory of class compromise was so pervasive that it gradually became a widespread ideology. It is this ideological obfuscation, advanced in its new guise by Seymour M. Lipset, Daniel Bell and many others as the "end of ideology" thesis[17], that played an important role in luring the Left to accept class compromise as *given*.

Asbjørn Wahl, a Norwegian syndicalist and social theorist, convincingly argues in his book *The Rise and Fall of the Welfare State* that **the politics of a social pact was indeed a compromise between two opposing interests and that the welfare state was its specific historical outcome**. According to Wahl, it is essential to note that the political Left – by which he means a well-organized trade union movement together with socialist or social democratic parties[18] – aimed for more than the creation of the institutional setting to restrict market forces. A great number of trade unions and socialist parties, whose leaders and members were more or less informed by Marxism, aimed to establish democratic socialism and "the socialization of the means of production", and the welfare state was thus never an explicit goal of the labour movement[19]. On the other hand, the owners of capital accepted some of the key demands of the labour movement because of its political strength and trade union militancy via strikes, protests, ideological and propaganda work via the labour movement's public press. In this way the social pact was a compromise between two competing interests and worldviews – *socialism* broadly understood *and* the unlimited appropriation of surplus value and capital accumulation by owners of production within free-market *capitalism*. This compromise was possible *only* because of the more or less equal *balance of power* in West European societies.

It is at this point that we are in a position to draw the fundamental lesson Marxist thought provides for European politics in our current age of (post)industrial capitalism. The basis of the division between the political Left and the Right is and must remain that of a division between labour and capital. This thesis is first of all conceptual and theoretical rather than merely historical and descriptive, although much of the actual Left understood

control of the privately owned means of production through capital over the entire process of production, and 4) commodification of human life in the multiplicity of its forms and spheres.

16 They were so because labour, despite the strength and militancy of labour movement, was nevertheless functionally subordinated to capital. Economic democracy was never achieved by the labour movement.

17 For an insightful critique of this thesis see A. MacIntyre, *Against the Self-Images of the Age: Essays on Ideology and Philosophy*., London, Duckworth 1971.

18 Socialism and social democracy here will be used as synonyms, i.e. as "democratic socialism".

19 A. Wahl, *The Rise and Fall of the Welfare State.*, London, Pluto Press 2012, p. 215, 32.

itself and acted on the basis that wage-earners were the core of its social base. It is also, moreover, a normative claim in as much as signifies a divide between two ethically incompatible worldviews: on the one hand, there is an attempt to create community life and public institutions on the basis of a common good (the Left) and, on the other hand, there is an attempt to extend and defend private interests at the expense of the public interest and of the commons (the Right)[20].

III. Neoliberalism and the Shift in the Balance of Power

David Harvey has provided one of the best definitions and conceptualizations of neoliberalism so far. He argues that neoliberalism,

> 'holds that the social good will be maximized by maximizing the reach and frequency of market transactions, and it seeks to bring all human action into the domain of the market. This requires technologies of information creation and capacities to accumulate, store, transfer, analyse, and use massive databases to guide decisions in the global marketplace. Hence neoliberalism's intense interest in and pursuit of information technologies (leading some to proclaim the emergence of a new kind of 'information society'). These technologies have compressed the rising density of market transactions in both space and time. They have produced a particularly intensive burst of (…) 'time-space compression'. The greater the geographical range (hence the emphasis on 'globalization') and the shorter the term of market contracts the better. This latter preference parallels [J.-F.] Lyotard's famous description of the postmodern condition as one where 'the temporary contract' supplants 'permanent institutions in the professional, emotional, sexual, cultural, family and international domains, as well as in political affairs'.[21]

The usefulness of this definition lies in the fact that it touches on two crucial and mutually supportive aspects of neoliberal ideology and reality: the extension of free markets both globally and to new spheres of social life, on the one hand, and the advent of the so-called postmodern condition, on the other. Since both of them are important vis-à-vis our discussion on the challenges for the political Left, it is imperative to address them briefly.

The fierce theoretical and ideological battles waged against Keynesian economics and socialism by the likes of Friedrich von Hayek gradually started to give fruit by the mid-

20 For an alternative account see: N. Bobbio, *Left and Right: The Significance of a Political Distinction.,* Chicago, University of Chicago Press 1996.; Bobbio sees the distinction between the Left and the Right in terms of the ideological disagreement to what extent equality is important.

21 D. Harvey, *A Brief History of Neoliberalism*., Oxford, Oxford University Press 2005, p. 3.

1970s. The version of neoclassical economics advanced by the economists of the Chicago school (first of all Milton Friedman) incorporated Keynesianism only to reject it. Monetarism, backed by the Austrian zeal for *laissez-faire* policies as the foundation of human freedom, rejected the then-orthodox Keynesian idea that the key objective of economic policy was to tackle unemployment. Monetarism instead argued that too great a supply of money would necessarily produce a counter-productive result of increased inflation. Thus, the challenge to the dominance of Keynesian views came first of all from Friedman's economic theory honored by a Nobel Prize in 1976. By the late 1970s monetarist supply-side policies were already learned and later implemented by Margaret Thatcher who advanced radical reforms of postwar institutions involving class compromise. Part of the strategy was attacks on trade unions that were started and gradually won by conservative governments in the UK and USA.

Alongside of the post-Keynesian paradigm shift in economic theory, pro-market reforms followed, including systemic deregulation of the markets, abandonment of fixed currency rates, attacks on labour laws, privatization of key industries that were traditionally controlled through direct political process, reduction of the public sector, and discarding capital controls, something which was part of the Bretton Woods system until its collapse in 1971. With these changes also followed the advent of speculative financial capitalism.[22]

The consequences of these changes are well known: speculative financial capital, which creates very little added value, has grown exponentially[23], labour productivity has grown 600% (over the past fifty years) while real wages have dropped by more than 1 dollar (taking inflation into account, in 1973 real wages were 15.72 USD per hour, while in 2000 they were 14.15 USD), and corporate taxes have been reduced, while the rate of profits from direct investments abroad in the USA grew from approximately 10% in the 1950s to approximately 45% in 2000[24]. In short, the neoliberal project advanced by capitalist forces aimed to break the postwar class compromise. As Wahl argues, capital owners withdrew from the postwar social pact and as a result class compromise was broken.

What was the reaction of the labour movement and the political Left in general? Although there were numerous attempts to defend labour interests through a wave of strikes and protests in 1980s, generally there were fewer strikes from the late 1970s onwards than there were in the postwar era and they were less successful[25]. Some of the key industrial battles were lost. The UK miners' strike, led by the National Union of Mineworkers, the

22 A. Wahl, *The Rise and Fall of the Welfare State.,* London, Pluto Press 2012, p. 45-47.

23 E.g. in the 1980s, the sum of financial assets was equal to the world's total gross product while in 2008 it was three times larger than the total gross product.

24 *Ibid*., p. 49 and D. Harvey, *A Brief History of Neoliberalism*., Oxford, Oxford University Press 2005, chapter 1.

25 See e.g. H. Kohl, *Where East European trade unions stands in Eastern Europe today*., [in:] *Internationale Politik und Gesellschaft* (International Politics and Society), Herausgegeben von der Friedrich Ebert Stiftung, No. 3, 2008; N. Knox, *Unions begin to struggle in Europe*, [in:] *USA Today*, November 11th 2004.

stronghold of the labour movement in Britain, was defeated by Thatcher's administration in 1985 and the air traffic controllers strike in the USA was ruthlessly broken by the Reagan administration in 1981 (this, as Alan Greenspan claimed, "gave weight to the legal right of private employers, previously not fully exercised, to use their own discretion to both hire and discharge workers"[26]). Generally, the statistics on strikes, for example in the UK, demonstrate that the labour movement was not prepared adequately to respond to the neoliberal offensive: there were 2397 strikes in the period from 1965 to 1969, and only 247 strikes from 1990 to 1999, which means only 2% of the total strikes and lockouts in 1998 compared with 1970[27]. The same general pattern is seen in other European countries where membership in trade unions has significantly decreased[28]. Meanwhile, the trade union movement in Europe, especially within the European Community, was calling for more of the same – more social dialogue. This is especially the case with institutions such as the European Trade Union Confederation (ETUC), whose official ideological stance has always been to promote social dialogue.

It is clear at this stage of the argument why social dialogue alone is inadequate today. If we accept the theoretical approach of moderate social conflict, as I suggest we should, then it becomes clear that dialogue is a remnant of the postwar class compromise that is now past its time. **The class compromise and the social pact as a consequence were possible only because the labour movement managed to become a significant power that was able to threaten and to cause real harm to capital owners. It was possible because of the real power that the labour movement had acquired through its ability to win difficult battles, through its self-organization potential and the strength of its ideological identity in the prewar era. Social dialogue is possible only between equals. When the power of the labour movement was diminished, partly due to its gradual domestication by "humane" postwar capitalism, it became a simulacrum for truthful dialogue.**

The second cultural aspect of the current dominance of neoliberalism has to do with the advent of postmodernism. Both the term and the socio-cultural phenomenon it signifies are rather vague. However, for the sake of clarity, let us define it, following J.-F. Lyotard, as the loss of belief in the credibility of a coherent worldview vis-à-vis growing social and cultural fragmentation[29]. If the theories, grand-theories or grand-narratives of

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26 A. Greenspan, *Remarks by Chairman Alan Greenspan*., [in:] *The Reagan Legacy*., Simi Valley, California, The Ronald Reagan Library 2003.

27 *Labour Market Trends.*

28 A. Bielskis & J. Paleckis, *Lietuvos profesinės sąjungos tarptautinio darbo judėjimo kontekste, [in:] Demokratija be darbo judėjimo?*, A. Bielskis (ed.), Kaunas, Kitos knygos 2009.

29 See: J.F. Lyotard, *The Postmodern Condition*., Minneapolis, University of Minnesota Press 1984; D. Harvey, *The Condition of Postmodernity*., Cambridge, MA & Oxford, UK, Blackwell 1990; A. Bielskis, *Towards a Post-modern Understanding of the Political*., Basingstoke, New York, Palgrave Macmillan 2005.

the "modern era"[30] were able to mobilize and convince people to follow them and fight against the theories and grand-narratives of their rivals, today grand-theories have instead simply become marked by our incredulity[31]. Thus, postmodernity has also been described as post-metaphysical, as weak thought; thought which doubts its own seriousness and claims to truth.[32]

The key symbolic political event that marks the advent of postmodernity is, of course, the students' revolution, May 1968 in Paris. These events played a key role in waking up an alternative theoretical imagination that saw the necessity to break with old ways of thinking and to imagine one's place in the social world[33]. As I have argued elsewhere[34], Friedrich Nietzsche was one of the most important theoretical inspirations in the attempt to reinvigorate an alternative political imagination. The so-called poststructuralist theorists such as Michel Foucault, Gilles Deleuze and Felix Guattari, Roland Barthes, Jacques Derrida and Lyotard, in one way or another, were all influenced by Nietzsche and his radical critique of the Western philosophical tradition.

The new developments in philosophy were important because they related to the political environment of the late 1960s. The 1968 students' unrest was, among other things, a revolt against discrimination, against old-fashioned Marxism, its flirtation with Stalinism and against the bureaucratization of trade union power. It was the students' revolution backed by the wildcat strikes of workers who (also) revolted against the leadership of Communist parties and against trade union bosses. It was the revolution of the Id, of bodies without organs, a revolt of the Real against the Symbolic, a revolt against authoritarian fathers who created postwar fragile institutions of a welfare system within capitalism, a system which was generous to "our kids" but was stingy and discriminating towards others – blacks, homosexuals, women and immigrants.

The students' revolution symbolized the libidinal revolution whose only weapons were poetry and liberated sexual desire; a militant anger without the necessary discipline of traditional anti-capitalist politics. Post-modernism represented a cultural change which came from below. Yet the students' revolution failed to change capitalist institutions while at the same time producing a new kind of society, a society where collective emancipatory efforts to get rid of oppressive political and economic structures became internalized and

30 The inverted commas here signify a loose usage of "modern era".

31 The distinction between "post-modernity" and "modernity", in as much as they require definitions, are first of all conceptual rather than temporal phenomena. Thus the chronological element is secondary to these definitions. On the conceptualization of "modernity" and "postmodernity" see: A. Bielskis, *Towards an Alternative Post-modernity: the Local versus the Barbarianism of Market Capitalism*., [in:] *Athena*, No. 3, p. 52-67 2007.

32 See e.g. G. Vattimo, *Beyond Interpretation: the Meaning of Hermeneutics for Philosophy*., Cambridge, Polity Press 1997 & G. Vattimo, *After Christianity*., New York, Columbia University Press. 2002.

33 S. Best & D. Keller, *Postmodern Theory: Critical Interrogations*., Basingstoke, Macmillan 1991, p. 17.

34 A. Bielskis, *Towards a Postmodern Understanding of the Political*., Basingstoke, New York, Palgrave Macmillan, 2005.

the key political battle now became one of the human mind and discourse. It was then that the political Left advanced theories of identity politics, including theories of multiculturalism. Thus, the theoretical discourse of the Left gradually shifted away from universal political emancipation of the working-class based on collective solidarity to the discourse of left-liberal fragmented theories of identity formation.

Here some preliminary conclusive remarks can be drawn. Dahrendorf names several reasons why democratic socialism and/or social democracy have started to experience major difficulties since the 1980s. As social democratic parties became governing parties across Western Europe they lost their social base by becoming the political power of "the majority class." Furthermore, the gradual bureaucratization of these parties, an inevitable consequence of being in power, was also a factor contributing to the loss of their social base[35]. Additionally, although the decomposition and fragmentation of the politics of labour was an objective social process, it was closely linked to a gradual increase in general living standards. Of course, the growth in living standards was partly due to the strength of labour movement and the more or less universal welfare system built by social democratic parties. It was also due to the comprehensive education system, a system which for the first time in European history provided free access not only to primary and secondary education, but also to university education. These *positive* changes should be weighed together with changes in perception of labour-oriented politics.

What was less positive was the ideological disorientation of the Left and the inability to respond to changes that happened during and after the 1970s, an inability that developed partly due to the inadequacies of Marxist theory itself. That is, either Marxism became detached from effective political praxis and thus turned into a merely academic ivory-tower discipline, or it informed and fostered small sectarian revolutionary groups which lost wider support among ordinary working class people. It is not surprising that Marx's ideas were increasingly considered to be outdated and so were gradually replaced by (Nietzschean) post-structuralism as the theoretical *modus vivendi* of those who considered themselves to be "progressive". Therefore, at the end of the postwar compromise, the labour movement was considerably weakened and ceased to be informed by Marxism. On the other hand, the forces of capital, co-opted radical poststructuralist theoretical imagination, adapted to the changing cultural and social environment, and prepared for a new offensive – both directly and through inclusion of the former revolutionary youth counter-culture who now became "perfect" consumers[36].

35 R. Dahrendorf, *Reflections on the Revolution in Europe.*, New York, Random House, 1990.

36 For an excellent analysis of how Sigmund and Anna Freud's ideas on subconscious irrational drives were used by marketing and PR firms to promote a new kind of consumer capitalism, see the 2002 BBC documentary by Adam Curtis "The Century of the Self".

IV. Lessons from Marx: the Case of Alienation and Exploitation

What I propose is the following: **the political Left in Europe needs to get back to the original ideological division between labour and capital in order to become the political power of the labour movement again**. That is to say, from the *Volkspartei* back to *Arbeiterpartei*. The great challenge, of course, is how we should conceptualize labour in the postmodern Europe of the 21st century. In the rest of this paper I will be preoccupied with this issue. To conceptualize labour in a relevant way once again we have to turn to Marx. To put it in Jacques Lacan terms, Marx is the Master Signifier of the Left, a father figure who can and should be repressed in order to be resuscitated and reinterpreted in a way that is appropriate for 21st century social reality.[37] Reading Marx anew will help us to understand what role the concepts of alienation and exploitation should play in our attempt to understand what social justice – the key value of the political Left – is and should be about.

In his *Economic and Philosophical Manuscripts of 1844,* Marx argues that wages are determined through "antagonistic struggle" where victory "goes necessarily to the capitalist" and that workers' wages fluctuate depending on the supply and demand of labour[38]. Refusing to accept the alienation of productive labour, Marx engages in a critique of Adam Smith's political economy and its prioritization of private property over human labour. Making a critical genealogy directs Marx further than the classical political economy of Smith. For Marx, Smith's conceptualization of a "free" market reinforces and justifies the alienation of human labour. Classical political economy thus accepts and never questions the fact that initial accumulation of capital always takes the form of appropriating either land or surplus value[39].

Marx instead argues that capital is nothing else than stored-up labour which at the same time attributes to the owners of capital a governing power over labour. Furthermore, he contends that the source of all wealth is labour. Man is essentially *homo laborans* and so all wealth, at least as far as capitalism is concerned, is man-made, that is, mediated through human labour. And yet the artifact – the commodity or result of labour – does not belong to the man or woman who produced it. In return for his/her labour the worker instead receives a wage or salary. The owner of capital, in other words, buys human labour as a commodity in order to produce other commodities (or services). The labour market

37 More on Marx as Master Signifier see A. Bielskis, *A Floundering or Flourishing Democracy? Reasons for the Weakness of the Political Left in Lithuania*., [in:] *The Left in Central and Eastern Europe* (ed. Michal Syska)., Warsaw-Wrocław, Ferdinand Lassalle Centre for Social Thought, p. 172-184, 2011.

38 K. Marx, *Economic and Philosophical Manuscripts of 1844*., New York, Prometheus books 1988: 19.

39 Following Marx, MacIntyre (1995, ix-x), for example, also makes a similar point that initial capital accumulation is fundamentally unjust.

thus functions as any other market where the prices of labour fluctuate depending on their supply and demand. When demand for labour is growing, the costs of labour increase, but so does working time, since workers want to earn more at the expense of their leisure time, whereas when the demand for labour decreases, workers lose their jobs[40]. In the process of tough competition, according to Marx, "the working class falls into the ranks of beggary or starvation just as necessarily as a section of middle capitalists falls into the working class"[41].

