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## Delivering Empowered Welfare Societies

With foreword by:  
Alfred GUSENBAUER

Edited by:  
Ernst STETTER  
Karl DUFFEK  
Ania SKRZYPEK



 **Renner**Institut

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**Dr. E. Stetter, Mag. K. Duffek, Dr. A. Skrzypek**

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# **Delivering Empowered Welfare Societies**





Ernst STETTER, Karl DUFFEK & Ania SKRZYPEK

## Introduction



The notion that *Europe finds itself at crossroads* is perhaps as old as the continent itself. In more modern times, it was a challenge to put in place a project that would ally former enemies after the War and bring them into a peaceful coexistence, through which they could seek reconstruction. While the Community was launched, then year after year, a new defy would emerge. Dealing with them one after another has always prompted speeches about the one at hand being *the* matter of “life and death”, while in fact subsequent solutions would consequently make Europe emerge from them stronger.

This sinusoidal development pattern became a characteristic of the European Union, encouraging all to believe that for every predicament there is a solution that would comprise progress. That has been true even for the last democratic crisis, when in 2005 the citizens of France and the Netherlands rejected the proposal of the Constitutional Treaty – pushing the Union’s authorities into a certain impasse. But it was eventually overcome with a *period of reflection* and another Treaty (the Lisbon one), which ensured certain advancement. Exemplary of that are: the introduction of the European Citizens’ Initiative and the provision that the President of the European Commission should be a representative of the largest group in the European Parliament. The later one soon after prompted a move towards politicization of the European elections through emergence of the so called *Spitzenkandidaten*.

However disputable in the larger context the actual impact of these changes may be, the fact remains that it has been so far the last effectual fix to a major crisis. Yet sadly, 2005 was at the same time not the last predicament Europe has been faced with. In that sense, the economic crash of 2008 and its’ consequences turned out to be more devastating than anticipated at the beginning. It not only put in question specific policies or instruments, but it boosted the power of those, who have been arguing that Europe *doesn’t work*. It offered them a momentum to raise more of an existential question.

This resonated in the results of the European Elections 2009, of which tendencies have been further reaffirmed in the subsequent vote of 2014. Falling turnout, that until then had been the major preoccupation, stabilized eventually – in fact was not a significant news, in

a long term compared with how divided the casted votes would become. They expressed a wide range of oppositional standpoints – from the ones distancing themselves from so called “traditional” historical parties to the ones distancing themselves from any political force willing to operate within the established political system. Populist, extremist and anti-systemic forces rose in strength, which resulted in a situation in which the European Parliament (EP) became a floor for the voices that would never be able to gain enough support to enter the national assemblies at the same time.

The bitter uneasiness of the situation was perhaps sweetened a bit with the fact that regardless of the proceeding fragmentation within the EP and the radicalization of the anti-European voices, it was nevertheless possible to contain the framework allowing the major political groups to strike a balance in appointing the European Parliament and the European Commission officials. Their commitment to the *functioning order* have been further consolidated, while the subsequent documents were issued – outlining the work plan of the European Commission, stipulating the consensus on the state of play via the Five Presidents Report or offering a pan-European mandate on behalf of the European Parliament in the Joint Resolution regarding the European Commission’s Agenda for 2016.

Nevertheless although those developments were welcome in Brussels, they have not accomplished to become frameworks for actions that would profoundly change the tides overall. In that sense, Europe is still been seen as beingincapable of lifting itself from the depression after the 2008 crisis – and to that end, painted by national leaders as faceless-power imposing unpopular austerity. Against the pleas to see it not as a problem but as a solution, the public verdict was to rather blame EU and its rulings for the fact that it continued to be impossible to restore growth and welfare.

Alongside these convictions, the EU has been failing a test of its economic sustainability. But regardless of the new (Lisbon) Treaty and the sparkle of hope brought within the EU elections of 2014, it was also seen as weak in proving its credentials as defender and pursuer of democracy. The absence of measures, which would stop the authoritarian changes firstly in Hungary and then in Poland, have been quite apparent. And although rhetorically strong, the EU exposed its weakness as far as power for action. The debates with the Prime Ministers of these two countries turned rather into their rallies mobilizing further the support back home in the name of ‘sovereignty and the right to self determination legitimized by their voters’.

This has not yet been the whole story of course. Issue after issue, the EU seems to have been further proving unable to conceptualize and unite Members behind a common solution. The migration challenge has been the prominent example here, where the States displayed yet again that it is not solidarity, but rather “every man for himself” motto that drives them in separatist attempts to contain the situation within the limits of their national borders. Consequently, though unthinkable just a couple of years back - Europe has seen



an unprecedented set back with borders rising and Schengen Agreement being informally suspended. To that end, on the back of those actions racism and xenophobia have been sanctioned as a part of a political discourse, which would quickly spread and transcend into popular grasp of the situation. They overshadowed the initially noble, humanist reactions of those, who went to Wien Westbahnhof, Budapest Keleti or Munich Flughafen to extend a welcoming hand to the refugees.

In the backdrop of this taking place, the limits are further tested tested by the renegotiations that are taking place ahead of the upcoming referendum in the United Kingdom. Initially promised and expected in 2017, it now has been rushed to mid 2016. For that reason, obviously vulnerable EU is being further pushed to meet specific demands formulated by the UK's conservative Prime Minister David Cameron in order to win at least his support for his country remaining in the EU. These ultimatums that are labelled as "emergency breaks" are likely to undermine the sole principles on which the Union has been built. They may deteriorate further solidarity among the States, regions and people. True, eventual and unfortunately quite possible "no" to Britain remaining in the EU will be devastating for the future of the Union as a whole. But also the petit "yes" (which seems to be the best-case scenario at this moment) may cost quite dearly.

The resume of these developments is an anxiety-prompting one. In this spirit one could reiterate the famous *Europe is at the crossroads* adding that this time the approached junction is particularly foggy and no one knows which of the available paths is a smooth road, which is leading to a swamp and which may even end up with jumping off a figurative cliff. But here is what the progressives in Europe must understand – neither sleep walking nor silent tiptoeing can be a method to cross over to the other side. Instead of giving in to a fear, there is a need to retrieve self-confidence. There is a need to change the terms of the conversation – and for that reason this particular volume of the FEPS Next Left books is being released under the proud title of *Delivering Empowered Welfare Societies*.

As also in the past, the impressive collection of articles is a result of a research conducted by the academics of the FEPS Next Left Focus and Working Groups in the years 2014-2015. This means that they have been debated within the closed circles, receiving minimum of 4 peer reviews – alongside with their main ideas being tested at the opportunity of the numerous round tables, which public debates were organized across the EU in these past months. Yet more than ever before, they focus on providing the bold recommendation as what could be thought about and then done in order to move away from the impasse described before. The ambition is to say that the choice of the path forward does not need to be and in fact must not be about defensive approach against anti-Europeans. For the same reason it cannot be boiled down to making citizens choose between the lesser evil, understood as a membership in a dysfunctional Union and the bigger one, being the departure from it altogether. The choice must be about willingness to be part of a project that can, as it did in the past, bring new opportunities, safety and

welfare. And in that sense this book, as the title indicates, is about ideas that can make the European Union a credible progressive project that may yet again become a beacon of hope for its citizens.

The publication is therefore organized within 4 chapters. The first one *Focusing the Agenda: Equality, Quality Employment and Decent Living Standards* points out to what the European Union should focus its policies on. The pledge of the EU being the Social Union devoted to improving the living and working conditions for all has been overshadowed by all the crisis-management measures, but the initial shock that has enabled such a shift has by now worn off and it is high time to return to what has been promised, even as early as in the Treaty of Rome.

In that spirit, Rémi BAZILLIER pleads that the promise of *more and better jobs* is now more important than ever, for which reasons recovery can not be evaluated alongside the criteria of productivity gains. To the contrary, he argues that it must be coupled with the evaluation on what the changes at hand mean to wages and to that end, that this, as any other transition, requires fostering a strong welfare safety net to cushion any negative impacts of the still de-stabilised economy. Subsequently, Ronny MAZZOCCHI argues that productivity in this larger sense is more adequate to focus on than the competitiveness – which obsession, as he calls it, has been driving the economies for the last two decades. The appeal for a different approach to economy is also formulated by Carlo D'IPPOLITI, who shows not only the alternative path to the austerity policies but also emphasises the need for a better communication, which is essential to both explain the choices made, as also to convince the voters and win their support. Their thoughts are then echoed by Michael WEATHERBURN, who agrees that progressives need to be more courageous to think outside the box and either reform or abandon the traditional models of thinking, especially in terms of management. He is suggesting having a better look at the inclusive *managerial socialism* theories. Last but not least, the Chapter features also two very concrete case studies what a shift of paradigms would mean in political terms. The first is provided by Nadia CARBONI, who looks at how the equality and quality life agenda should translate into advancements in gender equality. And the second piece written jointly by John HALPIN and Ruy TEIXEIRA focuses on the translation of the newly defined economic values into an agenda of fighting inequalities and ensuring social welfare, which in programmatic terms could ally diverse working classes within society.

The second Chapter is entitled *Taking the Lead: Seizing the Moment, Taking Responsibility and Devising a New Social Compact*. It provides recommendations on what the new way of thinking would mean in terms of the concrete policy proposal for the European Union – which especially post-2014 promised to deliver in social dimension. It takes a peak on what it would take to liberate the social policies from being kept hostage to a false understanding that there are more pressing financial matters. It therefore additionally offers arguments explaining why economic recovery and social progress are not subjects

of a trade off, but need to be seen as two mutually reinforcing streams of a new strategy for Europe.

Therefore it opens up with an article by Dimitris TSAROUHAS, who takes on the task to assess the state of the European Social Model. While looking at the diversity of its definitions, the author makes a point that it should be simultaneously seen as both ideal and a framework through which policies are designed. As a departure point, it should serve to define ways to increase public investment for example in Europe and to that end consider *Europeanizing* some of the already existing national minimum standards, such as minimum wage one. The feasibility of such an approach is further contemplated by Steven VAN HECKE, Johan LIEVENS & Gilles PITTOORS who try to draw lessons from the Fiscal Compact and see their transposition onto the social field. They argue that there is no reason not to see a similar Social Compact possible, except if there is no unanimous support for it at this point and hence the question comes down to political will. The examination of political attitudes is what links Van Hecke et al. paper with the next one, by David J. BAILEY, who argues that the progressives should pursue a vision of a Social Europe as a clear alternative to the current *Austerity Europe*. He points out that this may be the only constructive way to contain the social contestation of Europe in overall and here forge a new consensus. In that spirit, Amandine CRESPIY shows that the pertinent retrenchment of welfare states is not the only possible scenario. That is especially the limitations, which cause a profound loss of people's social and economic rights towards which they stand in an understandable opposition. That opinion is further shared by Pascal ZWICKY, who also ponders the avenues of the debate on rights and standards – claiming that the cry for more empowerment must be answered taming the overpowering force of contemporary financial capitalism.