Marx's starting point therefore is that there is the fundamental antagonism between labour and capital, workers and the owners of capital who are in charge of the system of production and therefore of labour. Even though the stronger party is capital owners and not workers, labour and capital are nonetheless intimately linked. Capital cannot generate surplus value without labour and labour cannot dispense without capital since workers do not have the means of production needed to produce commodities on their own.

Consequently Marx begins his reflections on alienated labour with the claim that political economy treats the worker as "the most wretched commodity". There are three aspects to Marx's notion of alienation. Firstly, through the commodification of labour, as human beings workers become commodified as well. Selling oneself and knowing how to do it have become part of everyday life. Secondly, commodities are alien to their producers. This is due to the fragmentation and division of the production process and to the fact that the means of production are controlled by capital owners. Its consequence is not merely the fact that workers are estranged from the end product or the fact that workers do not own the commodities they produce. Labour's objectification as a finished commodity, so Marx argues, means a loss of meaningful reality for the worker; it means an impoverishment of the worker's life-world[42]. Workers in this way become estranged both from *nature* and from the *product* they created through their labour. Furthermore, they can no longer rely on access to the natural world for subsistence and are deprived from the wholeness of productive process.

Alienation also means that labour under capitalism is *forced labour* in as much as workers can do nothing but sell their labour to the owners of capital. Through all of this the worker "does not affirm but denies himself", does not develop "freely his physical and mental energy but mortifies his body and ruins his mind"[43]. As a result, labour (of a certain type) under capitalism lacks creative spontaneity and so degrades the humanity of the worker to mere animal functioning, to earning one's living in order barely to sustain one's physical existence. Therein lays the third and most metaphysical aspect of alienation:

40 Marx 1988: 20

41 *Ibid*: 23.

42 Marx 1988: 72.

43 *Ibid*: 74

since labour is the most essential human activity, alienated labour means that human life turns against itself, against a universal feature of our *species-being* or, in neo-Aristotelian rather than neo-Hegelian terms, it goes against our *essential* human nature.

Thus, at least as far as the Paris manuscripts are concerned, Marx sees human labour as *productive life* itself. Not only does labour enable humans physically and materially to sustain themselves, but it is also the essential *praxis* of human life as such. It is through (non-alienated) labour as purposive practical activity that human beings fulfill their essential nature. Estranged labour under capitalism denies this by reducing humans to mere animal functioning; it deprives us of our true nature, as social and creative beings.

This is, no doubt, far too familiar and not everything is relevant today. Yet the main conceptual point of Marx's alienation argument, even if we accept the fact that nowadays workers do not often fall "into the ranks of beggary or starvation", is still broadly correct. It is a characteristic of capitalism that humans are treated as commodities, as tools which can be and in fact are dispensed of whenever profitability rates drop. Each economic crisis is accompanied by massive layoffs by companies whose profitability rates drop even by a relatively small margin which does not necessarily threaten their corporate existence.

Neoliberal economic theory advanced by the likes of Milton Friedman treats any protective measures by trade unions as cartel agreements. The claim is that by negotiating higher salaries trade unions restrict other workers' entry to a given profession, raise wages at the expense of other workers and thus contribute to higher unemployment. The argument, of course, is a fine piece of ideology; it is also wrong since there is no evidence that highly unionized countries (first of all Scandinavian countries) have higher unemployment[44]. The point, however, is not to show its flaws, but to highlight the necessity of alienation at its core. The key assumption of this argument, which has increasingly become our reality ever since the advancement of neoliberal policies in the late 1970s, rests on the idea that the collective bargaining of trade unions distorts the equilibrium of the labour market. This means that workers, according to neoliberal economic theory, should be understood and treated as atomized commodities. The only economically rational behavior is competition and never cooperation or solidarity among workers since any cooperation between them contradicts the very idea of a free market. Thus, human beings live in the alienated and atomized state of a compartmentalized social environment, in as much as neoliberal dogma has been embodied in the practices of our daily lives. The fact that some workers earn relatively good wages does not fully change the forced alienation under the conditions of neoliberal capitalism.

44 See: European Commission, Eurostat: Table of Unimplemented Rates. EU-27, Croatia, Turkey, USA, Norway, Japan 2000-2010 (epp.eurostat.ec.europa.eu, accessed 27-08-2012).

As has been argued in the past[45], the Hegelian concept of alienation ceases to play a central role in Marx's mature theoretical work. However, it would be wrong to suggest that there is no space for ethical considerations in Marx's mature work[46]. The concept of alienation is later transformed into the theory of exploitation fully developed in *Capital*. Although it is directly linked to and derives from the labour theory of value which Marx shared with Adam Smith and other classical political economists, I want to suggest that Marx's labour theory of value is presupposed by an implicit conception of social justice.

At its core is Marx's notion of equivalence and equity. This indicates a natural predisposition of human reason to assume that things can be exchanged if they are equivalent, that is, if they have equal value. He starts his enquiry by arguing that wealth in capitalism is created through the form of commodity production and that it is human labour that determines the value of a commodity. The value of a commodity, however, has at least two aspects. Any commodity has both use-value and exchange-value and there are two kinds of labour that produce it. The usefulness of a commodity is based on its use-value produced by labour whereas exchange-value is apparent only when one use-value, e.g. Bible, is *somehow* made equivalent to another use-value, e.g. a bottle of vodka, to use Marx's own example, in order to exchange them.

Contrary to neoclassical economic theory, which rejected Marx's labour theory of value and thus equated value with price fluctuating according to the whims of supply and demand, Marx argues that what enables us to equate two qualitatively different commodities as use-values is the fact that both of them have certain quantifiable values created by and expressed in terms of abstract labour. Both of these two aspects of human labour – useful and abstract – are present in the production of any commodity. Useful labour is "determined by its aim, mode of operation, object, means and result"[47]. Abstract labour or simple average labour, as Marx calls it, is time spent using one's physical and mental energy – labour power – in order to produce a given commodity.

So the value of a commodity is equivalent to the duration of time needed to produce it. If, for example, one hour is needed to make a pot while it takes half an hour to carve a wooden spoon, the value of the pot is equivalent to two wooden spoons. Since not every useful thing is a commodity, value for Marx is the essential aspect of any commodity as something which by its nature is exchangeable. Since the measure of value in a capitalist economy is abstract labour, Marx writes about labour almost exclusively in terms of abstract

45 See, for example, L. Althusser, *For Marx.* London, New York, Verso 2005.

46 A. MacIntyre, *After Virtue*., London, Duckworth 1985; and other scholars of Marx argues that there is a continuity of the notion of alienation in Marx's thought at least in as much as Marx believed that the economic system of capitalism is exploitative and self-destructive. More recently T. Eagleton in, *Why Marx Was Right*. New Haven, London, Yale University Press 2011, has argued that Marx was a prophetic thinker in the same way Biblical figures were: they were not fortune-tellers, but sought to denounce "the greed, corruption and power-mongering of the present, warning us that unless we change our ways we might well have no future at all", p. 66-67.

47 K. Marx, *Capital. Volume I.,* London, Penguin Classics 1990, p. 132.

labour and rarely in terms of useful labour. This is partly due to the fact that abstract labour – labour power which transcends particularities of different kinds of useful labour – allows Marx to link his theory of value with the politics of emancipation. It is only on the basis of abstract labour that the "class" identity of workers becomes possible and thus "labour", as it has been discussed above, transforms into political concept.

Once these key premises are established in the first chapters of *Capital*, Marx proceeds to conceptualize the origin of surplus value. The appropriation of surplus value is the source of exploitation; it is also the source of capital. In appropriating surplus value capitalists break the principle of equivalence in the exchange and circulation of commodities[48]. In chapter five Marx argues that the general formula of capital – M-C-M – is contradictory if it takes at face value the claim that selling a commodity at a cost higher than its original value produces surplus value. For Marx circulation does not and cannot on its own create surplus value: if economic activity consisted only of buying and selling or reselling commodities, where would the value come from? Therefore, Marx's conclusion is that surplus value is and can be created only when labour, which is most often advanced by the worker prior to the payment he/she receives (hence, labour "is the most wretched commodity"), is bought to produce commodities. Thus the source of true surplus value is industrial capital, not the speculative capital of merchants. Surplus value then is the appropriation of labour time without equivalent pay. It is an arbitrary appropriation in a similar way that land was appropriated during the process of enclosures in the 15th and 16th centuries in England or during the era of illegal privatization of state-owned assets by the ex-communist nomenclature in post-Soviet Lithuania. Marx explains the mechanism of generating surplus in the following way:

> The value of a day's labour-power amounts to 3 shillings (…), because the means of subsistence required every day for the production of labour-power costs half a day's labour. But the past labour embodied in the labour-power and the living labour it can perform, and the daily cost of maintaining labour-power and its daily expenditure in work, are two totally different things. (…) The fact that half a day's labour is necessary to keep the worker alive during 24 hours does not in any way prevent him [sic] from working the whole day. Therefore the value of labour-power, and the value which that labour-power valorizes (…) in the labour process, are entirely different magnitudes; and this difference was what the capitalist had in mind when he was purchasing the labour-power [49].

48 "In its pure form, the exchange of commodities is an exchange of equivalents, and thus it is not the method of increasing value", ibidem, p. 261.

49 *Ibid.*, p. 300.

The trick lies in the fact that there is a difference between the exchange-value of labour – the wage which is needed for a worker to survive 24 hours – and the use-value of labour, which belongs to the owner of capital and creates (valorizes) more value than was spent in buying the labour itself. The latter is much greater than the former and the total value created by the use-value of labour (or the labour power during the whole working day) is much higher than the exchange-value of labour. Hence half of the labourer's day is simply appropriated by the owner of capital.

To conceptualize the appropriation of labour time further, Marx introduces the distinction between necessary labour time (or necessary labour) and surplus labour time (surplus labour). To simplify it, necessary labour is time needed to create enough value to cover the costs of labour or, in other words, to earn one's wage. Surplus labour is the remaining time spent labouring which creates surplus value for the capitalist owner, but which brings in no higher wage for the worker. In most of the examples we find in *Capital*, Marx assumes that surplus labour is half of the working day, while another half of the day, another 6 hours, is surplus labour. Surplus labour is the source of exploitation. However, Marx neither came up with a detailed account how to measure the level of exploitation in a given capitalist company or economy, nor did he discuss whether at least some surplus value, given the risk capital owners take in investing and producing innovation and technological advancement, is justifiable. It is therefore important to discuss these issues briefly.

A general formula of exploitation has been conceptualized in terms of a so-called exploitation calculus[50]. Its key assumptions are the distinction between necessary labour and surplus labour, on the one hand, and a revised version of Marx's labour theory of value, on the other hand. Labour is the source of value in as much as it is only labour that can create value. Yet the expression of a commodity's value is its price. So the attempt to measure exploitation in a capitalist corporation is possible only if the value of a commodity is equated with its price simply because there is no other way to measure the created aggregate value of a company except by calculating its revenues received through commodity sales. This also presupposes the necessity of an institution of free exchange which should be distinguished from market capitalism[51]. Given these assumptions, the level of exploitation is expressed in the ratio between surplus labour (SL) and necessary labour (NL), i.e. SL/NL, where SL is surplus value (SV, that is, revenue minus the costs of constant capital), say, per week expressed in any currency divided by labour's productivity per hour (or income generated by average labour per hour (lpH)) while NL is the sum of real wages per week divided by lpH. Thus given three known variables – the total

50 See: A. Bielskis, *The Political Implication of Alasdair MacIntyre's Claims of Dependent Rational Animals*, [in:] *Problemos*, No. 82, p. 85-98, 2012.

51 The argument that markets should be distinguished from market capitalism is made on the basis that market and capital ownership perform different functions that are not complementary, see: R. Keat, Ethics, *Markets and MacIntyre*., [in:] *Analyse & Kritik,* Vol. 1. pp. 243-257, 2013.

number of employees, the annual income of a company (which is profit plus the costs of constant capital), and the average wage of employees – it is possible to provide a more or less accurate measurement of exploitation in the form of the average ratio between necessary labour time and surplus labour time a worker spends during an eight hours working day[52].

It has been estimated, for example, that the level of exploitation of a beer brewer based in Lithuania is approximately from 8 to 9, that is to say, on average a worker works 8 to 9 times longer generating surplus value for the capitalist owner compared to the time spent earning his/her own wage (or, in other words, necessary labour is approximately 1 hour a day whereas surplus labour is 7 hours a day). Thus it is beyond any doubt that given the fact mentioned above – labour productivity has grown six times while real wages have marginally decreased over the past fifty years – the general level of exploitation has also grown significantly. Therefore we should conclude that the lessons of Marx – especially his ethically informed discussion on alienation and exploitation – are not only relevant but essential for the Left today. The social-democratic Left badly needs to return to Marx as one of its key intellectual sources.

V. Concluding Remarks: On Labour in the 21st Century

One key question is the following: how should we conceptualize labour today? This question is also linked to the issue of social justice briefly mentioned above as a way to reproach Marx. Leaving aside Marx's elusive and utopian remarks about communism when value form and "commodity fetishism" are abolished, let us settle for a more modest utopia – democratic socialism. By democratic socialism we mean:

1) democratically controlled means of production in the form of worker's cooperatives including democratic control of surplus value
2) subordination of capital to labour as the creative activity of production, and
3) abolition of the principle of profit maximization through the institutionalization of practice-based activities aimed at internal standards of excellence.

These preliminary principles of democratic socialism, of course, have yet to be spelled out in detail (this, however, cannot be our task here). It will suffice to say that democratic socialism properly understood will have nothing to do with either so-called Soviet state "socialism" or the conflated social democratic ideal of welfare states under market capitalism. Furthermore these principles rely on a certain conception of labour that needs to be briefly spelled out.

52 For the detail account of exploitation calculus see: A. Bielskis, *The Political Implication of Alasdair MacIntyre's Claims of Dependent Rational Animals*, [in:] *Problemos*, No. 82, p. 85-98, 2012.

The concept of labour or "working class" has always been political and was never meant to be only an empirical or descriptive concept. The fact that working classes are fragmented and not homogeneous enough does not change Marx's original insight that there are only two significant classes in capitalism – those who live off their labour and those who generate surplus value by buying labour and by using their wealth to accumulate more capital[53]. Thus, as Harvey argues, being in a class confers a role: the role of capitalists "is to use money to command the labour or the assets of others and to use that command to make a profit,"[54] while a working class is all those who are wage earners and live off their labour[55]. Such a definition of "working class" is only partial, yet it is nonetheless important because it gives a common identity, even if only formally, to large social groups in contemporary society.

This definition allows us to argue against certain sociological conceptualizations of social classes which, in one way or another, depart from the Marxist approach and argue for the distinctiveness of the middle class[56]. Of course, it does not mean that the vast social differences that exist within the working class thus understood are not important, but their importance is that of political tactics and startegy (that is, how to cut across these difference and build a common political identity) rather than conceptual. The conceptual difference has both economic and ethical aspects and is between two opposing orientations – the limitless and therefore irrational accumulation of capital for its own sake (the logic of profit maximization and those who serve it) *and* the anti-capitalist orientation of all those who reject the principle of capital accumulation as *the* governing economic and social principle of human life and live off their practice-based activities and creative labour.

Micheal Hardt and Atonio Negri have recently argued that the dominant form of production in industrial societies has gradually changed from material to immaterial in post-industrial societies.[57] Although the conceptualization of contemporary society as knowledge-based or as post-industrial society is not without its problems, the significance

53 In *The Making of the Working Class*, London/ New York, Penguin 2002, E. P. Thompson convincingly argued that the self-organization of the working class was a historical and open ended process of consciousness building which united a great number of different social groups without however discarding its huge diversity and complexity.

54 D. Harvey, *The Enigma of Capital*. Oxford, Oxford University Press 2010, p. 232.

55 D. Bensaïd, *Marx for Our Time.,* London/New York, Verso 2002, following the tradition originally initiated by the 1891 Erfurt program of SPD, argues that at least 2/3 of population in advanced capitalist societies consists of wage/salary earners and thus at least formally constitutes "working class".

56 Probably the most famous of them are the works by C. Wright Mills, *White Collar: The American Middle Classes.,* Oxford/New York, Oxford University Press 1959; and D. Bell, *The Coming of Post-Industrial Society.,* New York, Basic Books 1973. For an excellent discussion of the new middle class vis-à-vis Marxists' position see: V.Burris, *The Discovery of the New Middle Classes*., [in:] *The New Middle Classes*, A. J. Vidich (ed.), London: Macmillan Press 1995, pp. 15-54, who rightly argues that for Marx classes are "defined from the standpoint of their position within the social relations of production of a given mode of production" and thus middle class does not constitute an independent class (p. 21).

57 M. Hardt & A. Negri, *Multitude*, London, Penguin 2005.

of this social-economic transformation cannot be denied. Thus even if some of Hardt's and Negri's arguments are dubious, I take their claim that the character of production in postmodern societies is significantly different from production in traditional industrial settings (that is, from Fordism to post-Fordism) to be broadly correct[58]. Indeed, human labour has undergone significant transformation whereby more people engaged in production are engaged in creative (immaterial) labour. This claim should be read in historical materialist terms broadly understood. That is to say, whether labour is material or immaterial, manual or intellectual in the process of human development, it has increased its innovative and creative character, and, given the growing technological and societal advancement, it will hopefully increase in the future. Thus, labour needs to be conceptualized as a productive activity which has its own internal standards of excellence. It is here that I want to suggest Alasdair MacIntyre's work becomes very useful.

Alasdair MacIntyre in his seminal book *After Virtue* attempted to conceptualize human productive activity in both moral and philosophical terms. In doing so he introduces the concept of practice. Although MacIntyre himself does not define practice in terms of labour, several theorists have argued that practice in MacIntyre's work has a close resemblance to what Marx meant by non-alienated labour[59]. "Practice" is defined as a cooperative activity which requires both technical skills and moral virtues to master it. A practice then is:

> any coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended.[60]

MacIntyre gives examples of practices such as farming, fishing, playing chess, medicine, architecture, portrait painting, music, and the enquiries of philosophy, history, biology or physics. Although not all of them are productive activities, practices are valuable as they give shape and meaning to our lives. Practices also require hard work in order to excel at them and so in pursuing excellence people educate their desires. Not all activities are therefore practices and not all goals of human activities are genuine goals (construction and architecture are practices, while brick laying and ditch digging are not).

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58 To simplify considerably, material labour produces tangible commodities, the means of life, whereas "[i]mmaterial production, including the production of ideas, images, knowledges, communication, cooperation, and affective relations, tends to create not the means of social life, but social life itself. (…). The production of capital is, ever more clearly and directly today, is the production of social life", M. Hardt & A. Negri ibidem, p. 146.

59 See: K. Breen, *Work and Emancipatory Practice: Towards a Recovery of Human Beings' Productive Capacities*., [in] *Res Publica*, Vol. 14, No.1, pp. 381-414, 2007; R. Keat, *Ethics, Markets and MacIntyre*., [in:] *Analyse & Kritik*, Vol. 1., 2008 pp. 243-257.

60 A. MacIntyre, *After Virtue*, London, Duckworth, p. 187.

So, for example, activities which do not involve cooperation (as its constitutive element) or which systemically pursue the goal of theft or of financial speculation at the expense of others are not practices. Practices help us to pursue genuine human goods that are necessary for human wellbeing and that in so doing contribute to the overall common good.

There are two further distinctions essential for MacIntyre's meaning of practices thus conceptualized: the difference between internal and external goods of practices, on the one hand, and the difference between practices and institutions, on the other. External goods such as wealth, fame and power are not definitive goods for a particular practice since there is no direct connection between these external goods and the practice's standards of excellence. External goods cannot define a practice because they are common for all practices. Thus a practice can be defined only by spelling out what its internal goods are. To be a good chess player means to pursue the skills and virtues necessary for playing good chess. Internal goods then constitute what a given practice is all about.

However, practices also need institutions which are bearers of practices and they are so through their attempt to secure the external goods of money, power and status. One of the characteristics of external goods is that they are scarce and cannot be easily shared ("the more someone has of them, the less there is for other people"), whereas internal goods, although achieved through competition to excel, bring "a good for the whole of community"[61]. Thus internal goods allow communities of practices (e.g. medicine and the enquiry of philosophy) to achieve genuine goods (health and an extended body of philosophical knowledge) while institutions (hospitals and philosophy departments), provided that they are subordinated to serve practices, secure the necessary external goods without which practices would not be able to survive for a considerable length of time[62]. Institutions, if divorced from practices, tend to function according to instrumental rationality whereas practices pursue their own internal standards of excellence which, when achieved, contribute to the good of the whole of community. Practices thus understood are always vulnerable to the effects of institutional corruption when they become subordinated to profit maximizing capitalist institutions and their drive to acquire more money and power for their own sake.

Although not all productive labour can be seen in these terms, I want to suggest that understanding human labour in terms of different practices could be seen as a missing normative element in the Marxist conception of labour. That means viewing labour as a productive activity which requires creative self-transformation and which contributes to the good of the whole society. Labour should not be seen only as

61 *Ibid*. 190.

62 *Ibid*. 194.

abstract labour but as a teleological activity pursuing genuine human goods[63]. This extended notion of creative labour of course has a utopian element to it as well – the great many productive activities of an emancipated society, a society of genuine democratic socialism, would be structured in terms of practices. Engaging in labour then would provide our lives with meaning and would therefore give labour its prestige and high moral ground. It would also give a renewed identity to inclusive working classes of the 21st century; to those who, in the present conditions of capitalism, are reduced to being the instruments of capital. This refers to both manual and non-manual alienated wage-labourers who collectively fight their exploitation and alienation, and to those members of our societies who have been lucky enough to pursue their careers of genuine practices – of being professional philosophers, chemists, musicians, journalists, surgeons, artists, etc. Most of the latter practitioners are salaried employees who depend on institutions and who have to be wise and courageous enough to fight collectively the corrupting power of their institutions and the neoliberal ideology of institutional "effectiveness" and "modernization". These diverse social groups should learn to see the vices of capitalism and of institutions bent by acquisitiveness and the subordination of human activities and practices towards the banality of external goods of money, status and power[64]. It is these vices of irrational capital accumulation that cannot be reconciled with a genuinely free and just society oriented towards human solidarity and social justice, society whose individuals engage in meaningful activities for their own sake rather than for sake of more profit and more power at the expense of others.

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63 Of course, to put it in these terms is to put it in Aristotelian terms. For a convincing reading of Marx via Aristotle and Aristotle via Marx see Ruth Groff's paper "Aristotelian Marxism / Marxist Aristotelianism: MacIntyre, Marx and the Analysis of Abstraction".

64 To say that power, money and status are banal is not to say that they are not important. As MacIntyre (1985) puts it "no one can despise them altogether without a certain hypocrisy" (p. 196).

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3

FOR A NEW SOCIAL DEAL

Building Progressive Alliances

AL

Dimitris TSAROUHAS

The European Social Dialogue: Between Managerialism and a New Governance Architecture

Key words

European Social Dialogue – Trade Unions – Managerialism – Employers – Open Method of Coordination

Abstract

The European Social Dialogue (ESD) is part of an approach to the labour market and social policy that sees unions and employers as an integral part of the European Social Model (ESM). Moreover, the ESD was, and largely remains, one of the few vehicles contributing to reforming Europe's labour markets based on the input and concerns of workers as well as employers. This paper assesses the development of the ESD through time and asks whether its alleged 'managerialization' is to blame for its relative marginalization. As progressives seek to re-politicize EU integration, the paper further explores the degree to which such politicization can occur within the given structures of the ESD, or whether further institutional innovation is necessary to make the ESD more effective.

Introduction

Progressives across Europe are in search for a new political vision that will restore peoples' faith in the political process. Their task is particularly difficult in the context of a severe economic crisis made worse by conservative political choices that have led to a cycle of austerity and high unemployment.

This paper seeks to contribute to the debate on the re-politicization of Europe by focusing on a key instrument to promote "Social Europe", to make Europe relevant to its citizens and demonstrate the added value of the Union to the Union's workers. This is the European Social Dialogue (ESD). The ESD is today an institutional feature of the EU and shows up prominently not only in the Lisbon Treaty but also the Europe2020 agenda.

This is not the only reason why an analysis of the ESD is timely today. First, this process is a concrete output of the Delors era's attempts to introduce a "Social Europe" dimension to the Single Market. Second, the extent to which the ESD is able to contribute to "Social Europe" by making the voice of labour heard in decision-making, informing and consulting workers as to the future prospects of their work and fostering harmonious labour relations by respecting labour's input is a litmus test of social democracy's credentials and ability to regulate the labour market. Employee participation in the workplace is now again on the debate's agenda and the ESD offers a practical example of how such a process could develop.

The first section of the paper discusses the origins and evolution of the ESD since its formation. It does so in the context of European social policy and the EEC's original proclamations on this policy field. It describes the concrete institutional progress made in the 1990s to render the ESD more effective and argues that the shift towards 'softer' forms of policy coordination since the mid-1990s have also affected the operation of the ESD. In the next section, I offer a short review of the literature on the subject, while the next section analyzes the agreements reached in more detail and points to their successes and weaknesses. The next section analyzes the current ESD status quo drawing directly from the results of first-hand semi-structured interviews with representatives from the social partners, the Commission and the EP[1]. By use of such primary data, policy reports and secondary

1 All interviewees act in personal capacity. The views of staff/officials/politicians from the EP and the COM are impossible to interpret as echoing the views of the institution as a whole.

literature I assess the effectiveness of the ESD to date and argue that the ESD remains as important as ever. The conclusion outlines the ESD's major challenges and advances a few proposals as to how to reform the ESD in light of the current predicament.

The European Social Dialogue: Background and Development

Early Steps

The EEC assigned a role to the social dialogue to the extent that it approved the formation of the Economic and Social Committee. Its role would be purely advisory and its creation a sign that pluralist representation of workers, employers and various interest groups would serve the Community best. Moreover, the early stages of integration did not necessitate pan-European forms of employee consultation and employer engagement as the "golden era of welfare capitalism" made such consultations largely irrelevant. It was at the national level that social dialogue was flourishing, and so did social policy[2].

This is not to say that no action was undertaken, particularly by the Commission. Establishing guidelines and developing action programmes is a practice that was established already in 1962[3]. The Commission was able to set up a number of cross-industry advisory Committees to get both sides of industry involved in some form of consultation. That was evident in the mining sector for instance. Eventually, this did not prove very effective as employers were reluctant to engage in such processes. In 1970, a Standing Committee on Employment (SCE) was set up and its aim was to ensure a continuous dialogue on employment between member states, EU institutions and the social partners. This tripartite forum was a novel idea, certainly for its time, but it never picked up speed. As bipartite negotiations multiplied in the 1980s and 1990s it lost all influence and by the time the European Employment Strategy (EES) was formulated it had, in practice, ceased to exist. It was then streamlined with the EES and then replaced by the Tripartite Social Summit. The latter was created in 2003 and has allowed the social partners a voice in EU decision-making. ETUC and *BusinessEurope* coordinate the 10-member social partners' delegations, which are also attended by the Council Presidency (and two subsequent Presidencies) and the Commission. For example, the "Inclusive Labour Markets" cross-industry agreement was presented for the first time in the March 2010 Summit[4]. Yet there

2 L. Tsoukalis, *The New European Economy. The Politics and Economics of Integration*, Oxford University Press 1993, p. 89.

3 L. Cram, *From 'Integration by Stealth' to 'Good Governance' in EU Social Policy.*, [in:] *Innovative Governance in the European Union*, I. Tömmel & A. Verdun (eds.), London, Lynne Rienner 2009, pp. 87-99.

4 European Commission, *Social Europe Guide volume 2: Social Dialogue*, Luxembourg, Publications Office of the European Union 2012, p. 50.

is little doubt that the Summit serves more as a consultation forum rather than a decision-making body.

Although the SCE's effectiveness was low and its influence outside Brussels minimal, the 1970s opened the way for a subsequent social dialogue initiatives and the "Social Europe" project. As the boom years came to an end and unemployment rose, social policy and employment started becoming a European as well as a national issue. The EEC project had been designed and executed by Europe's elites, who now started appreciating the need of relating the goal of integration to the wider public. The adoption of the Social Action Programme (SAP) in 1974 was a step to that direction. The Programme called for full employment and better working conditions, yet it also drew attention to the need to involve *labour and management in social and economic affairs, in particular by including labour in firms' decision-making*[5]. National modes of employee consultation, information and participation, and not least the German *Mitbestimmung* model, were seen as an inspiration. It is therefore natural that ETUC was formed at that time, in 1973. Its creation reinforced the belief that the exclusive national form of trade union organization and activism was no more adequate. Considering that UNICE (since 2007 renamed BusinessEurope[6]) had been established already in 1958, the main social partners at EU confederal level have a history of decades behind them.

The Delors Era

The 1980s is a crucial decade for integration and for the ESD. Bipartite and tripartite forms of dialogue began to operate, and visible results became obvious. Under the guidance of Delors, a goal was set to create a 'social space' alongside increasing economic integration.

Delors urged unions and employers to develop a European-level system of collective bargaining[7],[8]. He therefore acted as a 'purposeful opportunist' in creating a new institutional structure 'as a means of locking in a wide variety of interests in the ongoing process of Europeanization'[9]. The ability to do so was enclosed in Article 118b of the SEA, emphasizing the importance of the Social Dialogue and the

5 L. Hantrais, *Social Policy in the European Union*, Basingstoke, McMillan 1995.

6 To avoid any confusion and unless I am quoting a source from the time prior to its name change I will use the organization's new name, *BusinessEurope*, throughout the paper.

7 B. Van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration*, London, Routledge 2002, p. 79.

8 M. Gold, *Social partnership at the EU level*, [in:] *Beyond the Market. The EU and National Social Policy*, D. Hine & H. Kassim (eds.), London, Routledge 1998, p. 113.

9 S. Mazey & J. Richardson, *Interest groups and EU policy-making: organizational logic and venue shopping*, [in:] *European Union: Power and Policy Making*, J. Richardson (ed.), London, Routledge p. 79.

Commission's *obligation* to promote it[10]. In other words, unions and employers were called on to take a higher degree of responsibility for social policy and employment matters, explicitly encouraged by the Commission to reach agreements wherever possible. The implicit terms of the bargain stated that the Commission would refrain from proposing new legislation on these fields if the social partners proved that they could do the job themselves[11].

Thus, a new approach to social dialogue emerged, which consisted of two elements. On the one hand and after the adoption of the social partners' Social protocol incorporated almost verbatim in the Maastricht Treaty (TEU, Article 3), the Commission became obliged to consult the recognized social partners regarding social policy and employment issues (Article 154 of the Lisbon Treaty). At the same time and on the basis again of TEU provisions (Article 4), the social partners themselves could initiate a process of social dialogue that could then lead to agreement between them (Article 155 of the Lisbon Treaty). The implementation of these agreements could take either of two forms: they could be implemented in line with national practices or they could take the form of a legally binding Council Directive[12].Quite clearly, the ESD was becoming a policy instrument of major significance in regulating Europe's labour markets.

The ESD as known today dates from 1985 and the Val Duchesse talks in Brussels between BusinessEurope, CEEP and ETUC. In these talks, ETUC agreed to the Single Market project on condition of the inclusion of a "social dimension"[13]. The fact that the promised social dimension remained a vague consolation for trade unionists testifies to the political nature of the bargaining. Employers refused to sign the final text agreed by the parties in Val Duchesse, unless the threats by the Commission regarding legislation were removed.

The social partners did, however, agree on the need to bolster the effectiveness of the ESF through better coordination and were united in the need to place social cohesion 'centre-stage of social policy'[14]. In 1986, the first Joint Opinion between the social partners was signed on a 'cooperative growth strategy', and three years later the Val Duchesse process acquired a more formal character through the setting up of a steering committee.

Following the Maastricht Treaty, the social partners set up a Social Dialogue Committee (SDC) to act as the central coordinating organ to plan future actions, joint opinions and

10 L. Hantrais, op. cit., p. 7

11 Ibidem.

12 R. Geyer & B. Springer, *EU Social Policy After Maastricht: The Works Council Directive and the British Opt-Out.*, [in:] *The State of the European Community. Vol.4 Deepening and Widening*., P.H. Laurent & M. Maresceau (eds.), London, Lynne Rienner, 1998, pp. 208 – 209.

13 H. Knudsen, *Employee Participation in Europe,* London, Sage 1995.

14 L. Hantrais, *Social Policy in the European Union*, Basingstoke, McMillan 1995, p. 7.

common work. ETUC and BusinessEurope coordinate the 32-member strong delegation to the SCD, which is chaired by the Commission. In 1993, the Commission saw the need to adopt formal criteria as to who its social partners were. Today, the Commission maintains a database on the exact organizations it acknowledges as social partners (see Table 1). In 1993 and 1994, two rounds of negotiations between the European social partners took place, following the invitation of the Commission to negotiate on the issue of European Works Councils (EWCs). While the first round was characterized by feelings of mistrust and a repetition of long-held views by BusinessEurope and the ETUC respectively, in the 1994 round of talks things changed. BusinessEurope and CEEP declared their willingness to enter into negotiations with ETUC, following a draft legislative proposal by the Commission on Works Councils that was less far-reaching than earlier ones. Agreement was not reached at the last minute, following the withdrawal of the CBI from the process. Neither BusinessEurope nor ETUC could yet disregard the objections of such a powerful lobby group, bolstered in its standing by a decade-long process of *Thatcherite* institutional reforms in the UK labour market. Nonetheless, an important precedent had been set.

Cross-Industry Agreements: two methods of implementation

The autonomous form of dialogue between the social partners suffered from a visible lack of consensus. Although it was now institutionally possible to initiate agreements above and beyond Commission consultation, the non-binding nature of the ESD offered powerful disincentives to the side of employers. Nevertheless, the 'Commission track' proved a lot more successful, in the sense that a series of agreements were reached by the two sides following such consultations. What is more, the social partners reached agreements that became Directives with very few changes from the original text. These include the agreements on parental leave (Directive 1996/34), part-time work (1997/81) and came together in further Agreements on fixed-term work (1999/70) as well as a revision of the original parental leave agreement in (2010/18) in 1999. Although these Agreements provided merely a minimum floor, they led to substantial legislative changes in some member states reinforcing employee rights. What is more, such agreements have touched upon issues such as part-time employment and fixed-term work that are spreading throughout Europe and whose integration in the formal labour market is a crucial aspect of Social Europe.

In 2001 and on time for the Laeken Summit, the cross-industry social partners that now also included UEAPME and CEC/Eurocadres announced their willingness to take a further step forward by enhancing their autonomy from the Commission consultation procedure. The challenges of a new era, not least CEE enlargement and Europe's future governance, necessitated a new type of bipartite dialogue based on setting "*priorities, guidelines and proposed actions, to be implemented at national level by the member organizations of the*

signatories"[15]. Clearly, the bipartite form of cross-industry ESD was now seeking to adapt to the need of moving 'closer to the citizens' by delegating responsibilities to member organizations. This was a high-risk strategy given the loose nature of the umbrella organizations and the uneven distribution of power and capabilities that the latter possessed.