What Chapter 2 clearly indicates is that everything begins with political will and power of conviction, and that message is further carried also in Chapter 3, which titles point towards *Acting through Europe: Solidarity, Politicization and Communitarian Method*. It builds strongly on the positive aspects of the post-Lisbon Treaty reality in Europe and aims at showing how to build further on their fundamentals. It is hopeful in its tone, by proving that the core strength of the Community is an ability to unite diverse actors in the name of greater politics, while benefiting from diversity of their experiences and the existing solutions.

That positive drive is the one applied by Robert LADRECH, who makes the case that constructive progressive leadership can make a difference. For that he shows the legacy of Jacques Delors in terms of constructing the fundamentals for a Social Europe. As for the recommendation on how to seize the momentum of today, he suggests progressives to be the agents of an idea of calling *General States of Europe* – which mix between the Convention on the Future of Europe and the European Social Forum could be the way for social democrats to pave the way to break out from the *austeritarian pensée unique*. This

would be a potential new platform to engage with citizens, who, as Isabelle HERTNER writes, have been keen on being part of the political experiment of 2014. There the institution of *Spitzenkandidaten* shows a capacity of the Europarties to reach out beyond their usual frameworks, however was just the first step that would require further reflection. It should lead to more consolidation and europeanisation, she argues, in which tone HERTNER is echoed by Erol KÜLAHCI. He focuses on the evolution of the europarties and presents the dynamics that can enable any further step. In his analyses, the relation and the support with and from the national member parties remain of course crucial – especially that they are the ones in charge of defining the mandates of the EU Presidencies of their respective countries. It is unspoken truth that the transposition between the EU and the national level can be a source of tensions, which tacit issue is examined by Michael HOLMES. He looks at the experience of Irish Labour Party in the government, explaining not only the reasons of the difficulties with upholding the promise for an alternative – but also showing to what extend the question of Europe has been nationalized and embedded in the domestic policies. Having that in mind, Matjaz NACHTIGAL asks to reverse the thinking by 180° and imagine the Union, which would benefit from creativity at the local level and would function instead alongside the bottom-up mechanism.

This constitutes a prelude to the Chapter 4, which devotes to *Paving the Vision: a Goal To Reach, a Strategy to Unite and a Narrative to Convince*. Its main message is that though reflection on what to do must continue, the time to act is now. But the progressive parties can accomplish making a difference only if they find the way to refocus themselves on a modern agenda and prove able to communicate in a passionate, convincing and comprehensive manner to the electorate.

That is why Patrick DIAMOND's article urges to embark on an agenda of *pre-distribution*, which hopeful concept would show on how people can be offered equal opportunities and herewith safeguarded from the impoverishment, misery and alienation so many find themselves in nowadays. Diamond argues that pursuing such a programme is a matter of moral obligation and should be presented as an ethical, uncompromising approach to economy and politics in order to gear a broader support. This can be regained, as Andre KROUWEL and Jordan KUTYISKI show, pointing however, that it does require a profound programmatic change. While demonstrating when and how the social democratic parties loose votes to more radical groupings, especially in the context of the European elections, they argue that the solution lies precisely in proving a greater coherence and commitment to a sound progressive socio-economic agenda. This seems further proven by the case studies of Oriol BARTOMEUS and Gerassimos MOSCHONAS, who respectively looking at the rise of Podemos and the decline of PASOK, show the points that caused the shift of support in their respective countries. While both underline sensitivity of the specific national circumstances, they join in the conclusions that provide lessons for the centre left across the EU. Finally last but not least, Kristian WEISE and Ania SKRZYPEK close the chapter

returning to the initial question on what that means for the European Welfare Project and European Social Democracy. Though in the details their recommendations may differ, they unite in the plea for courage, imagination and boldness in defining the new perspective. While both see minimums as important guarantees, they argue that the Social Europe must be also about setting an ambition, something worth looking up to and striving for.

In its richness *Delivering Empowered Welfare Societies* offers a path out of anxiety about the future of Europe and the ad-hoc, quick fix and emergencies-prompted debates. Its' conclusive motto – especially that it is already the 10<sup>th</sup> volume of the FEPS Next Left Book series – could be therefore seen as: the future of the European Union is and will always be there. But it is up to progressives to mobilize themselves and find courage to believe, that among these and many other available ideas there is enough to claim a publically legitimized mandate to be the ones to shape the course of things to come.



Alfred GUSENBAUER

## How the Things Unfold...



It is a great pleasure of mine to herewith recommend to your attention this 10<sup>th</sup> volume of the FEPS Next Left book series – *Delivering Empowered Welfare Societies*. It incorporates results of a year long intellectual process of the Focus and Working Groups, which within the FEPS Next Left Programme I have had a pleasure to chair and guide through subsequent rounds of the debates, reviews and conclusions. I am certain you will find the reading thought provoking and proving, that viable alternatives to the current *Austerity Europe of Limitations* can both be found and pursued. To that end, this edition is not only providing a handful of them – but also trying to constitute an encouraging voice for the progressives to regain self-confidence and embark on action. The hope it carries is that it is still up to the centre left to seize the momentum to effectively change the course of the dreadful events and also shape the trajectory of the future differently.

But while this particular stream of our deliberations has been predominantly EU-focused, I would like to use this foreword to speak also about the international context in which this conversation should be situated. It is indispensable, as in the end the volume is devoted to a large extent to devising the strategies out of crisis 2008 – which main characteristic was its global nature. Because of its impact and in the context of the dynamic of the developments in its aftermath, the European Model – from democracy to socio-economic order - was questioned.

## **Armageddon of 2015**

Let me say that although 2015 was a year that saw an apocalyptic end – from the terrorist attacks that struck at the heart of Europe, the sabre rattling between Saudi Arabia and Iran, to the relentless flood of refugees from the Middle East – still without being too frivolous it is possible to find some encouragement in what these past 12 months were about. Despite the cries of many naysayers, the Eurozone remained intact. Despite the temporising of the opposition in Iran, Israel and the USA, the nuclear deal with Iran went through. Cuba and the USA are currently on course – if a rather bumpy course

– to normal relations. The war of terror in Columbia was brought to an end. The Paris Climate Change Agreement is by no means enough to restrict global warming to 2°C above pre-industrialisation levels, but it does herald the irrevocable end of the hydrocarbon economy.

Furthermore, the 'New Development Bank', which was founded by the BRICS countries (Brazil, Russia, India, China and South Africa), can be viewed as the first important international financial institution to be administered by the Emerging Markets. The original form of the 'Investment Protection Chapter of TTIP', which restricted significant democratic industry laws of many states appears to have been taken completely off the table.

Indeed, there are even more positive examples, but already those few serve sufficiently as a corrective to those rampantly emotive epidemics of alarmism and catastrophism that have been circulating.

## Expectations and wishes for 2016

First of all, the global economy will grow by less than 4%. For once, it won't be the countries of the wealthy northern hemisphere (USA, EU, Japan), who are to be seen as the 'problematic children'. It is rather going to be the Emerging Markets to assume this unflattering position. It has been the case already, with the slowdown in growth to 6% in China, which by the way has caused nervousness among investors. That is one of few examples, which can be multiplied looking at the continuing recessions in Russia and Brazil. What that means is a change of balance. While in 2013 47% of global GDP was still being produced by the Emerging Markets and only 30% by the developed world, in 2016 these ratios will shift to being 43:33 in favour of the 'northern hemisphere'. The lion's share of this will certainly go to the USA, which had already attained its pre-crisis economy level in 2011 and has since grown by more than 10% in total. The Eurozone only reached its 2008 levels in the autumn of 2015. To that end, the negative economic impact of El Niño (warm currents in the Central Pacific that occur every few years and alter the global meteorological patterns), will, first and foremost, affect India, Indonesia, Brazil and parts of Africa, and will continue to damage the position of the Emerging Markets.

Secondly, significant crises – such as the war in Syria – will not remain unsolved. Groups that are sympathetic to IS, for whom things are getting too tight in Syria and Iraq as a result of the intensification of military pressure, will increasingly concentrate on carrying out spectacular attacks in the West. That also means that the wave of refugees will develop a new dynamic after the pause provided by the winter, subsequently to which solidarity of Europe (and within Europe) will be placed under a renewed strain. At the same time, the lack of political leadership will become increasingly obvious.

To continue on that note, while until recently the commentators were getting excited about any perspective for a the proper leadership structure for the world, whether that be



G20, G7/8 or G2 – it would seem that we have now reached G0, if to follow Ian Bremner of *Time Magazine*. The USA is withdrawing, Europe is preoccupied with itself, Russia wants to rule and not lead, and China is quietly pursuing its own strategic objectives, which have little to do with global responsibility.

## The Ultimate Test in Europe

Returning from this global view onto Europe, it seems that the number of tectonic stress tests to which it is being subjected is continuously on the increase. The economic imbalances in the Eurozone are and will be growing ever larger. It is while there is a wishful thinking that Germany will not also begin to wobble in the face of the PR disaster that was “*Made in Germany*”, triggered by the VW scandal. One should observe that these days even once upon a time large appetite of the Chinese for German luxury goods has started declining – however this tendency is of course also causally related with the slowdown in the Chinese economic growth. To that end, the strike woes of Deutsche Bahn and Deutsche Post as well as Lufthansa are also slowly taking the shine off the trademark slogan “expensive but reliable”. Next to the socio-economic, there is also a political sorrow. The groaning of the political timbers from Bavaria to Pegida is deafening. And while at this point the Grosse Coalition is still able to withstand, they may face tough time for longer with the centrifugal forces increasing at the high speed.

The institutions of the European Union – with the exception of the European Central Bank – have bowed out of the world’s history. This has been in part due to weak leadership, and in part because the heads of the various national governments prefer to play first fiddle themselves. This affects further already large skepticism about if *Europe* can still perform in any dimension and be entrusted with any further hopes, resources or even time.

Following the earthquake resembling general elections, the political situation in Spain is far from stabilised. A bitter constitutional conflict over Catalonia’s independence is looming. If Madrid does not soon have a reasonable government that will be prepared to defeat Spanish centralism and make sustainable compromises with the bold Catalans, the future scenario may go beyond anything that at this point is considered imaginable.