The desire for autonomy meant that in 2002 a "framework of actions" was agreed upon, thereby 'establishing priorities, guidelines and proposed actions' that would be taken up by members at national level[16]. An expression of this new mode of work was the agreement on teleworking signed by the cross-industry partners in the same year. This agreement, as well as its equivalent on Stress at Work in 2004, Violence and Harassment at Work in 2007 and Inclusive Labour Markets in 2010, would be followed up and implemented by members at national level and in line with established practice in each member state. The enforcement powers that a Commission Directive brings along were thus *de facto* curtailed, and the ability of members to follow through Brussels-based agreement at member state level would now be tested for the first time.

It is important to underline that the 2002 framework agreement followed the failure of social dialogue to agree on the issue of temporary agency work. A crisis in the ESD ensued, and therefore the path of autonomy can be interpreted as a "least bad option" to keep the ESD going under adverse circumstances and in the knowledge that the binding route previously applied was, at least for a while, closed.

The ESD and the Europeanization of industrial relations: a short literature review

The institutionalization of the ESD attempted first by Delors and the subsequent widening of social partner competences and powers seemed to herald a new era in European industrial relations. This was not simply about a counterweight to the Single Market or a Social Dimension: for some, it was reflecting a move towards a "corporatist policy community"[17] and therefore the possibility of rearranging EU governance towards an entirely novel direction. Moreover, trade unions had achieved an impressive position of negotiating power due to their participation in the ECOSOC, the ESF, and their close links to the EP. Transnational collective bargaining, if only a possibility, appeared now a lot more real than only a short time ago. Skeptical voices could thus be dismissed as fanciful and ahistorical[18]. The EU shift towards soft law in the early 2000s, reflected in part in the direction the cross-industry social dialogue has recently taken, was a development to

15 European Commission, *Social Europe Guide volume 2: Social Dialogue*, Luxembourg, Publications Office of the European Union 2012, p. 39.

16 Ibidem.

17 G. Falkner, *EU Social Policy*, London, Routledge 1998,

18 O. Jacobi & J. Kirton-Darling, *Creating perspectives, negotiating Social Europe*, [in:] *Transfer*, 11(3), 2005, pp. 337-41.

welcome. It provided trade unions with more, not less, responsibilities and also offered innovative ways forward where the binding rules of traditional legal instruments were proving ineffective[19]. For instance, when assessing the implementation of the Parental Leave and part-time work Directives, a comprehensive study finds that employment law had been positively changed as a result[20].

A less sanguine assessment of the ESD has also been strongly present in the relevant literature. A series of arguments points to ESD weaknesses. Some of them relate to the workings of the ESD in its current form. Others point to structural difficulties and call for radical changes to make the inter-professional dialogue more effective.

To start with, the ESD has come under fire for what it does *not* include in the mandates of participating delegations. "Bread and butter" issues of wage negotiations are wholly absent, and the prospect of inserting those into the negotiations remains distant. The notion of transnational collective bargaining is appealing to many on the trade union side and for good reason, but whether it is realistically enforceable is a different matter altogether. In any case, negotiations over pay form a core part of national industrial relations systems and constitute a vital factor in making sure unions retain (even their decreased) attractiveness in the eyes of working people. The absence of pay from ESD negotiations reduces the appeal of this form of social dialogue and is seen (at best) as secondary to 'core' negotiations at national level[21].

A second criticism relates to the employers' side and their unwillingness to negotiate thoroughly with ETUC. Not only have employers sought to slow down the ESD since its inception, they have also managed to dilute its significance by using the 'salami tactic', slicing into smaller portions labour market agreements. They have thus watered down the salience of these agreements making their implementation more difficult to enforce[22]. A parallel argument has evolved with regard to the role that the Commission plays in the ESD. Whilst it is generally appreciated that the Commission played an active role in forging the ESD and kept it going in the formative years, it has over time adopted a much looser approach and applies hardly any pressure on the employers to enter negotiations[23].

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19 P. Marginsson & K. Sisson, *European Integration and Industrial Relations: Multi-Level Governance in the Making*, Basingstoke, Palgrave 2004.

20 G. Falkner, O. Trein, M. Hartlapp & S. Leiber, *Complying with Europe: EU Harmonisation and Soft Law in the Member States*, Cambridge University Press.2005.

21 W. Streec, *European Social Policy after Maastricht: The Social Dialogue and Subsidiarity., [in:] Economic and Industrial Democracy*, 15(2) / 1994, pp. 151-77.

22 M. Gold, *Social partnership at the EU level,* [in:] *Beyond the Market. The EU and National Social Policy*, D. Hine & H. Kassim (eds.), London, Routledge 1998, pp. 107-133 1998; D. Tsarouhas, *European integration and path dependence: explaining the evolution of European social policy.*, [in:] *European Political Economy Review*, 3(2) 2006, pp. 1-25.

23 B. Keller & H. W. Platzer, *The Europeanization of industrial relations*, [in:] *Industrial Relations and European Integration: Trans- and supranational developments and prospects,* Keller, B. And Platzer, H.W. (eds.), Aldershot, Ashgate 2003, pp. 58-84.

A final criticism focuses on the period since the early 2000s and the adoption of 'soft law' methods in particular. The argument asserts that such methods do not fit the ESD since they have to rely on the (often absent and ill-suited) national industrial relations structures to enforce agreements reached in Brussels. In other words, even if the agreements are meaningful and address real concerns in the labour market, sloppy or incomplete implementation diminishes their significance and fails to make the ESD process attractive for employees in the EU who operate outside the Brussels nexus. The lack of coordination and the fragmentation evident in studies related to the subject[24] mean that 'soft law' is not a complementary avenue to pursue the ESD but may be used as an excuse to dilute its function. Moreover, Gold et al.[25] point out that the EES has led to a less political and more managerial process. This is the result of decentralizing implementation at national level and asking social partners to enforce decisions on the ground, at a time when neither employers nor trade unions have any sort of influence over goal-setting.

Evaluating ESD Agreements to Date: Challenges and Prospects

Agreements leading to Directives

The results of cross-industry Agreements that became Directives are rather limited in scope, although progress has been made. The Parental Leave Agreement allows a four-month leave for parents before a child's eighth birthday and irrespective of the type of contract or the size of the firm they are employed in. The agreement also guarantees their right to return to their job after the leave[26]. The part-time work agreement includes one central provision, its clause 4, whereby for the purposes of non-discrimination at work, part-time workers shall be treated equally to full-time employees[27]. Clause 5 calls on member-states to review their policies regarding part-time work and facilitate the move from part-time to full-time work and vice versa[28]. Moreover, the 1999 Agreement on fixed-

24 T. P. Larsen & S. K.Andersen, *A New Mode of European Regulation? The Implementation of the Autonomous Framework Agreement on Telework in Five Countries*, [in:] *European Journal of Industrial Relations,* 13(2)/2007, pp. 181-98; S. Smisman, *The European Social Dialogue in the Shadow of Hierarchy*, [in:] *Journal of Public Policy*, 28(1) / 2008, pp. 161-80; S. Deakin & A. Koukiadaki, *Diffusion of EU-level Norms through Reflexive Governance Mechanisms? The implementation of the Framework agreement on Telework in Five Member States*, Centre for Business Research, Cambridge 2008.

25 M. Gold, P. Cressey & E. Léonard, *Whatever happened to Social Dialogue? From Partnership to Managerialism in the EU Employment Agenda*, [in:] *European Journal of Industrial Relations*, 13(1) 2007, pp. 7-25.

26 R. Geyer & B. Springer, *EU Social Policy After Maastricht: The Works Council Directive and the British Opt-Out.*, [in:] *The State of the European Community. Vol.4 Deepening and Widening*., P.H. Laurent & M. Maresceau (eds.), London 1998, Lynne Rienner, pp. 211.

27 *EIROnline, Social partners reach framework agreement on part-time work.,* 1997, http://www.eiro.eurofound.ie/1997/06/feature/eu9706131f.html

28 Ibidem.

term work reiterates the non-discrimination principle (clause 4) and calls on employers to facilitate the enhancing of their fixed-term employees' skills and training competencies (clause 6).

Examining the politics behind the agreements reveals the dependence of the trade unions on employers' willingness to be part of such agreements. The provisions on part-time work agreed between the two sides were criticised by the ILO on grounds of "further promoting the flexible form of labour rather than upgrading its regulation"[29]. In a press release after the Agreement was signed, ETUC acknowledged the limited scope of the agreement's provisions and its inability to persuade BusinessEurope on dealing with all forms of precarious labour at once. It also admitted that including more detailed provisions would have meant that no agreement would have been reached. By contrast BusinessEurope depicted the agreement as an example of "negotiated flexibility"[30].

The Parental Leave agreement was also far from a triumph for ETUC. On the insistence of BusinessEurope, the final draft did not deal with compensated leave and left all jurisdictions to the discretion of national governments, effectively penalising member states that had already legislated on the issue. Further, the fixed-term agreement does not necessarily apply to all employees. According to clause 2, the member-states and/or the social partners retain the right to exclude from the provisions of the agreement those employed in vocational training or apprenticeship schemes as well as those on contracts 'within the framework of a specific public or publicly-supported training, integration and vocational retraining programme'[31].

Framework Agreements implemented via national practices

In contrast to the straightforward implementation method of ESD agreements through Directives, Framework Agreements are considerably more complicated. Relying on 'national practice' means that various national traditions need to be taken into account. Since these reflect the diversity of industrial relations systems they are all, to a certain extent, equally valid. There is thus an immediate danger of watering down those agreements resulting from weak industrial relations structures. This is more apparent with regard to CEE states but is not limited to them.

Ways of implementing the teleworking and similar agreements range from incorporating them into cross-industry collective agreements, such as in France, Italy, Greece or

29 B. Van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration*, London, Routledge 2002, p. 197.

30 *EIROnline, Social partners reach framework agreement on part-time work.,* 1997, http://www.eiro.eurofound.ie/1997/06/feature/eu9706131f.html

31 European Commission, *Partnership for change in an Enlarged Europe. Enhancing the Contribution of European Social Dialogue*, Luxembourg, Publications Office of the European Union 2004.

Belgium; sectoral collective agreements (Denmark, the Netherlands); 'model agreements or tools drawn up by the social partners' (Austria, Germany, the UK or Ireland); legislation (Italy, Czech republic, Hungary, Poland, Portugal); guidelines or recommendations to lower bargaining levels or even to individual firms and employees (Finland, Germany, Austria, Spain, Sweden, Luxembourg, the UK, Germany)[32].

The degree to which Framework Agreements are successful depends on the set of criteria or benchmarks used to assess them. A favourite of the social partners as well as the Commission is implementation "in some form" as well as timely implementation[33]. By use of such benchmarks, a degree of success can be discerned, and both the social partners and the Commission point to that[34]. On the basis of its report on these two older agreements, for which evaluation is more straightforward and was conducted in 2008 and 2011 respectively, the Commission asserted that the objectives of the agreements were 'largely satisfied' and that protection and guidance offered to employees was largely adequate[35].

Nonetheless, major issues remain unaddressed. First, in a number of member states (Cyprus, Malta, Bulgaria, Estonia and Lithuania) none of the two agreements has been implemented. Even where implementation has occurred, this was often done in a way that excluded social partners (thus defeating the purpose of the agreement), or in ways that did not allow for a follow-up, or did not result in coverage of all employees. In other words, 'national procedures and practices' were not always followed through. In those countries where social partnership is particularly weak (e.g. CEE countries, the UK) informal modes of implementation were chosen and these hardly resulted in substantial change for employees. Furthermore, the actual process of implementation has been determined by the power struggle at national level between trade unions, employers and the state[36].

Nevertheless, both Telework and Stress at Work have, to various degrees, added to the body of labour market regulation in some member states. This was particularly important in some CEE states, such as the Czech Republic, where the Labour Code hardly covered such forms of employment before. This resulted in active social partner mobilization to address this issue and led to the introduction, for the first time, of explicit regulations concerning health and safety of such categories of employees[37].

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32 European Commission, *Social Europe Guide volume 2: Social Dialogue*, Luxembourg, Publications Office of the European Union 2012, p. 66.

33 Note that telework and stress at work had to be implemented by 2005 and 2007 respectively.

34 European Commission, *Report on the implementation of the European social partners' Framework Agreement on Telework.*, COM(2008) 412 final, 2008.

35 European Commission, *Social Europe Guide volume 2: Social Dialogue*, Luxembourg, Publications Office of the European Union 2012, p. 67.

36 T. P. Larsen & S. K. Andersen, *A New Mode of European Regulation? The Implementation of the Autonomous Framework Agreement on Telework in Five Countries*, [in:] *European Journal of Industrial Relations*, 13(2) 2007, pp. 181-98.

37 T. Prosser, *The implementation of the Telework and Work-related Stress Agreements: European social dialogue through "soft" law?*, [in:] *European Journal of Industrial Relations*, 17(3) 2011, pp. 245-60.

The Actors' View: the ESD Today and Tomorrow

What are the major obstacles the ESD faces and how can they be overcome? Moreover, to what extent do the two sides see the ESD through a common prism and to what extent does their evaluation differ? Finally, are there forms of the ESD that have withstood the test of time and therefore offer the possibility of a more influential Social Dialogue in the future?

CEE Enlargement and the ESD

It is difficult to assess the effects of CEE enlargement on the ESD at the current stage. Experience remains rather limited and that is due both to the recent nature of that particular enlargement round as well as the small number of cross-industry agreements reached since 2004. Nonetheless, the views of relevant actors are both highly relevant and revealing.

On the part of employers (BusinessEurope), enlargement is evaluated in positive terms. It has added to the diversity of the EU and has introduced much-needed dynamism, necessary at a time of "structural imbalances in the labour market" (Interview 7). Yet what is particularly interesting is that employers see enlargement as a factor that reinforces their reluctance to engage in binding agreements (Interview 2). This is due to the "heterogeneity" that enlargement introduced to the Union and the "complexity" it leads to in all policy fields, including social and employment policy. Under such circumstances and in the presence of a large number of participants in the ESD, binding agreements are "inflexible responses" to the needs of a '"flexible" labour market (Interview 2). On the other hand, enlargement has helped introduce another dimension to the cross-industry ESD. It has forced the two sides to augment their technical support to members from the new countries in implementing agreements but also coordinate their own responses and upgrade their role in the domestic industrial relations systems. Joint capacity building has now been undertaken jointly by employers and trade unions (Interviews 1, 2, 4 and 5) and has been hosted in different CEE countries. For employers, demonstrating the value of the ESD is particularly important (Interview 2) and that is why the translation of texts agreed in Brussels and the validation of agreements reached at European level has to occur jointly by the national social partners (ibid.). Clearly, this is a conscious effort to engage with the new member states' social partners and strengthen their role by highlighting the added value of the ESD and by making them face up to their new responsibilities of implementing autonomous Framework Agreements.

On the part of trade unions, what emerges is a more nuanced picture. CEE enlargement is described as 'factor No.1' in bringing about a weakening of the

cross-industry ESD in recent years (Interview 1).[38] In many countries in the region industrial relations structures are inadequate to support the ESD, particularly in the form of autonomous negotiations separate from Commission consultations. The fact that employers' associations in particular had to be built from scratch is indicative of the challenge faced. Such a view is confirmed by empirical findings regarding the implementation of agreements: until 2011 Bulgaria, Estonia and Lithuania were reporting non-implementation of the Stress Agreement and the Telework Agreement was not practically enforced in countries such as Romania and Cyprus. The coverage of dialogue being particularly low in many CEE states made implementation all the more difficult, while an added factor (affecting both CEEs and the rest) is that not all national member organizations have authority over their affiliates. Moreover, some CEE social partners "did not know how to go about implementing the agreement" (Interview 4) and this urged ETUC to strengthen its involvement in the region. In fact, the need to keep the ESD going has acted as a motivation for employers to team up with the unions on joint capacity building in CEE and by use of Regional Meetings to provide training (Interviews 2 and 4).

Joint capacity building and active involvement in CEE territory is a theme referred to frequently by the trade unions (Interviews 1, 4 and 5). Showcasing the ESD has become a matter of survival and enlargement to CEE has forced employers and unions to "work together to force Action Plans upon employers and unions at national level" (Interview 1). Through joint seminars and bilateral meetings ('Europe' employers with national employers and the same for trade unions), best practice is exchanged and a learning element is introduced in the operations of CEE social partners (Interview 1). In the long run this is expected to boost the capacity of CEE states to handle the ESD and allow them to play a more meaningful role both in Brussels and at national level. The fact that there are now 'independent forms of social partnership in CEE' that have broken away from state tutelage (Interview 3) confirms the positive impact that EU membership has already had in those countries. At present, the linguistic barrier (with minimal knowledge of English and almost no knowledge of French among trade unions and employers alike) is a major obstacle in relating Brussels to the national level (Interview 5).

A senior Commission official in charge of the ESD opines that enlargement in 2004 has provided all participating actors with a huge 'logistical and political challenge'. That round of enlargement was very different from what had occurred before yet this was not adequately understood among policy-making circles (Interview 6). Social dialogue takes time, and both BusinessEurope and ETUC have been consistent in promoting the ESD in the region. Nevertheless, social partnership has been low in the priority list of CEE states after 2004 and this is shown in their performance regarding both

38 Note that CEE enlargement was mentioned spontaneously by the interviewee; no list of factors was presented prior to this response.

the implementation and transposition of agreements. Not all EU-15 states have social dialogue settings befitting the ESD, however, and the fact that they missed the opportunity to redesign their systems in the wake of 'big bang' enlargement is 'regrettable', as it weakened the ESD altogether (Interview 6).

Autonomous Agreements: Implementation and Effectiveness

Ever since the early 2000s and in line with a new approach to EU governance, European social partnership acquired a more autonomous character. According to the new approach, the Commission would play a less active role in the ESD process, inviting the social partners themselves to do the hard work of negotiations instead. Parallel to consultations stemming from the Commission, which remained intact, the social partners would thus have the opportunity to showcase their ability of reaching mutually beneficial agreements when operating outside the "shadow of the law". A concrete example of the new approach to ESD, aside from the Framework Agreements and other joint texts (see Table 2) is the series of Work Programmes that have been negotiated and agreed upon by the two sides. These provide a roadmap of action for a period of two to three years. The current Work programme sets out a series of priority actions, including boosting the capacity of social partner organizations, analyzing in more depth the employment situation (including youth unemployment) and making sure that social dialogue instruments are better implemented at national level[39].

On the part of employers, autonomous framework agreements are welcomed. This is unsurprising, considering the obstacles that *BusinessEurope* had previously posed in reaching "biting" agreements. What is particularly interesting is the link between CEE enlargement and the autonomous agreements that employers establish. In a 'heterogeneous', enlarged Europe, such forms of social dialogue are the only way to make social partnership relevant and maintain its ability for compromise and mutually attractive solutions (Interview 2). Joint texts and evaluations are described as 'innovative' and an appropriate response to the challenges that the Union, as well as the social partners, face in today's complex governance structure. An example offered is the most recent cross-industry agreement on Inclusive Labour Markets. This was "*consciously* broad and general" (Interview 2, italics added) in the name of applying this agreement to the diverse circumstances of national members throughout the Union. When it comes to the actual implementation of the agreement, a number of member states have reported back to BusinessEurope (14 in total) and the results indicate "good but insufficient" implementation in the majority of member states. This may suggest a contradiction in the positive evaluation of autonomy combined with meagre results in the implementation of agreements.

39 ETUC, *Working Time negotiations: we regret that the employers proposals are very unbalanced*, Press Release, 2012. Available at: http://www.etuc.org/a/10658

The core of the employers' argument is that these agreements, as well as the rest of the social partners' tools, have allowed them to become more influential over time, especially *vis á vis* Commission consultations on labour market reform (Interview 2). There is therefore a reinforcing dynamic between social partner autonomy and the 'soft law' approach that the Commission and the Council have increasingly adopted.

Predictably, the trade union view on the same issue is less sanguine. The fact that new agreements are a sign of increasing autonomy is not shared by all trade union interviewees, as they are seen as part of the Commission's Social Programme (Interview 4). To the extent that poor implementation is contrary to EU law improving their implementation is a *sine qua non* for Social Europe (ibid.). In that sense, the interest on the employers' side for joint capacity-building projects and reinforcing the ESD at national level, particularly in the CEE area, is a fully logical result of the Union's legislative and political direction. The inclusive labour markets agreement is also seen as extremely general (Interviews 1, 3 and 5), although the fact that it resulted purely form a social partners' initiative is welcomed. However, a number of ETUC members complain about the content of the agreement and have shown their displeasure with its insufficient content (Interview 1). What unites different trade union views is the perception that employer engagement remains at a minimal level and allows them to present a picture of active ESD contribution; in reality, the argument implies, such a commitment is hardly present if the 'shadow of the law' is not evoked to force a proactive stance.

Having said that, not all interviewees representing the unions' side adopt a bleak view on recent agreements. For instance, it is argued that the stress at work agreement may have opened the Pandora's Box in the sense that it may allow the issue of working conditions to be discussed at more length at national level and thus force employers to concessions they have been unwilling to make thus far (Interview 4). ETUC is now in a position to stress the issue of work conditions, not least in the context of the crisis and the deterioration of working conditions this has introduced to a number of member states. This is seen as the "best Framework Agreement that did not become a Directive" (Interview 4) because it offers new possibilities for ETUC to insist on an issue that has until recently been absent from the ESD agenda. There already have been practical consequences deriving from the stress agreement: the harassment and violence accord reached between the two sides is evoked as proof of the positive impact the stress agreement had in focusing minds to more issues that affect the functioning of Europe's labour market and which need to be attended to as a matter of priority (Interview 4). Moreover, the issue of stress at work was introduced on the agenda of several member states after the agreement since it had not been taken up yet by the social partners at national level (Interview 5). A question that emerges, however, from this interpretation is whether the follow-up agreement on violence and harassment does not reinforce the perception of a successful application

of the "salami tactic" by employers in their engagement with the trade unions and /or the Commission.

Finally, the argument is made that autonomous agreements necessitated a "monitoring system" that the social partners had not yet established but which became central to the successful implementation of the agreements (Interviews 1 and 4). Awareness raising activities, joint capacity building projects, the establishment of Action Plans and trade union Implementation Reports are the main monitoring instruments that have since been developed and which continue to grow.

Commission and EP representatives see the emergence of "soft law" and the autonomous agreements in different ways. The MEP underlines that Framework Agreements have been a 'step backwards' for the ESD.[40] The failure to transpose legislation pre-existed this form of agreements, and the force of Commission Directives remains the most potent force in improving Social Europe and ESD effectiveness (Interview 3). In this regard, the OMC assumes a large portion of the blame, insofar as the approach adopted at the end of the 1990s for more flexibility by the then Head of DG EMPL has proven to be ineffective. **The OMC is seen as "naïve" in that it is a policy method that fails to take ownership of European governance and has not allowed social policy to overcome some of the limitations it had suffered from previously.** On the part of the Commission, the OMC and its consequences are seen as a natural result in the evolution of the EU. It should be clear, the argument goes, that the Commission helped *enhance* EU social policy competences through the adoption of the EES and thus placed the issue of employment on the EU agenda in a way that had no precedent (Interview 6). The OMC tools themselves allowed social partners to become more involved in EU governance, although it is accepted that on policy fields such as health and safety, employment and anti-discrimination there is today less EU legislation than in the past (Interview 6). Note that a further admission by a senior Commission official makes for a very timely reading: the issue of employment, it is said, is not seen as a priority today, at least not as much as debt reduction and growth[41].

The Salience of Politics: EU institutions and the ESD

From the outset, the ESD developed in parallel to the EU's political development and in line with EU competences on this policy field. The ESD benefited greatly from the activism of Commission President Delors and by the 1990s had reached a high level of institutional maturity. It is therefore important to assess the ESD in line with the Union's political development. In particular, it is significant to assess the direction of the ESD in the

40 Interestingly, ETUC and ETUI representatives do not makea as bold a claim.

41 The statement is very interesting if once considers that the intervieew took place at the end of June 2012. At the time, unemployment in the Eurozone stood at 11.2%, a record high, and the Union at 10.4%. These figures conceal major disparities from country to country, with Austria reporting a low of 4.5% and Spain 24.8%. Youth unemployment stoodf at 22.4% (EU 17) and 22.6% respectively (EU 27) (Eurostat 2012).

context of the changing political dynamics that elections and nominations cause both to the Council and the Commission.

Relations with the Commission are "very good" according to employers. They are widely consulted on a whole range of issues and their opinion is taken "strongly into account" by the Commission on social and labour market policy (Interviews 2 and 7). The decision by the Commission to adopt soft law techniques on labour market questions has been an "asset" and has strengthened the contribution of all sides to the search for more "flexibility and efficiency". What is more, BusinessEurope has been able to further strengthen its role during the economic crisis since its opinions, statements and declarations on job creation and growth have been taken very seriously by the Commission and other EU institutions. A confirmation of the harmonious relations between the Commission and BusinessEurope is the Europe2020 agenda, which is strongly supported by BusinessEurope. The agenda is realistic and aims at the right targets, it is argued, namely an increase in employment rates. The fact that it calls for "structural reforms" in Europe's labour market is a further important factor that enhances its appeal to employers; after all, what Europe needs is "better, not more, regulation" (Interview 2).

For the trade unions, things are more complicated. The Commission used to stand fully behind the ESD process and DG Employment in particular was a "strong ally" of ETUC (Interview 1). It is also stated that the social partners used to rely 'too much' on the Commission to bring forward dialogue structures and reach agreements (Interview 4). From a certain point onwards, identified at about the end of the 1990s (and coinciding with the turn towards soft law and the OMC) talk began of the need for "neutrality" towards both sides of industry (Interview 1) and a more "hands-off" approach to allow the social partners autonomous space (Interviews 1, 4 and 5). The practical consequences of this have been negative for the ESD as demonstrated in the failure to reach agreement on the important issue of agency workers (Interview 4), which closed down the legislative route supported by ETUC and its member organizations. Whilst previously the Commission was willing to exert overt pressure on employers and use the threat of legislation, this has long ceased to be the case (Interview 5). Unless the Parliament and the Commission undertake even rhetorical action employers are increasingly unwilling to engage (Interview 5).

On the part of the Commission, the critical attitude on the part of ETUC is rejected, despite the recognition that the Commission has been less active in the social policy sphere in recent times (Interview 6). The Commission, it is asserted, has been the main driver of the ESD and its continuous support is evident if one looks at its evolution since the mid-1980s. There is more that can and ought to be done, but member states are often to blame for failing to take up opportunities the Commission provides, not least through ESF funding (Interview 6). For the MEP interviewed, the main issue in this regard is not so much the political direction of the Commission but rather its resources. It remains

'under resourced' to the extent that it cannot monitor the effective implementation of ESD agreements (Interview 3). Its decision to opt for soft law and OMC is negatively evaluated though differentiated from the ESD process itself. That is rather curious considering the links between EU governance and the ESD functioning that Gold et al.[42] point to. What is stressed, however, is that the Europe2020 agenda is bound to fail, "just like the Lisbon Agenda" on grounds of its unrealistic targets and failure to involve the EP and the social partners adequately in its drafting. On the issue of Europe2020 and contrary to BusinessEurope, ETUC does not confirm wide consultation on the part of the Commission, and is sceptical as to its results. It appears to be, the argument goes, a further flexibilization attempt for Europe's labour markets (Interview 4).

It is important to underline that Social Europe has not been weakened in a uniform fashion and across the board by all EU institutions. For instance, whilst there is legitimate concern that ECJ rulings in cases such as Laval[43] make it increasingly difficult to shield social and wage standards in some industries and/or member states from overt competition, others have assisted the ESD and make cross-industry compromises more likely. For instance, ECJ rulings on overtime counting as working time in the context of the relevant 2003 Working Time Directive have contributed to the social partners' decision to start talks on the subject at the end of 2011[44]. Moreover, the EP has sought to lift the UK opt-out on the 48-hour regulation of the Directive, and this has necessitated active CBI engagement on the subject.

Social Dialogue at Sectoral Level: a balancing latecomer?

The analysis above suggests that the cross-industry ESD has faced a series of challenges in recent years. Though some agreements have had an impact on the labour market benefiting employees and improving conditions, most of the texts and declarations made are of a non-binding nature (see Figures 1 and 2). Moreover, the political constellation of power in the EU institutions and the autonomous path of the cross-industry ESD are fraught with difficulties.

In that light, it is interesting to shed some light on the sectoral dialogue (ESSD) as well. It will be argued that the ESSD provides room for further improvement and has grown quite substantially in recent years. It may therefore be wise to adopt a strategy that

42 M. Gold, P. Cressey & E. Léonard, *Whatever happened to Social Dialogue? From Partnership to Managerialism in the EU Employment Agenda*, [in:] *European Journal of Industrial Relations*, 13(1) 2007, pp. 7-25.

43 The case that was brought to the ECJ involved a Latvian company building a school outside Stockholm. A trade union-employer dispute over the wages paid to (mainly) Latvian employees on the site emerged and the ECJ ruling vindicated the employer in as much a sit declared that the Swedish trade unions' actions against the company were 'disproportional' to their demands. See Woolfson et al. 2010.

44 A.Broughton, *Social partners launch review of Working Time Directive*., 2012, European Industrial Relations Observatory online, http://www.eurofound.europa.eu/eiro/2011/11/articles/eu1111051i.htm

concentrates more energy and resources towards the reinforcement of this part of the social dialogue.

Although the origins of the ESSD go back to the establishment of the EU, it picked up speed only in the 1980s through the establishment of joint committees and informal working parties. However, these were largely informal working groups and participants complained about the non-binding character of the agreements reached[45]. The Commission endorsed such critique, and decided to set up SSDCs with the aim of making social dialogue at sectoral level more concrete[46]. Such formalization was accompanied by a series of other Commission initiatives, such as its 2004 Communication, requesting that the social partners clarify the structure of this level of social dialogue. Today the number of SSDCs exceeds 40, and social dialogue at this level has been on an upward trend for a number of years.

Research reveals that next to SD tools such as recommendations, joint opinions etc. the number of binding agreements has been on an upward trend since 2003[47] (Interview 5). Moreover, five of the agreements reached by the social partners since 2004 have been implemented via Directives, namely working time for seafarers (1999/63), working time of mobile civil aviation staff (2003/79/EC), working conditions for employees at rail services (2005/47/EC), prevention of sharp injuries (2010/32/EU), and the Maritime Labour Convention (2009/13/EU). Moreover, four agreements have been reached since 2004 that ought to be implemented via national practice in employment areas such as railway, multisectoral on crystalline silica (hazardous substance), hairdressers and chemicals. In fact, a Framework Agreement on the hairdressers' sector was successfully concluded in April 2012, pledging to monitor its implementation by establishing a working group with representatives from both sides[48]. Today, almost 75% of Europe's workforce (145 million people) is covered by more than 40 SSDCs[49].

Important problems remain and have to be addressed before the effect of the ESSD becomes more obvious. To start with, employees have formalized their representation in the relevant SSDCs through the EIFs who are fully recognized ETUC members. The employers have no equivalent structure and are hesitant to set these up, although BusinessEurope is constantly engaged with firms participating in the ESSD, not least through the European Network of Employers (Interviews 2 and 6). Further to the employers' lack of sectoral

45 B. Keller, *Social dialogues – the state of the art a decade after Maastricht*, [in:] *Industrial Relations Journal*, 34(5) 2003, pp. 418.

46 C. Degryse & P. Pochet, *Has European sectoral social dialogue improved since the establishment of SSDCs in 1998?*, [in:] *Transfer,* 17(2)/ 2011, p. 146.

47 ibid., p. 149;

48 *CoiffureEU* and *UniEuropa*, 2012.

49 European Commission, *Social Europe Guide volume 2: Social Dialogue*, Luxembourg, Publications Office of the European Union 2012, p. 38.

organization, CEEP has recently taken an initiative to host some European employers at sectoral level (Interview 6) On the part of the trade unions as well as the Commission, the ESSD is identified as the most dynamic element of the ESD, which manages to compensate for some of the shortcomings the cross-industrial level has revealed in the last decade (Interviews 1, 5 and 6). There is also a link between enlargement and the ESSD, with the latter making 'great inroads' in CEE states in recent years and thus helping ameliorate some of the effects of an overtly liberal economic policy paradigm (Interview 5).

Conclusion: building on ESD achievements and halting decline

A successful ESD is the best confirmation of the European Social Model as a concrete reality rather than as an abstract ideal. The fact that social partnership still delivers is fairly obvious considering that in the context of the crisis it has proven its worth in a number of member states. In Germany and Austria, the two sides have joined forces through agreements on work time restructuring to avoid painful layoffs. In Belgium and the Netherlands, crisis packages in 2009 and 2010 led to moderate wage increases, cuts on income taxes and incentives to employers to hire the long-term unemployed. Elsewhere, major disagreements prevented social accords and the escalation of the crisis has contributed to more unemployment and social misery. Spain illustrates the case very well[50].

Talks between ETUC and the employers' organizations on the Working Time Directive are of crucial importance in terms of its future role and its ability to reverse some of the setbacks it has dealt with in recent years. In December 2012 the talks broke down as the unions blamed employers for "imbalanced" proposals[51], and the ability of the cross-industry ESD to recover its lost momentum was further undermined.

A successful ESD is the best confirmation of the European Social Model as a concrete reality rather than as an abstract ideal.

Although joint texts regarding the crisis were signed between the social partners at sectoral level (for instance in the chemicals sector) the ESD as a whole has been a victim of the crisis too. Particularly at cross-industry level, the analysis above points to major weaknesses in its current function. Without addressing those, the future of European social partnership is bleak.

50 European Commission, *Industrial Relations in Europe*, Luxembourg, Publications Office of the European Union 2011 , p. 90.

51 ETUC, *Working Time negotiations: we regret that the employers proposals are very unbalanced, Press Release* 2012. Available at: http://www.etuc.org/a/10658

The set of major challenges that the ESD faces are the following:

Poor or inadequate implementation of agreements that do not become Directives.

As analyzed above and displayed in Figure 1, agreements (and especially those with a binding effect that translated into a Council Directive) are a very small percentage of what the ESD does. Strengthening this pillar is very significant, and this can only happen through an efficient implementation that will showcase the value of such agreements. At the moment, national resources by ETUC member organizations (as well as BusinessEurope members in the CEE states) are inadequate to fulfil this task. Both cross-industry organizations ought to reinforce their members' resources, and may need to request ESF or Commission assistance. Moreover, ongoing capacity building projects should continue, both in CEE states and Southern Europe. Ongoing evaluations display mixed results in terms of enforcement: should better implementation not be possible in forthcoming talks ETUC should inform the EP, Commission and employers accordingly and request from the Commission an initiative for implementation via a Directive. After all, conformity with labour law in the EU concerns the Commission too.

Unwillingness by employers to enter into binding agreements.

ETUC, national members and NGOs need to be made more aware of the opportunities that health and safety legislation offers to introduce progressive employment legislation. Interviews suggest that the stress at work agreement may be such a possibility, despite the fact that it is a Framework Agreement. Moreover, progressive political actors cannot afford to ignore the potential of mass mobilization and campaigns to ask for specific solutions. A good example is the European Minimum Wage, which had been taken up by the EP but remains unsolved. Finally, the potential of the sectoral social dialogue should be strengthened further, and trade unions ought to invest more in its success and ask for the Commission to do its bid in that direction too.