Additionally, the EU referendum in the United Kingdom can only be won in favour of Britain staying in, if the EU agrees on a new division of responsibilities between the national and European levels. While there will be no special favours specifically for the UK only, still an amended equal legal status for all is conceivable. In the event of a NO vote however, the ‘Scottish question’ will be on the agenda immediately the day after and thus also the final disintegration of the United Kingdom will be a question to face. From this perspective today’s deliberations on the costs of Europe that the City seems to be campaigning on are only a part of a greater, however very inconvenient and unsettling truth about what can happen in the end of the day.

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The discourse ahead of this vote illustrates the political frustration, which also in many West European countries provides fertile ground for xenophobia and political radicalism. Le Pen, Wilders, Strache and others have not yet been able to assert themselves fully. So far, the population votes for them in order to make them a thorn in the side of the establishment, but without seriously considering them as architects of the future. But this fragile balance between anger and insanity may easily shift, hence it is a safe assumption to make that the final words have not yet been said on the matter.

The undemocratic tendencies are at display in the very neighbouring countries. In the Central Europe we are looking at a new form of “government totalitarianism” in at least two EU Member States: Hungary and Poland. In both cases, democracy is being reduced to the right to vote. Then an elected government has the right to eliminate all checks and balances, neutralise the opposition, exploit the supreme courts and gag the independent media.

It is painful to watch as Poland, of all countries, which put European history on a better path 30 years ago with its establishment of Solidarność and the ‘Round Table’, is today taking itself outside the European values system. That is perhaps even more shocking, since its recent impressive economic development has not protected it from the temptation of authoritarianism in the end.

It must be here said very clearly that it is the non-negotiable core of European integration that is at stake here. The EU must remain a community of rights and responsibilities, or it will cease to exist indeed. It must be impressed on all that anyone, who is not prepared to fulfil their obligations, can make no claim on their rights. And by the way this rule is not at all new.

We must be strict, as the example of what has been happening with the Euro has already proven sufficiently that individual exits (e.g. Grexit) may not be seen as desirable, but they are possible. The same logic has been reproduced in the face of the refugees influx on unprecedented scale in 2015, which affected so deeply the rules that govern the Schengen Zone. Generalising here, but truly anyone who is not capable or not willing to fulfil their obligations can exit the Schengen Zone.

But that requires an action and not a timid, silent consent. Consequently, there must also be a process that does not preclude an exit from the European Union, if the values of European democracy are not to be trampled underfoot. To that day Europe may have been known for its culture of the smallest common denominator, but in the light of the external and internal challenges, there is a logical demand for a greater internal clarity. Only knowing with how many and in the name of what cause, the EU can hope to regain its strength, confidence and power to act.

## The Geopolitical Focus of Russia

With Russia already mentioned, it is worth for the EU to have a closer look and herethrough get a better grasp of the situation in there. The perspectives are gloomy to say the least, as in a view of the low prices for oil and raw materials, as well as the huge costs of the military operation that is still being conducted in Ukraine, Russia will not be able to claw itself out of recession. The not that recent anymore western sanctions have an impact in terms of increasing Russia's technological backwardness. They are also the cause that prevents Russian economy from diversifying. But even with this economic plight, which becomes tangible in terms of directly impacting the life of the urban middle classes, the President Putin's popularity remains untouched and herewith as high as ever. He remains a world leader. It was him, who has brought Russia back to the table of world politics through his contribution to the Iranian nuclear deal. A solution in Syria cannot be achieved without his support. With the annexation of the Crimea and his support of the rebels in East Ukraine, he has made it clear that Russia will tolerate no challenge to its authority in its *'strategic belly'*. Russia's 3200 km long western border along the north and central European lowlands is of considerable military and historical significance.

Returning to the original query – what can be the EU approach? The history teaches that attempts to move into its hemisphere have always ended with a defeat. In that sense both Napoleon (in 1812) and Hitler (in 1941) bit off more than they could chew in this area of strategic depth. But at the same time, one needs to remember that in its dealings, Russia does not consider the rule of law as its priority. It is geopolitics that drives its actions, thus making a *'frozen conflict'* like that in Transnistria or sustaining the status quo in Eastern Ukraine are part of the *'global game'*. Understanding this makes one uncertain to what degree the already mentioned western sanctions would indeed stand a chance of bringing Russia to its proverbial knees.

Perhaps the best assessment is still offered through the famous words of Henry Kissinger, who was by all means right when he said that the western world cannot pussyfoot around a member of the Security Council like they are a disobedient child. Therefore an actual serious strategy needs to be devised. It needs to bring about a sustainable solution to the existing tensions between Russia and the West, especially that the number of mutual challenges, such as the situation in the Middle East, is profound and required prompt responses. But, again, without understanding the geopolitical interests of Russia none of that will not work.

## The Growing Middle East Dilemma

Indeed, the situation in the Middle East has evolved and became, even if that's hard to believe, even more complex. For a long time it was the unresolved conflict between

Israel and the Palestinians was the focus of attention. Now that it is moving to the Israeli interior, as Palestinian perpetrators indiscriminately attack children and ordinary citizens. That gives very little hope that there is still an actual prospect of a peaceful solution. To that end, it seems also that the President Obama has lost interest to pursue the talks, since the Middle East Quartet has been quiet for some time. Which means that the only chance to change the tides is if the political world opinion was to become wearier and refocus.

But here there is also another factor. The situation in the region has been changing quickly. The civil war in Syria has had another outburst and herewith overshadowed the Israel-Palestine conflict in terms of the headlines. It has forced nearly half of the Syrian population to flee, while a great number of over 300,000 civilians have been killed. Now the Islamic State (IS) has grasped of a significant part of the Syrian territory. And that is not faced with a proportional resistance, since a civilian opposition, with which a new Syria could eventually be established, has only a weak presence. Reacting and trying to put a tame to the developments, Russia, Turkey, France and the USA have been launching aerial attacks, which have had extremely divergent strategic goals.

Furthermore the increasingly violent conflict between the Sunni hegemony in Saudi Arabia and the protective Shi'ite power of Iran is exacerbating the Syrian power conundrum. The Kurdish Peschmerga forces, which were the first to oppose IS, are now coming under fire from Turkey, which is trying generally to weaken the Kurds through the confusion of the situation. One needs to recall here, that Turkey had even wished to exploit the Arab Spring – once upon a time considered to be such a hopeful tide - to establish its hegemony in the Middle East. But the sober assessment is that regrettably the arrogance of President Erdogan is fueling problems, without contributing to a solution, neither internally nor externally. So it would not be astonishing that, in view of Turkey's conduct, the determination of the Kurds' to accomplish their right to self-determination has become the top issue within the the Middle East. The accompanying factor is that the complexity of the Kurdish question goes far beyond the Palestine problem. After all, the borders of Syria, Turkey, Iran and Iraq would all be affected. This is significant since it has been almost over a century since the time, when the former colonial powers drew the frontiers and never since then have they been do forcefully discussed as they are now.

To that end, although it may not sound like much, without a ceasefire in Syria, it will be impossible to set a foot in the Middle East. Only the utmost diplomatic pressure on Assad and Iran from the side of Russia, as well as on Saudi Arabia and Turkey from the USA, together with the permanent military campaign against IS can give us progress. If we are to learn lessons from the failed Iraq war, we must acknowledge that a withdrawal by Assad can only be the result of a ceasefire, and not the prerequisite for one.

## The Economic Slow-Down of China

Opposite to those, in 2016 China will not dominate the headlines with its international activities. It is the slowdown of its economic growth that will determine all. Needless to say, it goes beyond the realm of domestic news. The weakening Chinese economic power is bringing the fragile global economy into a real tailspin. Its current export-focused growth model appears to be reaching its end, while a new, consumer-oriented model has not yet been established. The state reserves are currently shrinking at an incredible pace. This is restricting large infrastructure projects, which have been a core reason of pride for a long while. This transverse is also having an impact on the government of the USA, especially as China is the second largest creditor of the Federal Reserve Bank. Internally, China has to promote industrialisation, especially if it wants to accomplish the necessary, namely to raise the average living standards of its population. However, this policy orientation can threaten investments in the areas that produce important foodstuffs. How China is going to solve these and other conflicting issues, remains a question mark. It is of a historical importance, since although it may be hard to admit; still China represents the only successful socio-political model in recent history that is not based on the Western values of freedom, democracy, human rights and social justice.

At the same time, China is behaving extremely defensively, some even say irresponsibly, in questions of global politics. Its geostrategic focus is placed squarely on the vital interests of its own country. Hence Chinese armament efforts are concentrated on the development of an effective, modern navy. Even if China is lagging behind the USA by ten years in the production of aircraft carriers, the results delivered in the course of the current strategy are sufficient for its needs. China wants to keep the international seaways open for its vital raw materials imports as well as for its consumer goods exports. Therefore also the bottlenecks such as the Strait of Malacca, through which 80% of Chinese oil imports pass and which is controlled by the US allies (Malaysia, Indonesia and Singapore) are a thorn in the eye of the Beijing leadership. Indeed, China wants to become a two-ocean-power in the Pacific and Indian Oceans. Consequently, it is investing in deep-water ports in Myanmar, Bangladesh, Pakistan and Sri Lanka; and it is building a pipeline from the west coast of Myanmar to south-west China. Furthermore, China is scouring the length and breadth of Africa, with ports in Kenya, railway lines in Angola and reservoir dams in Ethiopia. In this context, the new Nicaragua Canal has formed an alternative to the Panama Canal and the revival of the Silk Road has cut China's dependence on the Russian land routes connecting with Europe. At the same time, China is becoming a 'Lender of First Resort' for Emerging Markets that do not wish to submit to the conditions of Washington institutions. This way the *Middle Kingdom* continues to gain influence without having to bear the high costs of being a hegemonial power.

## The quiet shifts of Local Powers in Asia

Another point is that China is hawkishly tracking Japan's gradual armaments process, which aims to restrict its range of action around the Korean Peninsula, Taiwan and a number of rocky islands. These are thought to hold natural resources. Almost all its Pacific neighbours and its neighbours in the South China Sea are politically more closely linked with the USA, but economically they are heavily dependent on the Chinese economy. China is keeping the region on tenterhooks with its *carrot and stick policy*, however nobody is seriously considering a military conflict. The local spheres of influence are quietly shifting. The two demographic giants of India and China are more thoroughly separated by the Himalayan mountains than any artificial frontier system (such as the Berlin Wall in the past) might ever have done. That India is a refuge for the Dalai Lama is just as irritating to China, as Chinese support for the Maoist rebels in Nepal is irritating to India. But the status quo of Tibet as part of the People's Republic of China is not being brought into question. The Kashmir conflict, as a symbol of the tensions between the nuclear powers of India and Pakistan, is proving much more precarious. Bangladesh is coming under increasing pressure as a result of the rising ocean water levels. Myanmar under a democratic government under Aung San Su Chi will also keep the interests of the West, India and China in check.

## Developing and Consolidating Africa

At the moment, Africa is showing the most impressive growth rates, although from a low starting point. Some countries have been able to pull themselves out of utter poverty and their metropolises have developed a small middle class, even if one needs to underline that this progress needs to be measured against the modest African circumstances. It is however a question in how far this process will continue in the face of the effects of radically sinking raw material prices.

An impressive exceptional factor is demonstrated by uninterrupted demographic growth. In only 25 years, the DR Congo and Ethiopia are forecast to have populations of 200 million each, Nigeria a population of 450 million – more than the USA. Here therefore the question of borders reoccurs as it does in the Middle East. It is unpredictable if the colonial borders can maintain this dynamism. That is especially, that the high levels of corruption and the ongoing feuds between various tribes and peoples could result in an explosion of violence at any time, especially in the Central African heartlands.

Geopolitically, one needs to admit that the heavy involvement of the Chinese has, at least so far, not led to more disarray than decades of influence at the hands of the old colonial powers. To that end, the reinvigoration of the Organisation of African Unity (OAU), with its headquarters in Addis Ababa, should be viewed as a step towards

consolidation in the continent. The news from the Africa south of the Sahara, at any rate, was better than the chaos that was brought about along the North African coast by the Arab Spring, accompanied as that was by so many illusions and with the active help of the West. The further development of this will be decided by the question of whether the Republic of South Africa can take on its regulatory function in southern Africa and Nigeria. They are the only ones who can restrict political, military and economic greed in the African central zone.

### **The Dawn of the Left Project in Latin America**

From the Western perspective, Latin America is being handled under the heading of the *'End of the Left Project'*. Examples for this are the recession in Brazil, the end of the Kirchner era in Argentina and the overwhelming defeat of the Maduro regime in the parliamentary elections in Venezuela. Simply casting these three countries into the same pot shows lack of analytical depth. In the 16 years of the two presidents Enrique Cardoso (Social Democrat) and Ignacio Lula (Workers' Party) Brazil experienced a huge upturn. Modernisation, the battle against poverty and international respect reached hitherto unseen heights. Against the background of a boom in raw materials production, protectionism and corruption could not be defeated. It is unlikely that Dilma Rousseff will be able to overcome this challenge, which indicates the need for a change in power. Whether this will head in the direction of the Conservatives or the Social Democrats remains to be seen. The Peronists in Argentina cannot point to nearly the same kind of success story as that of Brazil. Even the highest soya prices on the international markets left the Argentine population completely untouched. Permanent economic interventionism through the exclusion of international financial sources has placed the country on the economic sidelines. Elsewhere, the traditional social democratic party in Argentina (Unión Cívica Radical) has publicly supported the election of President Macri and is an integral part of the new government with 5 ministers, while Argentina's Socialist Party unofficially backed Macri.

Now deceased, Hugo Chávez was considered the founder of the *'Socialism of the 21<sup>st</sup> century'*. His strategy was based on combining the benefits of the Venezuela's oil wealth with a systematic fight against poverty, as well as sustaining the structures of a military dictatorship in his own country and populist leftist activities abroad. Along with the sinking oil price, his initial construction is to further collapse like a proverbial *house of cards*. His successor, Nicolas Maduro, had only the military dictatorship leadership style left after him – and there was no trace of the rest of the programme. A broad alliance of all the anti-Maduro forces from the left to the right recently won in Venezuela's parliamentary elections. It is to be hoped that the regime change will pass without bloodshed.

In parallel, Uruguay and Chile (centre-left) continue to develop stably, Ecuador and Bolivia (left) are holding steady and Peru (centre-left) as well as Columbia (liberal) are the

new drivers of growth. Mexico (centre-left) and Columbia will successfully drive the reforms forward and an Argentina ready for reform may become the positive surprise among the Emerging Markets.

## Pragmatic recovery in the US

The US economy is already 10% above its pre-crisis level, unemployment has sunk to 5%, energy self-sufficiency is viewed as achieved and from 2020, the USA will be a net energy exporter. A pragmatic, non-ideologically determined economic policy linked to the traditional benefits of flexibility has allowed the USA to weather the economic crisis faster and better than Europe. Its leading position in the fields of technology and communications, as well as in biotechnology and nanotechnology were developed even further. 17 of the 20 best universities of the world are located in the USA, 25% of all potential immigrants named the USA as their No.1 destination country.

Sensitivities in the USA, however, still appear to be tuned to a minor key. Despite all the efforts of President Obama, political division has deepened. The Democratic President and the Republican Congress only rarely come to two-party agreement. The Tea Party is driving the Republicans to the right and Bernie Sanders is attempting – with little success – to push the Democrats to the left. Irrespective of the social structures of American society, people are increasingly defining themselves along the lines of insider or outsider. Domestic policy dominates the scene and it is unsurprising that the USA wishes to keep out of costly international engagements. Clearly, it wishes to maintain and protect its spheres of interest, but fewer and fewer individuals within the Washington establishment wish to assume international responsibility.

So the current presidential election campaign has assumed paradigmatic symbolism. Possibly, Hillary Clinton will win the Democratic nomination and stand for an internationally engaged America. All the Republican candidates stand for retreat to American domestic policy. Fire and brimstone Republicans like Donald Trump, who still dominates the news, will mobilise people who would otherwise never have voted, but they will hardly be able to win. The most likely Republican candidate is Marco Rubio. If he survives the escalation of the Republican caucuses, it could be a close call between him and Hillary Clinton. Clinton has more donor funding, more experience and the advantage of a 'sociological majority' for Democratic presidential candidates. But Marco Rubio will certainly bring Latino votes, for he can speak more authoritatively as the 'outsider', as he has never belonged to the Washington establishment and embodies the American Dream of a young boy from simple beginnings who can make it to the top. Moreover, Hillary Clinton was already considered a sure-fire president 8 years ago – until Barack Obama turned up. The same danger she stands now – with Bernie Sanders running, unlike her, with an appearance to be a candidate seeking to explain the issues and not that much seeking the office. For us,



the decisive factor will be whether the new president is prepared to destroy IS and stabilise the Middle East, to enforce restrictions on the arms trade and organise the international approach to climate change.

To conclude, after the post-1989 honeymoon period and the end of the peace dividend, geopolitics is returning. Long-term interests are coming to the fore. In the Middle East and in Africa, the old colonial borders are being cast wholesale into doubt. Terrorism is reaching the centres of Europe.

The restrictions of freedom after 9/11 have not increased our security. Even now, there are more restrictions in the offing that simply serve as self-assurance. The terrorists will have won then, too, if we bury our free democratic rights voluntarily and under our own steam. It is much more important for us to be ready to defend our interests anywhere our security is threatened. Europe cannot rely on others to do our work. Europe must grow up. For the western hemisphere and thus also Europe continue to be the safest place in the world – it is worth the effort to ensure that this remains the case.

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**DELIVERING  
EMPOWER  
WELFARE  
SOCIETIES**

# **Focusing the Agenda: Equality, Quality Employment and Decent Living Standards**

**RED**



Rémi BAZILLIER

## **Wage, Employment, Working Conditions and Productivity: A New Focus on Quality**



**Keywords:**

**Productivity - Working Conditions – Employment – Wages - Quality of Life - Job Quality**

**Abstract:**

The paper reviews the relationships among: wage, employment, working conditions and productivity. Economically, productivity is a factor of a long-term development. But productivity gains can be obtained through various policies/practices, which have very heterogeneous effects in terms of welfare and quality of life. The proposal is to focus on welfare-enhancing policies building on the concept of quality gains. A new emphasis on Job Quality remains equally important. Especially, that the ongoing crisis has exacerbated differences among European countries with very different labour market mechanisms of adjustments. The focus on Quality in its various dimensions (quality of life and job quality) may give guidelines to a common and progressive labour market set of reforms' proposals.

The emergence of the concepts of *Job Quality* and *Decent Work* at the end of the 1990s emphasizes the importance of the qualitative dimension of employment. Beyond the goal of full employment, it is necessary to pay attention to the working conditions and well being at work. **The challenge for policy-makers is therefore to combine the quantitative and qualitative dimensions of employment.** And this is not an easy task. Hence the first goal of this paper is to study how to combine such objectives.

The 2003 European Employment Strategy (EES) includes these goals (among others): **(1) full employment** and **(2) improving quality and productivity at work.** This brings another dimension to the debate: the importance of *productivity*. The *labour market productivity* is likely to have ambiguous effects on employment. They may be negative in the short run, but more positive in the long run due to their positive effects on the growth prospects. On one side, productivity gains are a prerequisite for improving wages and working conditions in the course of time. On the other, these gains may lead to work intensification, which may have negative consequences. Thus the relation between productivity and working conditions remains ambiguous, as do the effects on working conditions and well being at work.

**This paper proposes to study more in depth the relations between productivity, employment and quality at work.** The final goal is to see how these interactions may have an impact on the overall well being and social progress within societies. In terms of methodology, the economic theories are firstly applied in order to study the three-way relationships between these enumerated dimensions and consequently conceptualize the debate. The focus will remain restricted to the EU Member States. While quality at work is a global issue, as shown by the debate around Decent Work pushed by the ILO, the way the labour markets are functioning is very different in developed and developing countries. and European policies.