Managerial process not controlled by social partners, simply asked to implement.

Both sides of industry at confederal and sectoral level are currently left with little option but to rubber-stamp Council decisions. Moreover, these decisions are increasingly accruing an intergovernmentalist character that poses a major challenge to the role of other institutions in economic governance and limits the ability of social partners to engage actively in the debate. This is particularly regrettable in the context of a widening

economic crisis accompanied by rising unemployment and stagnating growth. A new EU governance architecture is in the making, and the social partners now have an opportunity to request, through a joint declaration, that the current hierarchy be changed and that decision-making be more integrated at EU level.

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List of interviewees

Interview 1: ETUC senior official (June 2012)

Interview 2: BusinessEurope official, SD department (June 2012)

Interview 3: S&Ds MEP (July 2012)

Interview 4: ETUI Senior Researcher (June 2012)

Interview 5: ETUC Director, July 2012
Interview 6: COM Official, DG EMPL (July 2012)
Interview 7: BusinessEurope Senior Official, SD Department (November 2012)

List of acronyms and abbreviations

CBI = Confederation of British Industry
CEC = *Confédération européenne des cadres*
CEE = Central and Eastern Europe
CEEP = *Centre Européen des Entreprises à Participation Publique*
DG EMPL = Directorate General for Employment, Social Affairs and Inclusion
ECJ = European Court of Justice
ECOSOC = Economic and Social Committee
EEC = European Economic Community
EES = European Employment Strategy
EIFs = European Industry Federations
EP = European Parliament
ESD = European Social Dialogue
ESF = European Social Fund
ESM = European Social Model
ESSD = European Sectoral Social Dialogue
ETUC = European Trade Union Confederation
ETUI = European Trade Union Institute
Eurocadres = Council of European Professional and Managerial Staff
ILO = International Labour Organization
OMC = Open Method of Coordination
QMV = Qualified Majority Vote
SAP = Social Action Programme
SCE = Standing Committee on Employment
SDC = Social Dialogue Committee
SEA = Single European Act
SSDC = Sectoral Social Dialogue Committee
TEU = Treaty on the European Union
UNICE = *Union des Industries de la Communauté Européenne*
UEAPME = *Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises*

Appendix

Table 1

European Social Dialogue Committees

Workers	Employers	Date of Creation
ETUC Eurocadres and CEC	BusinessEurope CEEP UEAPME	1992

Source: European Commission 2010

Table 2

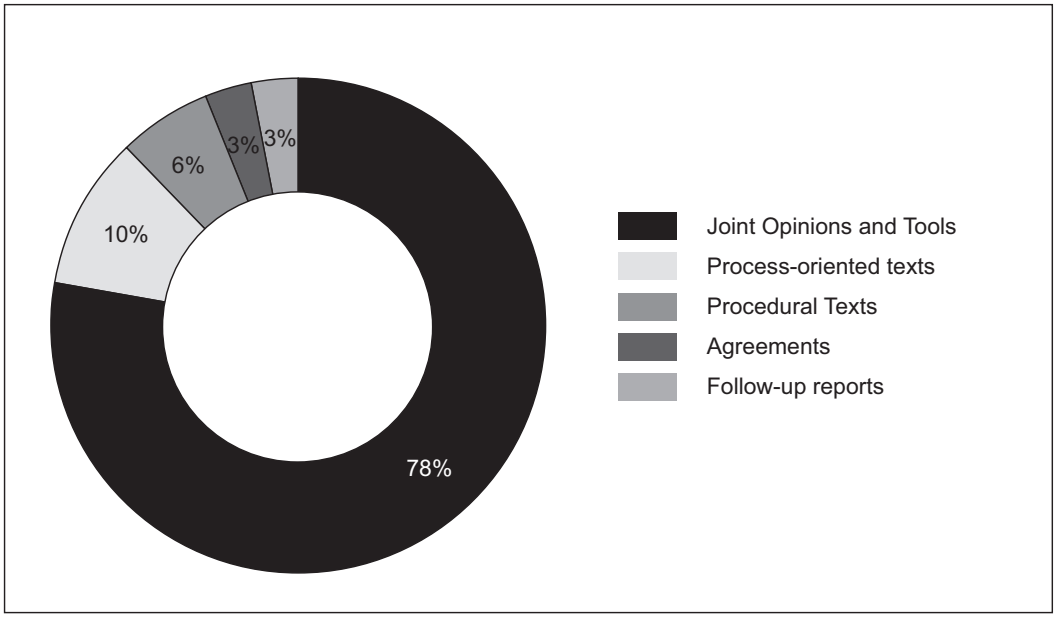
Social Dialogue Texts

Agreements establishing standards (Article 155(2) TFEU)	Framework Agreements	Implementation (by a Council Directive or by member organizations at national level)
	Autonomous Agreements	
Recommendations on standards and principles (standard-oriented texts)	Frameworks of Action	Follow-up at national level
	Guidelines and codes of conduct	
	Policy orientations	
Exchange of Information	Joint Opinions	Information diffusion
	Declarations	
	Tools	

Source: European Commission 2012

Figure 1

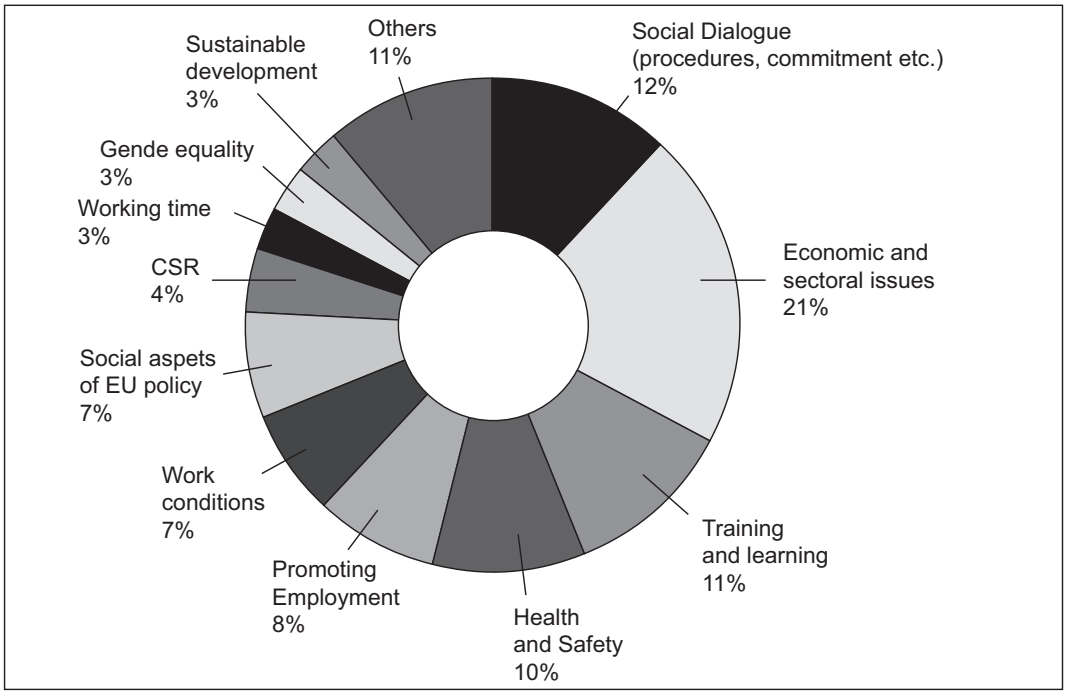
European Social Dialogue texts (cross-industry and sectoral), by type



Source: European Commission 2012

Figure 2

European Social Dialogue Texts (cross-industry and sectoral), by subject



Source: European Commission 2012

FOR A NEW SOCIAL DEAL

John HALPIN

Building a Progressive Coalition in the United States: from Robert Kennedy to Barack Obama

Key words

Progressives – Barack Obama – Robert Kennedy – Traffic-light Politics – United States

Abstract

This paper explores the development of the progressive coalition in the United States from the presidential campaign of Sen. Robert Kennedy in 1968 to the re-election of President Barack Obama in 2012. Demographic and geographic trends in the U.S. – coupled with splits in the white vote that typically favors conservatives – have helped to solidify an emerging coalition of young people, minorities, women, and professionals that are fueling progressive gains. The building of a new progressive coalition, first envisioned by Robert Kennedy, has also been aided by an ideological shift of the American electorate away from the Reagan-Bush era of trickle-down economics and social conservatism and towards the more pragmatic approach of Clinton-Obama. Obama's re-election in 2012 election provided a clear mandate for progressive policies that invest in education and infrastructure, protect key social welfare programs, address inequality, create a fairer tax system, and pursue more inclusive social policies. The paper then examines strategies for sustaining and growing this big-tent coalition and applies this model to the European context by promoting a „traffic-light" alliance of progressive forces among social democrats, liberals, and greens.

In March 1968, Senator Robert F. Kennedy, former Attorney General and brother of slain President John F. Kennedy, announced his candidacy for the President of the United States promising to lead a moral and political uprising to end the war in Vietnam and to fight the corrosive poverty afflicting American cities and rural areas. Affected greatly by the legacy of his brother, his growing alignment with the Civil Rights and anti-war movements, and his work to fight the war on poverty, Sen. Kennedy sought to do what no liberal politician before him had been able to accomplish - unite African Americans, Latinos, young people, and liberal intellectuals with blue collar whites to advance progressive causes and give political voice to the "have nots" in American society.[1]

Kennedy's blunt talk about the problems of "the other America" and the need for racial reconciliation and expanded opportunities for all people - across racial and ethnic lines - rallied diverse communities from small-town Indiana to college-towns and urban areas like Los Angeles. Had Senator Kennedy lived it is quite possible that he would have defeated Richard Nixon and set the country on a different course than years of corruption, war, and economic stagnation that followed.

Although his campaign lasted only 82 days before he was gunned down in Los Angeles - just a few months after the assassination of Dr. Martin Luther King, Jr. - Robert Kennedy's forward-looking vision and unique political strategy presaged a fundamental transformation of American liberalism away from its New Deal roots and towards the emergent coalition of minorities, young people, women, professionals, and middle class whites that would eventually elect Barack Obama in 2008 and re-elect him in 2012.

The decades following Kennedy's presidential run were not easy for center-left forces in the United States. Progressives faced numerous political difficulties, ideological set-backs, and outright campaign and governing failures. A resurgent conservative movement that gained strength during the 1970's and 1980's successfully shifted ideological discourse and public policy away from New Deal and Great Society liberalism and towards supply-side principles, social conservatism, and aggressive militarism. At the national level, the Democratic Party lost many Southern and Mountain West states and a large percentage of its white working class base to the reactionary conservatism of the Republican Party under Ronald Reagan and Newt Gingrich. The harsh reaction to the centrist Democratic

1 For more on Robert Kennedy's historic presidential campaign, see: A. Schlesinger, *Robert Kennedy and His Times,* Mariner Books, 2002; and Th. Clarke, *The Last Campaign: Robert F. Kennedy and the 82 Days That Inspired America*, Holt and Co., 2008.

presidencies of both Jimmy Carter and Bill Clinton signaled the difficulties progressives would continue to face from extreme conservative opponents.

These ideological and political streams eventually converged to reap the most damage during the failed presidency of George W. Bush in the early 2000's when the United States embarked on series of policy mistakes from the wars in Afghanistan and Iraq to unfunded tax cuts for the wealthy and the dismantling of federal regulations to protect the environment, public health, and the economy.

Despite these setbacks, the tide has clearly turned for progressives as the conservative realignment in American politics has reached its peak and is rapidly declining due to long term changes in American society and politics. Robert Kennedy's vision - seemingly delayed and blocked by right-wing forces - has now become a political reality that conservatives will have to contend with for decades.

The Rise of the Obama Coalition

President Barack Obama won reelection in 2012 with 50.6 per cent of the popular vote and 332 Electoral College votes - the first Democratic president since Franklin Delano Roosevelt to win two terms of office with more than 50 per cent of the total vote. But unlike Democratic victories of the past, Obama was able to achieve victory with a historically low percentage of the white vote. According to the national exit poll, Obama achieved victory by carrying 93 per cent of African Americans, 71 per cent of Latinos, 73 per cent of Asians, and only 39 per cent of whites - slightly less than Democratic presidential candidate Michael Dukakis' share of the white vote in 1988.[2]

Why was this possible? The shifting demographic and geographic composition of the American electorate - rising percentages of working women, minorities, younger and more secular voters, and educated whites living in more urbanized states and declining numbers of white working class and more rural voters - has made a Kennedy-style coalition possible and increased the relative strength of the Democratic Party in national elections.

The most important trend fueling this shift is the rise of minority voters in the U.S.- African Americans, Latinos, Asians, and other non-white groups. In 2012, minorities constituted 28 per cent of the American electorate compared to 15 per cent of voters in 1988. President Obama won 80 per cent of minority voters in 2012, the same level he achieved in 2008. If this level of support from these communities continues, the future looks promising for the progressive coalition. The minority share of the electorate is expected to rise steadily over the next two decades further solidifying the Democratic advantage in American politics and making the path to majority

2 http://elections.nytimes.com/2012/results/president/exit-polls

status very difficult for conservatives without significant changes in their outreach, policy, and ideology.

Similarly, the white vote - the bedrock of the conservative coalition - is now split evenly between white working class voters and white college educated voters (36 per cent of the electorate, respectively), a trend that favors Democratic forces given the geographic distribution of the white vote. Although white working class support for Democrats has been low for decades, the importance of this bloc in determining elections continues to decline. White working class support for Democrats also remains higher in key battleground states that shape U.S. presidential elections - states such as Ohio, Pennsylvania, and Wisconsin - than in other less electorally important states concentrated in the South.

At the same time, white college educated support for Democrats has been growing for decades and remains strong in emerging battleground states like Colorado and Virginia thus strengthening Democratic candidates when combined with rising numbers of African American, Latino, and Asian voters in these areas.

In contrast, the Republican Party's coalition of older, whiter, more rural and evangelical voters is shrinking and becoming more geographically concentrated and less important to the overall political landscape of the country. Consider this: Gov. Mitt Romney won white working class voters by a 25-point margin (61 - 36 per cent) in 2012 - and increased the Republican margin among white college graduates slightly from 2008 - and still lost the national vote by nearly 4 percentage points.

The building of a new progressive coalition along Kennedy's line has also been aided by an ideological shift of the American electorate away from the Reagan-Bush era of trickle-down economics and social conservatism and towards the more pragmatic approach of Clinton-Obama. The President's re-election in 2012 election provided a clear mandate for progressive policies that invest in education and infrastructure, protect key social welfare programs, address inequality, create a fairer tax system, and pursue more inclusive social policies. Conservative ideas about the economy and domestic issues are no longer credible to millions of voters who view the Republican Party as agents of the rich and powerful. So even with ongoing stagnation of the U.S. economy and record high unemployment, post-election polling showed that President Obama enjoyed a 51 - 42 per cent margin over Governor Romney on who would be best at "restoring the middle class."[3]

Thus, President Obama and his progressive allies have successfully stitched together a new coalition in American politics, not by gravitating towards the right ideologically or downplaying the diversity of his coalition in favor of white voters. Rather, they did it by uniting disparate constituencies - including an important segment of the white working class - behind a populist progressive vision of middle class economics and social advancement for all people regardless of race, gender, ethnicity, religion, or sexual orientation.

3 http://www.democracycorps.com/attachments/article/931/dcor.caf.postelec.memo.111312.FINAL.pdf

This successful progressive philosophical vision, now validated in two key elections, is grounded on the notion that both private enterprise and government are essential for opportunity and growth; that our economy should work for everyone, not just the wealthy few; that economic and social inequalities should be reduced; and that America must work cooperatively with others to solve global problems. This basic vision was put in place through a series of critical policy choices made by President Obama and progressives during his first term that helped to put the country back on track for economic and social success, extend health coverage to all Americans, expand civil rights, and protect the nation from external threats while ending two wars, and repair our standing in the global community. This progressive vision was tested in the midst of the worst economic crisis since the Great Depression and in the face of unyielding opposition from conservatives.

But with the results of the 2012 election, it is clear that the age of Reagan and extreme conservatism has given way to the age of Obama and pragmatic progressivism.

Much more remains to be done in terms of economic recovery and strengthening of the middle class by progressives. And conservatives will likely try to shift ground somewhat to accommodate the new demographic and economic reality. But with the results of the 2012 election, it is clear that the age of Reagan and extreme conservatism has given way to the age of Obama and pragmatic progressivism.

Given the deep divisions in the country and the ongoing skepticism of government, the long term prospects of this progressive coalition and vision will ultimately depend upon the delivery of greater economic opportunity and security for a majority of Americans families. Should President Obama and progressives deliver on their agenda for the nation, and improve the economic standing of middle- and working-class families, the potential for solidifying and expanding this progressive coalition well beyond the Obama years will only increase. [4]

Long Term Strategies for Growing the Progressive Coalition

Given the larger political context in the U.S., progressives remain in a strong position ideologically and politically. The progressive coalition is growing in numbers and coalescing around shared values and a vision of a more egalitarian America with economic and social opportunity for all, a strong middle class, shared tax burdens, and public investments in

4 The analysis presented here is adapted from a series of post-election reports written by : R. Teixeira & J. Halpin, including: *The Return of the Obama Coalition*, Washington, Center for American Progress, 2012; and *The Obama Coalition in 2012 and Beyond*, Washington, Center for American Progress, 2012.

the foundations of national prosperity. In contrast, the conservative coalition is shrinking; its ideology is becoming more rigid and exclusionary; and it is failing to offer policies that appeal to a large segment of the population.

Progressives are building a big tent coalition with inclusive policies to help the middle class while conservatives are relying upon a diminishing group of voters and economic policies designed primarily to benefit the wealthy and well-connected.

We must keep in mind, however, that politics is never predetermined and demographics alone will not deliver more progressive gains and achievements. Although Barack Obama's electoral victories in 2008 and 2012 were critical, they will not ensure success for progressives in the future.

At this point, it is unclear whether the high vote margins and voter turnout for President Obama among African Americans, Latinos, Asians, young people, women, and others can be sustained in other election settings and with different candidates. Conservatives will certainly try to adjust their public face and agenda somewhat to accommodate the changes in the electorate. With inroads into key Democratic constituencies such as Latinos, women, and young people - and more aggressive voter outreach and persuasion efforts in key states - Republicans can certainly find their own path to victory at the national level. And despite demographic and ideological trends that favor progressives, conservatives continue to hold strengths of their own that can outweigh the strengths of progressives.

As the 2010 election highlights, Republicans can easily win when the electorate is markedly older, whiter, and more conservative. If the Obama coalition only shows up every four years, progressive governance and long term majority will never be fully achieved.

Similarly, the fragmented American constitutional system - coupled with ideological unity of Republicans in Congress - gives conservative forces multiple veto points over progressive legislation and the ability to thwart a more expansive set of policies on the economy, jobs and growth, and fairer taxation (as witnessed most recently with the "fiscal cliff" and debt-ceiling debates in Congress). Conservatives control many legislative bodies and governor's seats in the states thus increasing their ability to block federal action on matters like health care and encouraging further attacks on public employees, benefit cuts for the poor, and punitive social policies aimed at communities of color, women, and gays and lesbians. Likewise, Americans remain deeply skeptical of the federal government and the capacity of politics to deliver necessary change.

Each of these trends makes it harder for progressives to solidify their majority and to govern in a way that improves people's lives in a concrete manner. President Obama got a reprieve from the poor economy in 2012 as voters chose to give him more time to overcome the failed policies of the Bush era and to help move the economy onto surer footing. But if the President and progressives cannot deliver on their promises on jobs and the economy, the potential for electoral reversal at the national level is quite possible in four years regardless of conservative intransigence.

What should progressives do going forward based on what we know about the electorate and the ideological orientation of the country?

Strategic Priority One

Progressives must find a coherent and compelling way to unite the rising electorate of communities of color, young people, women, and professionals with the needs and aspirations of other white working class voters. This was the original vision of Robert Kennedy in 1968. There are many solid tactical ideas on the organizational, messaging, and outreach fronts that should be considered. But above all, this will require a relentless focus on social opportunity for all people and an economic agenda that puts the interests of working- and middle-class families first.

The progressive coalition should be the place Americans of all stripes can join together to promote their own economic opportunities and personal freedoms while fighting for the success and advancement of others who are less fortunate and more marginalized. On the economic front, the burgeoning research and policy agenda around "equity and growth" (as discussed in R. Bazillier's excellent paper in this volume) provides a good model for policies that can successfully unite a multi-racial, multi-ethnic, cross-class coalition and convincingly challenge the dominance of laissez-faire policies in government.

Strategic Priority Two

It must be made clear to all voters that in the progressive coalition all voices are valued, all opinions are respected, and all ideas are taken seriously. Unlike the conservative coalition, progressives should seek to invite people in rather than push them out. In order to keep a fractious and diverse coalition together, progressives must continue to tolerate differences on both economic and social policies and create institutional mechanisms for people to learn from one another and to gain from the experiences of those in different communities. Similarly, the progressive coalition must continue to represent the changing face of America by promoting more people of color, women, gays and lesbians, and working class Americans into positions of authority in our organizations, party structures, and electoral campaigns.

Strategic Priority Three

Progressives must find ways to become a more permanent social movement force that consistently organizes and engages a diversity of Americans to advocate for reforms and political change. Gearing up for highly expensive elections every four years is important but wholly insufficient for achieving real progressive change. Given the

range of problems facing the country from inequality and a stagnant economy to climate change and corporate money in politics, progressives need to be active on all fronts at all times. This will require political parties and leaders learning more from the groups on the ground organizing working class whites and people of color and from groups like Occupy Wall Street that have successfully engaged young people and activists across the ideological spectrum to fight economic inequality. The money and energy spent winning elections will be of little use if it is not followed by the resources and strategies necessary to keep the Obama coalition in permanent motion to overcome the obstacles to progressive change.

President Obama and progressives have proven they can build a powerful and growing coalition to win elections. Now they must find ways to permanently engage a diverse cross section of Americans in support of government policies and investments that will produce a stronger middle class with rising opportunities and personal freedoms for everyone.

Applying the U.S. Model to Europe: Traffic Light Politics

Does the U.S. example of progressive coalition building from Robert Kennedy to Barack Obama offer any useful lessons or guidance for European progressives? Yes, with the obvious caveat that the unique constitutional structure and two-party system in the U.S. forces most progressive voters into one political party despite their diverse backgrounds, beliefs and policy ideas. Without this structure, the Democratic Party in the U.S. would likely fracture into a number of ideological blocs and political parties that are the norm in Europe. But even with the advantages of an ideologically-aligned, two-party system, the strategic choices for coalition building in both the U.S. and Europe seem similar.

First, it is clear that the core political challenge for traditional progressive parties is to shape a new political identity capable of bringing together a diverse group of voters including segments of the working class; middle class voters and professionals; immigrants and minorities; women; young people; and single and secular voters.[5] Although demographic shifts vary significantly across European countries, the broad trend of declining working class strength and rising education, white collar employment, secularism, and ethnic diversity among European electorates is one that will likely continue.

Fortunately, as unruly as this coalition may seem, it is ideologically ripe for consolidation. If progressive forces in Europe could create new structures and governing coalitions that

5 For more analysis along these lines, see : M. Browne, J. Halpin & R. Teixeira, *From Welfare State to Opportunity State*, Washington, Center for American Progress, 2011.

bring together a segment of traditional social democratic voters, greens, social liberals, and progressive social movements they could unite a growing political coalition behind a common agenda based on economic equality and opportunity, personal freedom, and ecological sustainability.[6] This new political force would be a powerful antidote to center-right and extremist politics that thrive on social and economic divisions between diverse populations.

Second, it is crucial to recognize that this new coalition must be nurtured both inside and outside of traditional party structures. Although the Obama campaign played a huge role in organizing and mobilizing a diverse cross-section of voters, much of the hard work trying to connect disparate groups - for example, minority communities with whites, union members with environmentalists, urban voters from coastal cities with rural voters from Midwest and southern states - happened within specific battles at the state and local level for things like a living wage, labor rights, restrictions on predatory lending by banks, green jobs and environmental protections, and gay rights and reproductive freedoms for women. Elections bring people together behind candidates and parties but social movements and other issue campaigns keep people together to advance causes and values they believe in passionately.

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Third, European progressive forces should seek to be more participatory and open to diverse inputs and points of view. One of the great advances in American progressive politics over the past decade was the rise of the progressive blogosphere and the "netroots" community. Prior to the Obama years, the traditional progressive movement in America was dominated by Democratic party members, big non-profit and single issue groups, unions, university scholars, and journalists for mainstream and liberal publications. This was an elite crew that mostly set the agenda and expected others to fall in line come election time.

All of this shifted considerably with the advent of internet-based organizing and writing that nurtured a new generation of progressive activists to hash out political strategy, define ideological positions, determine policy ideas, and streamline participation in campaigns and elections. In contrast to the more hierarchical conservative movement, the progressive movement in the Obama years offered multiple entry points for people of divergent backgrounds and ideas and encouraged cooperation and debate across racial, ethnic,

6 For more suggestions on a new progressive agenda for European center-left see : M. Browne, J. Halpin & R. Teixeira, *A New Progressive Alliance: The Case for Traffic Light Politics*, Washington: Center for American Progress, 2012.

and ideological lines.

Finally, it's important to understand that the process of creating and nurturing a new coalition cannot be solved within one election cycle or even a few. Ideological and political differences exist for rational reasons and it takes years of patient organizing - and potentially many fights - to bring diverse people and parties together. Losing certainly focuses the mind. The progressive resurgence in the U.S. only emerged after years of frustrations and many electoral defeats. But the concentrated efforts to build unity across progressive communities - and respect and include a new generation of activists and leaders - has paid off just as the conservative movement in the U.S. has reached a breaking point in terms of its ideological inflexibility and dogmatism.

The U.S. may not offer a perfect model for progressives elsewhere. But the successful process of coalition building in America could easily be replicated in Europe should progressive groups and parties come to see themselves as partners and allies rather than adversaries and take concrete steps to solidify a common economic and social agenda that can energize voters across the ideological and partisan spectrum.

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Biographies

Rémi BAZILLIER is an assistant professor at the University of Orléans and a research affiliate at the Laboratoire d'Economie d'Orléans (LEO-CNRS). He is a member of the FEPS Scientific Council and since its establishment, a member of the FEPS Next Left Focus Group. R. Bazillier's research focuses on development and labour economics. His current work studies the economic consequences of labour standards, the linkages between migration and social conditions and the influence of Corporate Social Responsibility. R. Bazillier received his Ph.D. in Economics from the University of Paris I Panthéon-Sorbonne in 2007. He has written a number of papers published in international peer-reviewed journals including *World Development, Journal of Development Studies, and Revue Française d'Economie.* He recently published a book (*„Le travail, grand oublié du développement durable"*, col. eDDen, ed. Le Cavalier Bleu, Sept. 2011, 224p) on the linkages between Labour and Sustainable development. R. Bazillier's website is: http://remi.bazillier.free.fr.

Andrius BIELSKIS is Professor of Political Theory at Mykolas Romeris University, Director of the DEMOS Institute of Critical Thought and a leading public intellectual in Lithuania. Previously, he was Professor at ISM University of Management and Economics. He received his MA in Politics from the University of York and PhD in Philosophy from the University of Warwick, and has taught political and moral philosophy at several British and European universities. He is the author of numerous scholarly articles and of *Towards a Post-Modern Understanding of the Political* (Palgrave, 2005), *Democracy without Labour Movement?* (Kitos knygos, 2009). Andrius is a founding member both of the progressive intellectual and political movement New Left 95 and of the DEMOS Institute of Critical Thought. He also writes political commentaries for the Lithuanian daily Delfi.lt. His research focusses on the utilization of both virtue ethics and Marxism in constructing an alternative political, economic and institutional order in our post-modern world. Andrius is currently finishing a book on ideology, faith and emancipation which is to be published by DEMOS in 2013. He has also been awarded three years of research leave by the Research Council of Lithuania, which he will use to write a book (for publication in both Lithuanian and English) on structures of meaning, and has been appointed an adviser to the Prime Minister of Lithuania, Algirdas Butkevičius. A. Bielskis is a member of the FEPS Next Left Focus Group.

Patrick DIAMOND is senior research fellow at Policy Network and Gwilym Gibbon Fellow at Nuffield College, Oxford. He is a Research Fellow at Manchester University and a Visiting Fellow in the Department of Politics at the University of Oxford. Patrick is also an elected member of Southwark Council. He is a member of the FEPS Next Left Focus Group since its beginnings. P. Diamond is the former Head of Policy Planning in 10 Downing Street and Senior Policy Adviser to the Prime Minister. Patrick has spent ten years as a Special Adviser in various roles at the heart of British Government, including No.10 Downing Street, the Cabinet Office, the Northern Ireland Office, and the Equality and Human Rights Commission (EHRC) where he served as Group Director of Strategy. His recent publications include: *Beyond New Labour* (with Roger Liddle, 2009); *Social Justice in the Global Age* (with Olaf Cramme, 2009); and *Global Europe, Social Europe* (with Anthony Giddens, 2006).

Karl DUFFEK, born in 1962, is *Director of Renner Institut and Vice President of the Foundation for European Progressive Studies (FEPS)*. Mr Duffek finished his studies of German Language and Literature, English and American Language and Literature, Political and Social Sciences at the University of Vienna, Austria and the University of Hagen, Germany. In 1986 he graduated as Mag. Phil. In the years 1985 – 1987 Mr Duffek served as Member of the Representative Body of the Department of Humanities of the University of Vienna, chairing its work in the years 1985 – 1986. From 1988 till 1992 Mr Duffek was a fellow of Renner Institut (the Political Academy of the Sozialdemokratische Partei Österreichs (SPÖ), in charge of education policy and social sciences. In 1992 he became Deputy Director of this Institute, which function he held for six years. Since 1997 till 1998 Mr Duffek was Secretary of the Programme Committee and Coordinator of the new Political Platform of the SPÖ and following that he served as the SPÖ Federal Secretary for Education. Since 1999 Mr Duffek has been Director of Renner Institut and a Special Advisor to the SPÖ party leadership on the Programme and Ideological issues, and currently he also serves as SPÖ International Secretary. He published several books, among which there are: "*Social Democracy and Education"*(eds.) F Becker, K. Duffek, T. Morschel, Amsterdam 2008/Graz-Wien 2007; „*Sozialdemokratische Reformpolitik und Öffentlichkeit*", F. Becker, K. Duffek, T. Morschel, Wiesbaden 2007; "*Moderne Österreich*", (eds.); P. Filzmaier, P. Plaikner, K. Duffek, Wien 2007; "*The EU – A Global Player?*", R. Cuperus, K. Duffek, A. Froschl, E. Morschel, Wien-Berlin 2006.

Alfred GUSENBAUER, born 1960, was federal Chancellor of the Republic of Austria and member of the European Council between January 2007and December 2008. He led the Sozialdemokratische Partei Österreichs (SPÖ) between the years 2000 and 2008. Dr. Guesenbauer studied law, philosophy,political sciences and economy at the University of Vienna and there obtained Ph. D. in political sciences in 1987. Dr. Gusenbauer began his political career in the Sozialistische Jugend Österreichs (SJÖ), of which he was President from 1984 till 1990. Dr. Gusenbauer was Member of the Austrian Parliament from 1993 till 2007; Member of Parliamentary Assembly of the Council of Europe from 1991 till 2007; and was Chairman of the Social, Health and Family Affairs Committee of the Council of Europe from 1995 till 1998. He has been actively engaged in the Party of European Socialists (PES), as the party's Vice-President and in the Socialist International as its Vice President since 1989. Dr. Gusenbauer was Professor-at-Large at the Brown University in Providence, Rhode Island; is a Visiting Scholar at Harvard University and James Leitner Fellow for Global Affairs at the Columbia University of the N.Y.C. Furthermore, Dr. Gusenbauer is President of the Renner Institut, President of the Austrian-Spanish Chamber of Commerce, CEO of Gusenbauer Projektentwicklung und Beteiligung GmbH and chairs several boards, as i.e. STRABAG SE. Dr. Gusenbauer holds a honorary doctorate of the Hertzliah University of Israel and is Senator of the European Academy of Sciences. Since the beginning of the initiative in June 2009, Dr. Gusenbauer chairs the Next Left Research Programme of the Foundation for European Progressive Studies (FEPS).

John HALPIN is a senior fellow at the Center for American Progress (CAP), which is a progressive think tank based in Washington D.C and which focuses on political theory, communications and public opinion analyses. J. Halpin is the co-director and creator of the Progressive Studies Program at CAP, an interdisciplinary project researching the intellectual history, foundational principles and public understanding of progressivism. J. Halpin is, together with John Podesta, a co-author of „The Power of Progress: How America's Progressives Can (Once Again) Save Our Economy, Our Climate, and Our Country" (published in 2008). Prior to joining CAP, he as a senior associate at Greenberg Quinlan Rosner Research, providing strategic guidance and public opinion research for political parties and candidates including: Al Gore's 2000 presidential campaign, the British Labour Party, The Israeli Labour Party, the Austrian Social Democrats, and a range of congressional, state legislative and initiative campaigns in the U.S. J. Halpin received his undergraduate degree from Georgetown University and his M.A. in political science from the University of Colorado, Boulder. He lives in Baltimore with his wife and two children.

Ania SKRZYPEK, (Skrzypek-Claassens), born in Warsaw in 1979, is Senior Research Fellow at the Foundation for European Progressive Studies (FEPS). She holds Ph.D. cum laude in political sciences from the University of Warsaw, which degree she obtained for her thesis "Cooperation of the socialist and social democratic parties in uniting Europe. From Liaison Bureau to PES. 1957 – 2007." (also published in book format in 2010). Before joining FEPS in 2009, A. Skrzypek worked as younger researcher at the Faculty of Journalism and Political Sciences at the University of Warsaw (2003 – 2009) and also served as twice consecutively elected Secretary General of Young European Socialists (ECOSY, 2005-2009). Among her responsibilities at FEPS, she is in charge of the Next Left Research Programme, she co-coordinates FEPS Young Academics Network (FEPS YAN), is a co-editor of the Next Left Book Series. She was a Managing Editor of FEPS Scientific Magazine "*Queries*" in years 2009 – 2012. She is an author of over 50 published articles and reviews, and among her latest publications are: "*Winning For Real. The Next Left taking the Chance to Shape Europe for the 21st century. 10 fundamental challenges*" (issued in English and French in November 2012), "*Unleashing Competitive Spirit. The Role of Europarties in Politicizing Europe*" (published by FEPS and Italiani Europei in February 2013) and "*Europe. Our Common Future. Celebrating 20 years of the Party of European Socialists*" (presented at the PES Jubilee in February 2013).

Ernst STETTER, born in 1952, was nominated as Secretary General of the newly created Foundation for European Progressive Studies (FEPS) on January 30th 2008. He is also a regular commentator on EU affairs in the media.In 1976 Ernst Stetter began his professional career as a lecturer in economics at the DGB Trade Union Centre for Vocational Training in Heidelberg. From 1980 to 2008 he worked for the Friedrich Ebert Stiftung (FES) in various positions. He spent the first four years at the FES as a Consultant in Dakar, Senegal. In 1988, Ernst Stetter was appointed as Head of the Africa Department. In 1994 he started working as Head of the Central Europe Unit. In 1997 he moved to Paris and became the Director of the FES Office in France while in 2003 he was appointed as Director of the EU-Office of Friedrich-Ebert-Stiftung (FES) in Brussels. Ernst Stetter is an economist and political scientist. He studied in Tübingen and Heidelberg (Germany) focusing on international trade, finance, economic and social policy as well as development issues. In 1980 he obtained his PhD in political science for his dissertation entitled The Association of ACP-Countries (Lomé I and II) to the European Community and the STABEX-System. In 2003 he received the French decoration of Chevalier de l'Ordre national du Mérite.