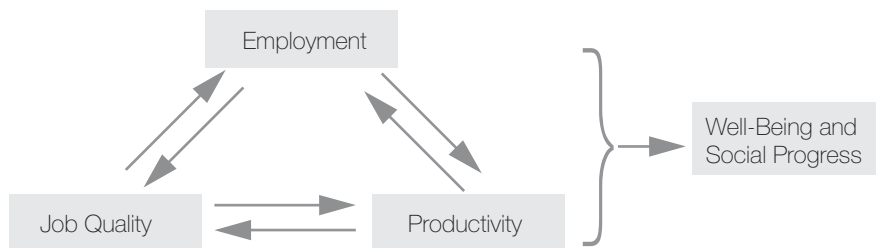


Figure 1:

Before developing the arguments, it is necessary to define precisely what we mean by “productivity”. As a general definition of productivity, we can use the following one, suggested by OECD (2001)<sup>1</sup>: “*productivity is commonly defined as a ratio of a volume measure of output to a volume measure of input use*”. Broadly speaking, it is possible to distinguish *single factor productivity measures* (relating a measure of output to a single measure of input) and *multiple productivity measures* (relating a measure of output to various inputs). Basically, *labour productivity* and *capital productivity* are the two main single productivity measures, while the *total factor productivity* the main multiple productivity measures. When studying the impact of productivity on different labour - related dimensions, these different types of productivity will have very heterogeneous effects. Here, the main focus remains on labour productivity (measuring the efficiency of labour) and total factor productivity (measuring the overall efficiency of the economy).

It is relevant to notice that different types of productivity are not independent from each other. For instance, labour productivity growth is strongly influenced by the growth of the productivity of others factors of production. Economic theories of production are then necessary to clearly understand the linkages between different dimensions of productivity. As stated in OECD (2001)<sup>2</sup>, “*labour productivity only partially reflects the productivity of labour in terms of the personal capacities of workers or the intensity of their efforts. The ratio between output and labour input depends to a large degree on the presence of other inputs*”. In other words, investing in capital (accumulating capital) is a direct tool to increase labour productivity if it raises production for a given level of workers. For the purpose of the study it is assumed that each factor of production (capital or labour) has decreasing returns. It means that the *marginal* productivity of each factor of production is decreasing. If one hires new workers without investing in capital, it will increase production but by less and less.

At the aggregate level and in the long run, **productivity growth is a key element to assess standards of living in an economy**. Improving national productivity raises income and therefore improves individuals' ability to purchase goods and services, enjoy leisure and more generally fulfil their own needs. There is very old debate in economics about the source of long term economic transformation and development. To be short, some economists argue that the main driver of long term growth is the accumulation of capital and the growth of population. The very influential Harrod-Domar model (often classified as a “Keynesian model of growth”) shows that the main driver of economic growth is investment. As the level of investment should be equal to the level of saving, the capacity of an economy to increase savings will determine the potential of growth.

1 OECD (2001), *Measuring Productivity: Measurement of Aggregate and Industry-level Productivity Growth*, OECD Manual, Paris: OECD, p.11.

2 Ibid., p. 14.

This perspective was criticized by neo-classical growth theories. Solow<sup>3</sup> shows that the economies are converging towards steady-state defined by their level of capital and labour, implying that in the long-run, the growth rate would be equal to the population growth. The problem is that it was shown that modern economic growth was not driven mainly by factors accumulation. Using an aggregate production function, Solow<sup>4</sup> himself shows that most of changes in GDP was not explained by growth in the quantity of resource but by an increased efficiency in the use of productive inputs. As stated by Metcalfe<sup>5</sup>, “*the implication was quite devastating: an adequate explanation of economic growth appeared to lie outside the traditional concerns of economists, to constitute a residual hypothesis*”. It is called the “Solow Residual”, and is still considered as the easiest way to estimate the total factor productivity. Before that, Schumpeter already highlights the importance of technical change and innovations in long-term dynamics. More recently, the “new growth theories”<sup>6,7</sup> propose neo-classical theoretical frameworks showing the fundamental role of productivity in the long-run economic growth.

The first section of the paper will be devoted to the study of the three-way relationship between working conditions (and more generally quality at work), employment and productivity. It will show that **productivity can have two types of effects on working conditions: a positive one due to technical progress and management optimization and a negative one mainly due to work intensification**. Such work intensification contributes to the development of new social risks. The dual consequences of productivity are mainly due to a strong heterogeneity in productivity gains. One important source of heterogeneity is the balance of power within firms and the society. Bargaining power of workers is an important dimension that cannot be neglected. The increasing gap between wages and productivity gains can be explained by a worsening of such bargaining power. The institutional setting should take into account such drawback.

**In the long run, productivity gains are also a sustainable way to increase wages or improving working conditions without worsening profitability of firms.** At the same time however, the working conditions are likely to have diverse impacts on productivity. We aim at reviewing all theoretical and empirical evidences related to these relationships.

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3 R. M. Solow, *A Contribution to the Theory of Economic Growth.*, [in: ] *The Quarterly Journal of Economics*, 70 (1), pp. 65-94, 1956.

4 R. M. Solow, *Technical Change and the Aggregate Production Function.*, [in: ] *The Review of Economics and Statistics*, Vol. 39, No. 3 (Aug., 1957), pp. 312-320

5 S. Metcalfe, *Technical change.*, [in: ] *The New Palgrave Dictionary of Economics.*, Second Edition, S. N. Durlauf & L. E. Blume (eds.), Palgrave Macmillan, 2008. See: *The New Palgrave Dictionary of Economics Online*. Palgrave Macmillan 2008. <[http://www.dictionaryofeconomics.com/article?id=pde2008\\_T000034](http://www.dictionaryofeconomics.com/article?id=pde2008_T000034)> doi:10.1057/9780230226203.1690

6 P. M. Romer, *Increasing Returns and Long-run Growth*, [in: ] *Journal of Political Economy*, University of Chicago Press, vol. 94(5), pages 1002-37, October 1986.

7 R. Jr. Lucas, *On the mechanics of economic development.*, [in: ] *Journal of Monetary Economics*, Elsevier, vol. 22(1), pages 3-42, July 1988.



The second section will broaden the debate by trying to re-conceptualize this notion of productivity. If the debate on the right way to measure economic performance focuses on the measurement of GDP and growth, **it is also possible to think on what should be a progressive definition of productivity if we acknowledge that productivity gains are necessary in the long-run to increase wages or improve working conditions. But because of the possible negative consequences of productivity on the quality of life of workers (that we will study in the first section), not all productivity gains will be welfare enhancing.** The author suggests a list of *necessary conditions* to ensure that such gains are compatible with progressive goals and propose some methods to measure it. Basically, **the main policy challenge is to find relevant tools to push firms to increase productivity and wages simultaneously.** One mechanical way to increase statistics of productivity is to cut employment. If the drop in employment does not lead to a symmetric drop in production, productivity will rise. But this clearly would be at the expense of working conditions. In order to avoid this bias, labour market policies should target both goals (productivity and wages/employment). The implications of such ideas will be studied.

**The main policy challenge is to find relevant tools to push firms to increase productivity and wages simultaneously**

In the third section, tension between productivity and working conditions can be raised if the focus will be on quality in various dimensions will be evaluated. It is much related to the debate on the “measurement of economic performance and social progress” to keep the words of the Stiglitz-Sen Report<sup>8</sup>. After briefly presenting the debate, it will be shown why **it is necessary to go beyond and build on the multidimensional aspects of quality to define what should be potentially long-term objectives for the progressive.** The concept of quality gains will be presented together with quality/durability (Q&D) that can be a useful tool to discriminate between productivity gains that are welfare enhancing and the rest. Then the paper will come back to the concept of *job* quality by integrating the focus on quality of life. It will be argued that **evaluation of labour market reforms should always include an evaluation of the impact on quality of life.** The second additional challenge is to take into account new challenges raised by the economic crisis. The commitment to work may have changed. In order to improve their competitiveness, most southern countries have used internal devaluation with huge wage cuts. Other countries such as Germany have tried to increase labour market participation by encouraging the development of a low-wage sector (the *minijobs*). In both cases, it leads to an increase of the share of *working poor*. Job quality needs to encompass this dimension and the

8 A., Sen, J. Stiglitz & J.P. Fitoussi, *Report on the Commission on the measurement of economic performance and social progress.*, [http://www.stiglitz-senfitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-senfitoussi.fr/documents/rapport_anglais.pdf), 2009.

concept of *living wage* may be useful to include this dimension. Overall, the concern about quality of life is crucial as far as labour market as concerned, also because we believe that is an important determinant of work efforts and as a consequence of efficiency.

## 1. The Complex Relationship between Productivity, Employment, Wages and Working Conditions: Theoretical and Empirical Evidences

### Wage and Productivity

Productivity has various impacts on the welfare of workers. Three types of effects should be distinguished:

- the effect on wages
- the effect on working conditions
- and the effect on employment.

The starting point to analyse the wage impact of productivity is the so-called "*Marginal Productivity Theory*". Dorfman<sup>9</sup> defines it as "*an approach to explaining the rewards received by the various factors or resources that cooperate in production*". The basic is very simple. From a neo-classical theoretical framework, it can be shown that each factor should be paid at its marginal productivity. The *marginal* productivity is the number of additional units of production induced by the use of one additional input. It implies that the level of marginal labour productivity should set the level of wages. Wage dynamics should follow the dynamics of labour productivity. In other words, wage increase should follow productivity gains in order to keep the labour/capital share constant.

In a "perfect neo-classical word", there is no distributional conflict among groups and free market is sufficient to push up wages when productivity gains are positive. The problem is that it does not really fit the reality. The first hypothesis, which is not yet verified, is that it requires perfect competition on the market and no market power neither for capital owners (and firms) nor for workers. Two facts are in contradiction with the theory. First, most European Member States have faced a significant fall in their labour share since the mid-1980s. Second, it has been observed that there is an increasing gap between the evolution of wages and the evolution of productivity. The latter is the main explanation of the former. Figure 1 shows the evolution of the labour share for 6 selected EU countries between 1980 and 2012. Over the whole period, it is clear that the downward tendency was stronger for Italy and France, which can be explained by the relatively higher level

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9 R. Dorfman, *Marginal productivity theory.*, [in: ] The New Palgrave Dictionary of Economics. Second. Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan 2008. <[http://www.dictionaryofeconomics.com/article?id=pde2008\\_M000046](http://www.dictionaryofeconomics.com/article?id=pde2008_M000046)> doi:10.1057/9780230226203.1025(available via <http://dx.doi.org/>)

of the labour share at the beginning of the 1980s. Sweden has seen a significant fall of the labour share after the mid-1990s. Labour share was stagnant in Germany before the beginning of the 2000s. Over the past decade however, the fall of the labour share has been more severe in Germany than in any other countries. The decline of the labour share has started also at the end of the 1990s / beginning of the 2000s in Poland. Among these six countries, only the UK has observed a relative stability of its labour share. However, this trend has been followed by a stronger increase of inequalities, *among* workers. The development of the financial sector and the boom of wages in such sector has sustained the aggregate level of the labour share.

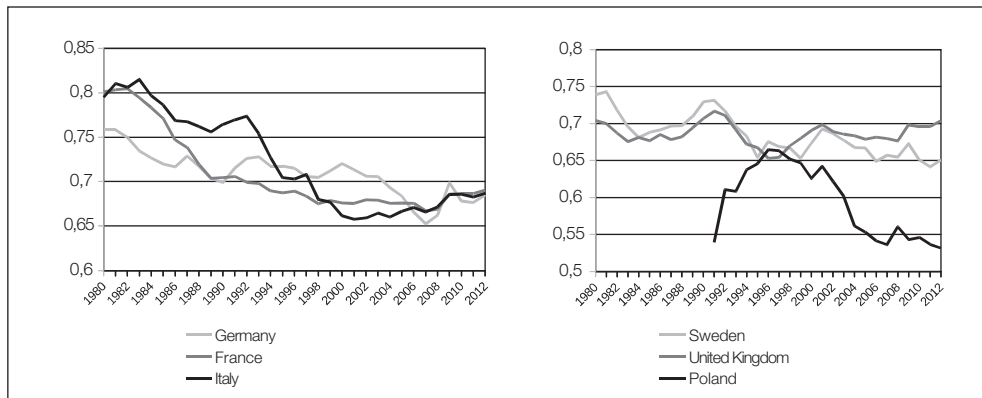


Figure 2: Labour Share in Selected EU countries (1980-2012)

Source: Annual Income Labour Share, OECD.

Different factors may explain such downward tendency. The literature has explored two main explanations: the role of international competition<sup>10, 11</sup> and labour market deregulation<sup>12</sup>. Both factors tend to weaken the bargaining power of workers and strengthen the capacity of firms to impose a higher degree of wage moderation. Karabarbounis and Neiman<sup>13</sup> explain the global decline of the labour share by more structural factors such as the decrease in the relative price of investment goods, advances in information technology and the computer age.

The disconnection between wages and productivity has been observed in all European countries. Figure 2 shows the evolution of wages and labour productivity (measured by

10 E. Brock & S. Dobbelaere, *Has international trade affected workers' bargaining power?*, [in: ] *Review of world economics*, 142(2), 2006, pp. 233–266.

11 A. Guscina, *Effects of globalization on labor's share in national income.*, IMF Working Papers 06/294. International Monetary Fund 2007.

12 B. Bental & D. Demougin, *Declining labor shares and bargaining power: An institutional explanation.*, [in: ] *Journal of macroeconomics*, 32, 2010, pp. 443–456.

13 L. Karabarbounis & B. Neiman, *The Global Decline of the Labor Share.*, [in: ] *The Quarterly Journal of Economics*, Oxford University Press, vol. 129(1), 2014, pp. 61-103.

the GDP per hours) between 1990 and 2012. Productivity gains are much higher than wage increase in all countries of our sample. It is particularly striking in Italy or Poland where wages have been stable over the period (taking into account price increases) while productivity has increased by almost 20% in Italy and by almost 50% in Poland.

**The gap between wage and productivity seems to be strongly related with labour market institutions and the strength of social dialogue.** Literature in Comparative Political Economy on *Varieties of Capitalism*<sup>14</sup> may help to understand such differences. In Coordinated market economies such as Germany or Sweden, the disconnection is lower in average. But liberal market economies such as the UK are not countries with the highest disconnection. It seems that the disconnection is stronger for countries in the middle of the two varieties.<sup>15</sup>

But beyond these institutional differences, political and economic reforms of the last two decades have reinforced the phenomenon globally, even in countries identified as coordinated market economies. The case of Germany is symbolic and we clearly observe a breakdown in the tendency starting at the end of the nineties / beginning of the 2000s'. Labour market reforms had an obvious impact on both the labour share and the disconnection between wage and productivity.<sup>16</sup>

**This evidence should be related to the common wisdom about the meaning of "structural reform". The package of structural reforms always include the promotion of labour and product markets deregulation, which may have contributed to the weakening of workers' bargaining power and coordinated institutional arrangements. The incapacity to build solid EU-wide framework for social negotiations has indeed led to a shift towards more decentralized arrangements.**

These dynamics of productivity and wages have not been compensated by more favourable employment evolutions and no correlation can be observed between productivity/wage gaps and employment.

In the long run, the labour and the capital share should be relatively stable. Economists generally agree that the share should be around 2/3 for labour and 1/3 for the capital. If the labour share is too low, the level of aggregate demand is likely to be too low to reach full employment.<sup>17</sup> On contrary, firms need a minimum level of profit to finance their investment

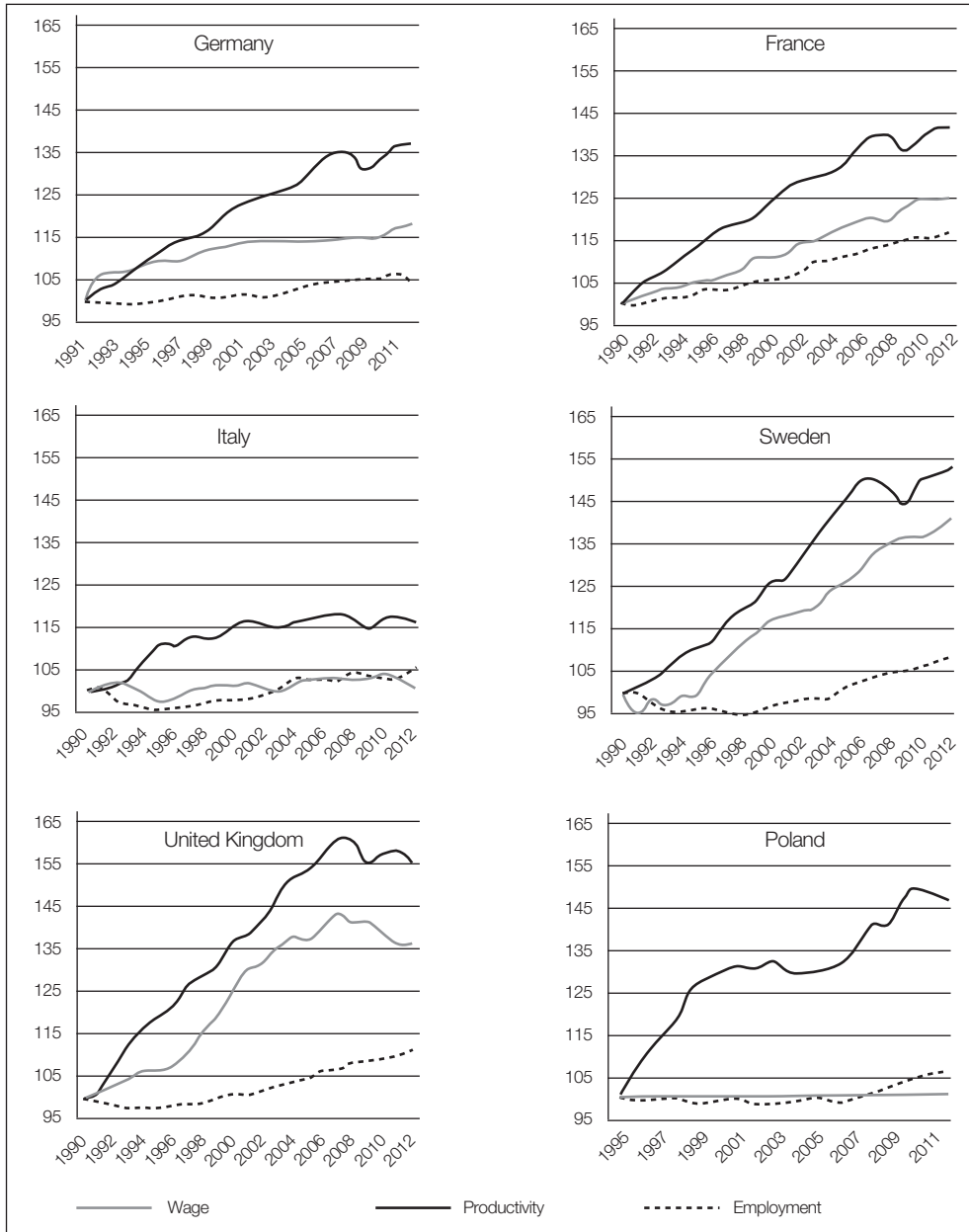
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14 P. A. Hall & D. Soskice (eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage.*, Oxford: Oxford University Press, 2001.

15 See: P. A. Hall & D.W. Gingerich, *Varieties of Capitalism and Institutional Complementarities in the Macroeconomy.*, MPiFG Discussion Paper, No. 04/5, 2004; for a detailed empirical study on the relations between varieties of capitalism, institutional complementarities, the level of coordination and macroeconomic dynamics.

16 For a description of institutional change in varieties of capitalism see: P. A. Hall & K. Thelen, *Institutional change in varieties of capitalism.*, [in: ] *Socio-Economic Review* 7, 2009, pp. 7–34.

17 The only possibility then is to turn to an export-led growth model. But by definition, not all countries can be net exporters. And it fosters external imbalances which are particularly problematic in a common currency area (such as the Eurozone). At the international level, it also jeopardizes financial stability in the long-run.



**Figure 3: Wage and Productivity, Selected Countries (1990-2012)**

Note: Productivity is measured by the GDP per hour (in constant price).

Wage: Average Annual Wages (in constant price). Employment: Total Labor Force Base 100 in 1990 (1991 in Germany and 1995 in Poland).

Source: LFS - Average annual wages, OECD productivity database, OECD.

Labor Force: World Development Indicator, World Bank

**Productivity gains should be equally shared between workers and shareholders and wage increase is a necessary counterpart to productivity gains.**

and ensure their competitiveness. Equilibrium should be found and the wage policy should take into account such dilemma. However, one principle should be clear. **Productivity gains should be equally shared between workers and shareholders and wage increase is a necessary counterpart to productivity gains. Different institutions and policies should aim at preserving this goal. The role of social dialogue is crucial.**

“Structural reforms” are described as necessary tools to increase productivity. Beyond the debate about their low efficacy, especially in times of crisis, they have very heterogeneous impact in terms of working conditions. They can even become welfare reducing for large part of the working force. **Progressive thinkers and policy makers should rethink this concept of structural reforms, refocusing this debate around the primary goal of welfare and quality of life.**

**Progressive thinkers and policy makers should rethink this concept of structural reforms, refocusing this debate around the primary goal of welfare and quality of life.**

### **Productivity and Working Conditions**

Theoretically, the most direct way to analyse the link between productivity and working conditions is to see working conditions as a non-pecuniary part of workers compensation. In that sense, productivity gains can be translated into wage increase or non-pecuniary benefits including working conditions improvement.