Dimitris TSAROUHAS is Assistant Professor in European Politics and Jean Monnet Chair at the Department of International Relation at Bilkent University in Turkey. He sits at the Scientific Council of FEPS, is a member of the FEPS Next Left Research Group, the editorial board of *Social Europe Journal* and the Executive Committee of the Greek Politics Specialist Group (GPSG) of the British Political Studies Association. Dr. Tsarouhas' main research interests include Europeanization, social and labour policy and public policy reform. His research seeks to transcend disciplinary, dividing and incorporating insights from IR, comparative politics and political economy. He is the author of "*Social Democracy in Sweden*" (London and New York: IB Tauris) and co-editor of "*Bridging the Real Divide: Social and Regional Policy in Turkey's EU Accession Process*" (Ankara: METU University Press). He has written a number of articles for journals such as *New Political Economy, Public Administration, European Journal of Industrial Relations, Social Politics, Social Policy & Administration, Southeast European & Black Sea Studies and Armed Forces & Society.*

Ignacio URQUIZU, born in 1978, has a PhD in Sociology at Complutense University of Madrid and is PhD-Member of Juan March Institute. At this moment, he is Lecturer in Sociology at Complutense University of Madrid and collaborates on Alternatives Foundation, where he was Subdirector of *Estudios de Progreso*. He has been *Visiting Fellow* at the Institute for Quantitative Social Sciences at Harvard University (Cambridge, EEUU), European University Institute (Florence, Italy) and University of Essex (Colchester, UK). Moreover, he has taught Comparative Politics at George Washington University (Madrid Study Center), University of Essex, Pablo Olavide University and Universitat Oberta de Catalunya. He is author of "*La crisis de la socialdemocracia: ¿Qué crisis?*" (Madrid: Catarata), manage a book collection about social democracy and author of journal articles and chapters on electoral behaviour and positive political theory. I. Urquizu is a member of the FEPS Next Left Focus Group.

FEPS Publications

←NEXT LEFT→

***"Next Left* – Renewing social democracy"** is the first volume of what has become a popular series of publications. This part is specifically devoted to analyses of the crisis (as evaluated in the aftermath of the 2009 European Elections) and to identifying the elements which, reviewed and renewed, could transform social democracy into a movement capable to shape the 21st century.

Volume I opens with the reflections by Poul Nyrup RASMUSSEN, President of the PES and former Prime Minister of Denmark; and of Dr. Alfred GUSENBAUER, Chair of the FEPS *Next Left* Research Programme and former Chancellor of Austria. Their conclusions bridge with the unique collection of interdisciplinary reflections from all across the continent, which features the main disputants of the think tanks' renewal debate on both European and national levels.

After a successful launch at the PES Congress in Prague in December 2009, the book was also presented at numerous national Round Tables held by FEPS together with its member foundations in 2010. Last but not least, it also became an inspiration for a debate organised the same year at Brown University in Providence, US.

"*Next Left* – The Leaders' Visions for Europe's Future" is the volume II of the series, presenting a unique collection of 28 groundbreaking speeches of progressive European leaders. Composed of 6 chapters (*"Time for a New Direction", "Enduring Values, Enduring Virtues", "Breaking down Neo-Liberal Myths", "Together we are stronger", "Jobs, welfare and prosperity", "Beyond the Nation State"*), the book mirrors the social democratic responses to the world and European crisis, indicating also the path ahead for the left.

Featuring

Sigmar GABRIEL, Martine AUBRY, Zita GURMAI, Martin SCHULZ, Mona SAHLIN, George PAPANDREOU, Jose Luis RODRIGUEZ ZAPATERO, Poul Nyrup RASMUSSEN, Alfred GUSENBAUER, Borut PAHOR, Jutta URPILAINEN, Eamon GILMORE, Caroline GENNEZ, Elio DI RUPPO, Jens STOLTENBERG, Werner FAYMANN.

RennerInstitut

←NEXT LEFT→

"Towards a new strategy" constitutes the 3rd Volume of the "*Next Left*" Books' Series. Presenting a handful of stimulating ideas, this book part represents a decisive shift of the focus: from critical analyses of the crisis of social democracy to a proposal on what it could become in order to be a leading political force in the 21st century.

The articles gathered here provide a solid synthesis of a year-long research, of which outcomes became an inspiration for progressive movement on both the national and the European levels. The material reflects the main threads of the 4 colloquiums, organized by FEPS together with Renner Institut, which took place in Brussels and gathered more than 150 high level participants. At the same time it also echoes 14 round tables that FEPS held in respective EU member states thanks to the cooperation with its member foundations, involving more than 2000 academics, politicians and experts. As such therefore, this book presents itself as a unique compilation of the points raised about the renewal of social democracy on all levels and across the continent.

"*Towards a New Strategy*" opens with a foreword by Dr. Alfred GUSENBAUER, Chair of the "*Next Left*" Research Programme. Further the volume covers four chapters: "*Responding to Contemporary Society*", "*Our Values in a Changing World*", "*A New Socio-Economic Paradigm*" and "*Mobilizing International Solidarity*". Coherently to diverse profiles of the authors and their various expertise, the structure and the tone of the respective texts differ: from longer elaborations to short and sharp statements; and from theoretical deliberations to concrete policy recommendations. This diversity is a very interesting character of the "*Next Left*" series, proving that a multifaceted approach is the key to success in ensuring the future for the progressive alliance in the 21st century.

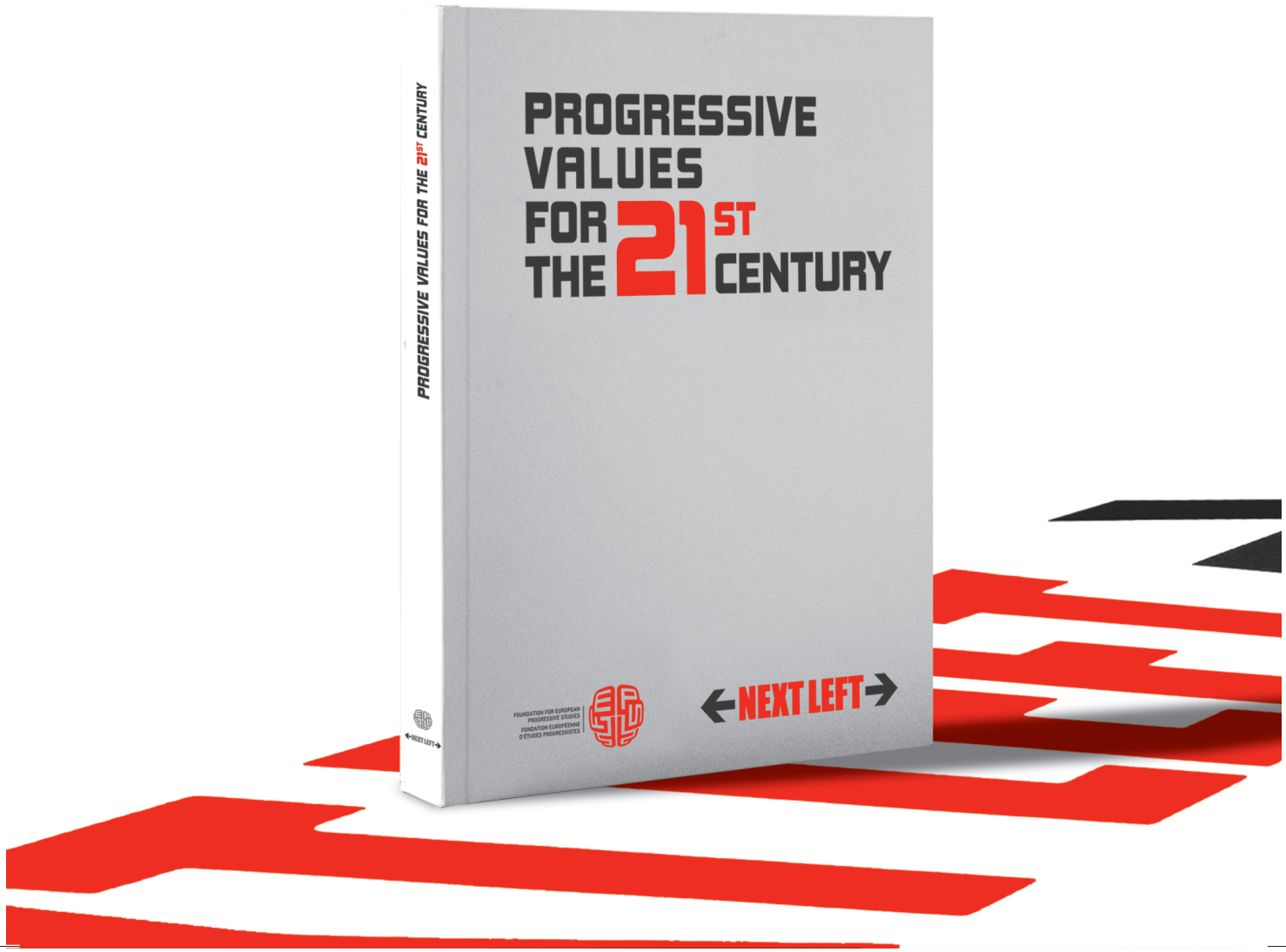
Featuring

Irene RAMOS-VIELBA, Catherine de VRIES, Laurent BOUVET, Jan ČERNY, René CUPERUS, Florin ABRAHAM, George SIAKANTARIS, Attila ÁGH, Daša ŠAŠIC ŠILOVIĆ, Klaus MEHRENS, Rocio MARTÍNEZ-SAMPERE, Anne JUGANARU, Sunder KATWALA, Tim HORTON, Eric SUNDSTRÖM, Gero MAAß, Jan Niklas ENGELS, Carlo D'IPPOLITI, Kajsa BORGNÅS, Björn HACKER, Paul DE BEER, Dimitris TSAROUHAS, Carles RIVERA, Jens ORBACK, Ingemar LINDBERG, Conny REUTER, Cosimo WINCKLER, Tomaš PETŘIČEK, Patrick DIAMOND, Trinidad NOGUERA, Andrew WATT.

←NEXT LEFT→

"Progressive values for the 21st century" is the 4th Volume of the popular "*Next Left*" book series, which since 2009 features noteworthy contributions to the pan-European debate on the renewal of social democracy. This new Volume represents a bold attempt of the *Next Left* Focus Group to offer a progressive ideological framework that would adequately shape the policy agenda and our movement in modern times.

The articles gathered mirror the results of a one year long academic debate. In its course, respective members of the Focus Group deliberated on what the progressive values are, how they are explained and what their meaning is in both party internal, but also societal context. The diverse profiles, fields of expertise and origins accumulated in the Group, ensured that the endeavour upheld an interdisciplinary character and had been representative for different streams of social democracy. This debate on substance was accompanied by a solid work that provided a suitable methodology for such a research, which gives the collection exceptional



potential to become the first step towards establishing a new, progressive European school of thought. While striving for it, authors enjoyed revisiting concepts that may have been taken for granted, as also reclaiming notions that may have been unjustly monopolised by other political families.

What makes this Volume unique is that it succeeds in translating the complex, philosophical, and hence relatively abstract deliberations into audacious policy recommendations. Herewith authors enact a new character of the ideological dispute, which impose leaving a safe haven of internal discussions and placing it in the heart of societal debate. Challenges to frame the next social deal and new socio-economic paradigm, as also to build potential for strategic alliances to establish a prevailing progressive majority remain therefore the integral part of the respective contributions.

Featuring

Julian NIDA-RÜMELIN, Gustav-Adolf HORN, Christine FÄRBER, Gesine SCHWAN, Ania SKRZYPEK, Rémi BAZILLIER, Patrick DIAMOND, Pim PAULUSMA, Eric SUNDSTRÖM, Dimitris TSAROUHAS, John HALPIN.

←NEXT LEFT→

"Next Left: Building New Communities. Notes from the Transatlantic Dialogue of Dialogues" captures the leading threads of the inspiring debate on the future of progressivism from three continents. Being an outcome of a high level workshop, which was held in April 2012 at Harvard Law School and which marks the establishment of cooperation between FEPS, Renner Institut and IGLP – Institute for Global Law and Policy of HLS, this book constitutes an important reading for all those seeking a progressive alternative worldwide.

The contributions gathered in this 5th volume of the *Next Left* book series mirror a new focus of the renowned FEPS research programme. The two year intellectual exchange with academics at the Watson Institute of Brown University (Providence, Rhode Island) and the new dialogue built upon that with the IGLP HLS, subsequently led to founding of the "*Next Left – Dialogue of Dialogues*". This scholarly framed conversation reflects a common aspiration to contribute to framing a new, prevailing global narrative.

The volume encompasses 6 sections. The first one features prefaces of Professor David KENNEDY, Director of IGLP HLS and of Professor Michael KENNEDY of Watson Institute at Brown University – both of whom played a fundamentally important role in making this *Dialogue* possible. Their introductory remarks are followed by the introductory words of the *Dialogue*'s initial architects, Dr. Alfred GUSENBAUER (former Chancellor of Austria and Chair of the Next Left Research Programme) and Dr. Ricardo LAGOS (former President of Chile and Head of Chilean Fondación Democracia y Desarrollo). Their remarks frame the tone of the debate, offering diagnoses of the contemporary times and naming the principal challenges ahead. The next four chapters: *A New Progressive Vision, A New Cosmopolitan Movement, A New Socio-Economic Paradigm, and A New Approach to Work and Employment* include 14 articles by outstanding academics and experts from both sides of the Atlantic. What makes this collection especially recommendable is the exceptional quality of the contributions, which are anchored in the multilayer analytical framework. They feature interdisciplinary analyses and argue for innovative policy proposals from the local up to the global levels. Their strong embedding in the assessment of the crisis aftermath and the climate of the new social mobilisation exposes the vacuum that authors argue to use for a new intellectual construct and new quality politics.

Featuring:

Gianpaolo BAIOCCHI, Cornel BAN, Rémi BAZILLIER, Patrick DIAMOND, Yannis Z. DROSSOS, Karl DUFFEK, Ernesto GANUZA, Paolo GUERRIERI, Alfred GUSENBAUER, José ITZIGSOHN, David KENNEDY, Michael D. KENNEDY, Ricardo LAGOS, Oscar LANDERRETCHE, Roger LIDDLE, Vivien A. SCHMIDT, Juliet SCHOR, Ania SKRZYPEK, Ernst STETTER, Dimitris TSAROUHAS.

Winning for Real: the Next Left taking the Chance to Shape Europe for the 21st century - 10 fundamental challenges

By the end of 2012, it seemed that the political tide in Europe was changing. The elections in Slovakia, France, the Netherlands and Romania encouraged social democrats to think that the worst was over; the centre-left was re-emerging to govern. Even though some of the results came as a surprise, the centre-left has not wasted a moment in devising a convincing explanation. It is the consequent message of *change* that has convinced people to lend their trust and invest their hopes in social democrats again. Social democracy retrieved its spirit of raising opposition against the unjust and per extension against the current, conservative-ruled system. While discrediting the enemy, they upheld to a strategy: *no visionary promises, we will just tell you how we are planning to manage*. Then, although it may be politically un-patriotic to ask, one can't help but wonder: are we there yet, really?

There are therefore several reasons for cautious optimism. This approach should be seen, however, as a pragmatic assessment and not as an attempt to spoil the festive spirit. The challenges, which had been identified in the course of the debates on the renewal of social democracy, are more profound than *just* winning next elections. The results of

the elections show that there is a synergy between what both the majority of citizens and social democracy denounce. But it is not yet equal to an agreement on what sort of a new narrative should replace the contemporary neo-liberal order.

This pamphlet undertakes consciously a very hazardous task. Remaining in the ambiance of delight connected with electoral performance of various sister parties, it dares to remind about the broader, historical challenge. Social democracy still has to develop a new narrative and redefine its own mission for the 21st century. Herewith this pamphlet is challenging the views that nowadays people do not need grand ideological visions and that an honest governing manual is enough. There is no reason to believe that contemporary societies became so disenchanted that they would not seek something more substantial than a framework for existence; that they would not long for a dream that they could jointly pursue. On the contrary, in the era of an overwhelming multilayered crisis, developing the idea of a *New Social Deal* is in fact indispensible if the centre-left wants to win for real.

Expressing a hope that it is possible, this pamphlet is written from a perspective assuming that social democracy has indeed the potential to win for real. It makes a point that the necessary ingredient for such a victory is a vision for a tangible political alternative in Europe, which should become the *Next Social Contract*. What is standing in the way between now and truly reaching the position to take a *Chance to Shape Europe* are the ideological dilemmas it still needs to resolve. This analysis examines closer 10 of them, which seem most relevant at the beginning of the new century.

1. How to explain good capitalism and make it prevail as a backbone of economic integration?
2. How to bring sense to the European politics and Europeanise social democracy?
3. How to resuscitate European values and ensure that their progressive interpretation is a mainstream?
4. How to make progress meaningful and put it at the heart of an agenda for European prosperity?
5. How to frame the labour debate and put Europe back to work?
6. How to legitimise the welfare state concept and empower the European Social Model?
7. How to make social democracy, and Europe, projects for the young generation?
8. How to politicise Europe and bring sense to European political cooperation?
9. How to overcome the democratic crisis and enable citizens' ownership of the EU integration?
10. How to Win for Real?