But that is only a very partial way to study such linkages. One should primarily focus on the direct impact of productivity on working conditions, eg. how these productivity gains are obtained and what are the consequences for the workers. If we focus on labour productivity, we can distinguish several ways to increase such productivity, which will have very heterogeneous effects on working conditions: (1) work intensification, (2) improvement in ‘human resources management’, (3) investment in capital and technologies, (4) working time policy.

### **The impact of work intensification**

Work intensification is defined by Green<sup>18</sup> as an “*increase in the proportion of effective labor performed for each hour of work*”. Most European countries were affected in the last

18 F. Green, *Work Intensification, Discretion, and the Decline in Well-Being at Work.*, [in: ] *Eastern Economic Journal*, 30(4), 2004, pp. 615-625.

two decades<sup>19</sup>. Green<sup>20</sup> finds three reasons to explain the rise of work intensification: (i) an increase of competitive pressure being passed on to workers<sup>21</sup>, (ii) the declining workers' bargaining power<sup>22</sup>, and (iii) a link between work intensification and technical change mainly because it has raised "the ability of managers both to monitor the labor process and to control the flow of work to workers". Using British data, he shows that technical change is the main driver of work intensification, as well as human resources policies. Green<sup>23</sup> characterizes such trend as an "effort-biased technical change", where the relative productivity of high effort workers is enhanced. Valeyre<sup>24</sup> observes that new forms of intensification have emerged. The first driver of work intensification was the diffusion of Taylorist principles: "*The diffusion of the Taylorists principles of work organization has long played a decisive role in work intensification in manufacturing industry by increasing work rates and reducing lost time in production*". But more recently, "market-driven" and "incident-driven" forms of work-intensification have developed. Market-driven forms are the result of increase pressure (in particular time pressure) from consumers and clients. Incidents-driven forms of work intensification are the result of an "*increased pressure to deal urgently with technical incidents or problems that disrupt production flows*".

**Work intensification is generally associated with a worsening of working conditions<sup>25</sup>. Physical exhaustion and mental stress are the two main adverse consequences of work intensification. It may explain why work intensification is generally associated with declining well-being at work.** Empirical evidence on such linkage are still scarce. One noticeable exception is Green<sup>26</sup> on the consequences of work intensification in the UK. He shows that "*levels of well-being at work have been declining in Britain, and suggest that this decline is largely associated with a combination of rising work effort and declining task discretion*".

**However, this negative link between job satisfaction and work intensification is not systematic. As shown by Kelliher & Anderson<sup>27</sup> who shows that job satisfaction is**

19 F. Green, *It's Been A Hard Day's Night: The Concentration And Intensification Of Work In Late 20th Century Britain.*, [in: ] *British Journal of Industrial Relations*, 39(1), 2001, pp. 53-80.

20 F. Green, *Why has Work Effort Become More Intense?*, [in: ] *Industrial Relations: A Journal of Economy and Society*, 43(4), 2004, pp. 709-741.

21 B. J. Burchell et al., *Job Insecurity and Work Intensification; Flexibility and the Changing Boundaries of Work.*, Joseph Rowntree Foundation Report 1999.

22 F. Green & S. McIntosh, *The intensification of work in Europe.*, [in: ] *Labour Economics* 8 (2), 2001, pp. 291-308.

23 Ibid.

24 A. Valeyre, *Forms of Work Intensification and Economic Performance in French Manufacturing.*, [in: ] *Eastern Economic Journal*, Vol. 30, No. 4 (Fall, 2004), pp. 643-658

25 B. J. Burchell et al.. op. cit., 1999.

26 Ibid.

27 C. Kelliher & D. Anderson, *Doing more with less? Flexible working practices and the intensification.*, [in: ] *Human Relations*, 63(1), 2010, pp. 83-106.

higher when firms propose flexible working options to their employees. As a result of this, workers can decide to increase their work effort. We then have a positive correlation between job satisfaction and work effort. However, we should note that the relation is not causal, but explained by a third factor, which is the degree of autonomy of workers.

The fact that workers can increase their work effort in response to incentives imposed by the firm is the core of *Efficiency Wage Theories*<sup>28</sup>. These theories show why firms should set higher wages than the competitive, market-clearing wage. By doing so, firms can attract and retain the best workers while pushing workers to increase their efforts and therefore their productivity. As in the previous example, workers with better job satisfaction are also the ones showing a greater effort.

To sum up the link between work intensification, productivity and well-being at work, a distinction should be made between imposed work intensification and voluntary work efforts. The latter tends to have negative impact on job satisfaction while the former is a rational answer to an improved well-being at work. In other words, the causality is reverse: it is because workers are satisfied by their job that they can increase their work effort, and therefore their productivity.

### The Role of Human Resources Management (HRM)

An extensive literature has studied the role of human resources management on productivity. We have just seen how greater flexibility in the work organization may contribute to the improvement of job satisfaction and work effort. The wage policy is also a way to increase workers involvement.

Bloom and Van Reenen<sup>29</sup> have studied how Human Resources Management can affect productivity. According to them, HRM "includes incentive pay (individual and group) as well as many non-pay aspects of the employment relationship such as matching (hiring and firing) and work organization (e.g. teams, autonomy)". They observe persistent firm-level heterogeneity in firms' productivity, which cannot be explained by observable inputs, prices or shocks. Differences in HRM may explain such differences. Based on an extensive international survey, they propose an index of good management practices, with various dimensions and provide evidence that such practices have a strong impact on productivity.

The consequences of HRM on working conditions are nevertheless ambiguous. As we just mentioned, what is defined as a 'good practice' may be positive or negative for the well-being of workers. It is generally a combination of *sticks and carrots*, and the

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28 C. Shapiro & J. E. Stiglitz, *Equilibrium Unemployment as a Worker Discipline Device*, [in: ] *American Economic Review*, 1984, pp. 433-44.

29 N. Bloom & J. Van Reenen, *Human resource management and productivity*, [in: ] O. Ashenfelter, & D. Card (eds.) *Handbook of Labor Economics*. Handbooks in economics, 4B. Elsevier 2010.



respective share of different tools is likely to strongly influence the outcome in terms of well-being. For instance, they evaluate efforts and merit-based promotions, fixing/firing underperformers, and rewards for good performance. Such policies can be effective tool to improve productivity. But it may also increase the level of stress, and create a feeling of insecurity that may have adverse effects on job satisfaction, and possibly adverse effects on workers' involvement.

Guest<sup>30</sup> notes that HRM largely neglects worker reaction to such policies. He makes a case for “*building the worker into the analysis of HRM*” and incorporating worker attitudes and behaviour. He suggests that workers attitude mediates the HRM-performance relationship and shows that certain HR practices (such as job design, direct participation and information provision) are associated with higher work and life satisfaction. Petrescu & Simmons<sup>31</sup> also propose to study the impact of HRM on workers' well-being. Using British survey data, they show that some HRM practices can be welfare enhancing. One important feature is the perceived fairness of such practices. If workers perceive the pay structure as unequal, it negatively affects their job satisfaction and motivation.

Rizov and Croucher<sup>32</sup> define forms of HRM practices associated with higher firm performance. They show the importance of the collective form and highlight the need to be supported by strong national and institutional normative setting.

All in all, **HR practices seem to be a strong determinant of productivity and firms' efficiency. However, most of the literature focuses on such dimension and largely neglects the consequences for workers. As such practices are likely to have very heterogenous impact on job satisfaction, a closer look should be given to the working conditions outcome of such practices.**

### **Investing in Capital and Technology**

Technical change and capital accumulation is a strong factor of growth and development in the long-run. One should not forgot the impressive increase in average individual income observed in developed countries in the last century. Technologies have led to the abolition of the most painful tasks for workers. As such, it was a powerful tool to improve working conditions. By investing in capital and technologies, firms contribute indirectly to the well-being of workers. Of course, the relation is much more complex and the reality is far from this idyllic presentation. Since the Industrial Revolutions, we observed several waves of huge workers protests against the development of machines and technologies. The

30 D. Guest, *Human Resource Management, Corporate Performance and Employee Wellbeing: Building the Worker into HRM.*, [in: ] *Journal of Industrial Relations*, September 2002/44, pp. 335-358.

31 A. I. Petrescu & R. Simmons, *Human resource management practices and workers' job satisfaction.*, [in: ] *International Journal of Manpower*, Emerald Group Publishing, vol. 29(7), 2008, pp. 651-667.

32 M. Rizov & R. Croucher, *Human resource management and performance in European firms.*, [in: ] *Camb. J. Econ.*, 33 (2), 2009, pp. 253-272

reason is simple and obvious. In the short run, they imply a substitution from the labour to the capital and employment destruction. Working conditions (and possibly wages) of the remaining workers can be improved. The main problem is that only few of them will benefit from such improvements. Technical change is likely to be skilled-biased which is a strong factor of rising inequality and can lead to an exclusion of low-skilled workers.

**Optimists will argue that such technical change will have positive effect for the whole society in the medium/long run. It is certainly true, as productivity gains are the main driver for living standards improvement. However, we have to acknowledge that market mechanisms are insufficient to regulate such transition in a reasonable period.** The role of governments is to implement policies aiming at smoothing the transition and creating jobs in labour-demanding sector, in order to “absorb” the remaining working force<sup>33,34</sup>.

### **Working Time and Productivity**

The last dimension is the impact of the working time on productivity and well-being. Askenazy<sup>35</sup> observes that “*since the first laws to reduce work hours of youths and women during the nineteenth century, reduction of working time has been historically associated with “social progress” and the improvement of working condition*”. However, reduction of working time has been associated with increasing work intensity, leading to an ambiguous impact on working conditions and well-being of workers.

It has been observed that the working time reduction was often associated with the implementation of more functional flexibility for the firm<sup>36</sup>. Askenazy<sup>37</sup> also shows that the working time reduction “*the opportunity to reorganize through just-in-time production and through the development of multitasking*”.

The link is however not systematic. Askenazy<sup>38</sup> suggests that workers (or their representatives) may accept greater flexibility of work time, given the increased labour effort, “*only becomes sustainable when work time is shortened*”.

**The impact on productivity therefore depends on the way the working time reduction is organized and implemented.** When France implemented the 35 hours a week at the end of the 1990s, the most common arrangement was the “annualization”

33 W. Carlin, *A Progressive economic strategy: innovation, redistribution and labour absorbing services.*, Policy Network Working Paper, 11 October 2012.

34 R. Bazillier, *Towards an egalitarian and efficient economic model based on strong labour market institutions.*, FEPS Next Left Book vol. 9, 2014.

35 P. Azkenazy, *Shorter Work Time, Hours Flexibility and Labor Intensification.*, [in: ] *Eastern Economic Journal*, 30(4), 2004, pp. 603-614.

36 OECD, *OECD Employment Outlook*. Paris: OECD, 1999.

37 P. Askenazy, *La Dynamique de l'Innovation Organisationnelle Lors de la Réduction du Temps de Travail: Évidences sur la France des Années 90.*, [in: ] *Economie et Prévision*, April-June, 2003, pp. 31-51.

38 Ibid.

of work time, which may allow employers to increase work intensity and it may lower labour costs because of a reduction of paid overtime. The implementation was largely based on a decentralized process of bargaining. The productivity effect is very different depending on the outcome of the bargaining. Crepon et al.<sup>39</sup> show that productivity gains were mostly observed in the first firms, which had implemented the working time reduction because they have used the opportunity to change the organization of work and negotiate more flexibility arrangements.

The impact on working conditions is even more difficult to evaluate. If we come back to the French experience, a survey conducted in 2002-2003 shows that nearly half of the workers have observed an improvement of their working conditions, 1/3 did not observe any change and 1/7 a worsening<sup>40</sup>. Once again, this heterogeneity can be explained by differences in complementary arrangements.

## 2. Re-conceptualize the Concept of Productivity

In the long-run, productivity is the main driver of living standards improvement. However, it is a very long-term perspective and short term costs can exceed such benefits. We should focus on three dimensions for which productivity gains may be not welfare-enhancing and suggest some policy recommendations, taking into account such limitations.

The idea is clear. **In the previous volumes of FEPS Next Left Books, we emphasize the need to combine equity/equality and efficiency. We showed that traditional goals of the Left, such as the protection of workers, the quest for a more equal and fair society was compatible, under certain conditions, with the need to get a productive economy.** In other words, we refuse the trade-off between a traditional vision of the Left, focusing on social issues, and the willingness to “modernize” the progressive software by adopting “efficient” policies and forgetting social goals.

But, a more *productive* economy brings also some costs. If it raises living standards as measured by traditional economic aggregate, such as the GDP per capita, the impact on individuals' welfare may be ambiguous. Exactly for the same reason that the GDP is not a good indicator for individuals' welfare.<sup>41</sup>

The three drawbacks of the quest for productivity are the following:

- In the short-run, productivity destroys employment. And the subsequent employment creations are not necessarily for the same individuals. It raises the issue of social inclusiveness of a productive policy.

39 B. Crépon, M. Leclair & S. Roux, RTT, productivité et emploi : nouvelles estimations sur données d'entreprises., [in:] *Économie et Statistique*, N°376-377, 2005.

40 T. Coutrot, *Les conditions de travail des salariés après la réduction de leur temps de travail.*, Premières synthèses, n° 06.3, 2006.

41 See: the Stiglitz-Sen Commission, *Ibid.*

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- Productivity gains may reduce welfare if it weakens working conditions. Quality of life should be the main goal of economic policies.
- Productivity gains may have adverse effects on the environment and therefore be incompatible with the quest of more sustainable society.

**The first challenge is the transition towards a more productive economy.** Since the industrial revolutions, workers have often protested against the introduction of modern techniques of production, fearing (with reasons) for their jobs. Of course, several decades after, these productivity gains have allowed the creation of new activities and jobs. Schumpeter have described more than one hundred years ago this process of destructive creation. However it should be noted that the destruction of “old activities” to let innovative sectors developing themselves, is not a necessary condition when the level of unemployment is so high (including a significant share of high-skilled unemployment). Also, firms have to contribute to this Schumpeterian transition by increasing workers' skills and to develop new activities in response to productivity gains.

**But as every transition, the path towards a more productive economy creates winners and losers. The role of social protection is therefore crucial. Contrary to what is argued by neo-liberal politicians, a more productive economy needs a strong Welfare State and Social Protection system and not a weak one.** It is necessary for two reasons: to help workers in the transition towards new and more productive jobs (requiring more skills in most cases), and to help the most fragile ones.

**The role of the State is also crucial when considering the need to develop a service sector, which will be labour-demanding and with lower level of productivity.** It is necessary both to provide new jobs that will be destroyed in the short run in the productive sector, but also to fulfil social needs that are not fulfilled neither by the State or the Market<sup>42, 43</sup>.

The second imperative is to ensure that productivity gains are not welfare-destroying. Increasing the value of the good rather than the quantity seems a priority. It is a much better way to invest in innovation and rise the added value of a product by increasing its quality than pushing workers to increase their efforts. We have seen that work intensification tends to be associated with worsened working conditions and declining job satisfaction. A successful progressive strategy cannot rely only on this option. We have to reverse the causality. The goal should not be to increase work intensification in order to increase

42 Ibid.

43 Ibid.

productivity because such productivity gains will tend to destroy well-being of workers. On contrary, **firms should set the right incentive to let workers choosing a greater involvement, in response to high wages, good working conditions and involvement in the decision of the firms. Giving more autonomy to the workers seems also a good tool to increase their involvement, their effort at work and therefore their productivity.** The French experience of working time reduction also shows that work intensification can be an acceptable counterpart to this working time reduction and to a greater flexibility. But workers and their representatives should agree on this. A strong and powerful social dialogue is therefore a necessary condition to use this strategy.

### 3. Investing in Quality

In this section, we want to propose some tips that may be useful to distinguish welfare-enhancing productivity gains and others. We identify two main challenges: the first one is related to the *quality* of produced goods and services. The second one is related to the linkages between job quality and quality of life.

#### Quality of Goods and Services

**We first propose to build on the concept of quality gains instead of productivity gains.** By increasing the quality of a good or a service, you increase its value. For a given volume of work, you increase the labour “productivity” defined as the *value* of the output divided by the volume of work necessary to produce such good or service. **Quality over the quantity should be a central concept for progressives, furthermore in line with environmental concerns. It creates wealth and improve quality of life without using more (natural) resources.**

Jean Gadrey proposes the concept of quality/durability (Q&D). He argues that such value of Q&D is underestimated in the price system. If you increase the value of a good, national accounts should take into account that the product has changed, and not only that the same product is more expensive. If you just take into account the price increase, the increase in quality would be only accounted as inflation. It will increase the GDP in *volume* but not in *value*. For instance, if you buy a bio-organic rice instead of a traditional one, and the price is 10% higher, it is important to consider that the *quality* of the rice is also higher. In other words, it is because the quality is higher by 10% than you buy it at 10% higher price. National accounts often fail to take into account such quality increase and it is a major challenge when considering the need to reform wealth indexes.

Increasing quality rather than quantity is the way to improve “productivity” without increasing work intensity. As we saw that the intensification of work was a major source of workers’ well-being worsening, it is a way to re-conciliate efficiency with life satisfaction.

Of course, it is not only possible in all sectors and the need to increase quantity produced is also necessary when social needs are not fulfilled. We also show that there were other ways to increase productivity without worsening workers' productivity and these are to be used. We simply claim that increasing quality, *when possible*, should be preferred both for sustainability and quality of life-enhancing reasons.

### Job Quality

The second dimension relates to job quality. Eurofound<sup>44</sup> notes that job quality is a significant element of well-being. They quote the Stiglitz report stating that *"paid work matters for quality of life partly because it provides identity to people and opportunities to socialise with others. However, not all jobs are equally valuable in this respect. This underscores the importance of collecting more systemic information on the quality of paid work"*.<sup>45</sup>

In 2002, the European Foundation for Living and Working Conditions has developed a framework in which job quality was built upon four blocks: "career and employment security", "health and well-being", "reconciliation of working and non-working life and "skills development". Based on that, Eurofound<sup>46</sup> proposes different indexes of job quality based on four pillars: earnings, prospects, intrinsic job quality and working time quality (see: Table 1), based on Eurofound Working Conditions Surveys.

Table 1 : Indices of Job Quality (Eurofound 2012)

Index	Description of the Content
Earnings	Hourly Earnings
Prospects	Job security, career progression, contract quality
Intrinsic Job Quality	Skills and Discretion - Skills and Autonomy Good Social Environment - Social support, absence of abuse Good Physical Environment - Low level of physical and posture-related hazards Work Intensity - Pace of work, work pressures and emotional/value conflict demands
Working Time Quality	Duration, scheduling, discretion, and short-term flexibility over working time

Source : Eurofound (2012, p. 20)

44 Eurofound, *Trends in job quality in Europe*, Publications Office of the European Union, Luxembourg 2012.

45 A. Sen et al. 2009, *Ibid.*, p. 49.

46 *Ibid.*

In the same report, they present regressions showing the association between well-being indicators and job quality indexes. They show that “each index has a significant association with the health or well-being outcomes”.<sup>47</sup> The greatest effect on subjective work-life balance is observed for the working time quality, while intrinsic job quality has a stronger effect on subjective well-being. A 10 per cent increase in intrinsic job quality is found to raise subjective well-being by 3.5 points.

**This concept of job quality appears as a necessary tool to assess any labour market reform or policy and should be seen as the necessary intermediary between working conditions and productivity.** If a productivity-enhancement policy has an impact on working conditions, the sub-consequent consequences in terms of job quality should lead to adjustments or alternative choices when these policies are welfare-destroying.

#### 4. The Great Recession and the sub-consequent challenges

The current economic crisis may have changed the paradigm. The labour market consequences have been very severe but heterogeneous among countries. Lallement<sup>48</sup> build on the different varieties of capitalism to assess forms of labour adjustment in European countries. Adjustments in France and Spain has had a negative impact on labour market segmentation. In Germany and Denmark, it was the working time, while unemployment and underemployment were the main adjustment variables in UK and Ireland.

Table 2: Labour market regulations, varieties of capitalism and the crisis (Lallement 2011)

	Liberal market economies	Coordinated market economies	Mediterranean Economies
Labour Market Characteristics	Weak employment protection Secondary and External markets	Intermediate level of employment protection Mobility facilitated by high level of generic qualifications/skills Occupational markets	Strong employment protection Internal markets Labour market segmentation
Employment adjustment	External flexibility Redundancies, wage flexibility	Internal flexibility Working time, functional flexibility	Dual flexibility Protection for the core labour force and precarity
Main response to employment crisis	Accentuation of misadjustments	Adaptation to the crisis	Reinforcement of inequalities

Source: Lallement (2011, p. 636)

47 The only case where there is no association at all is the effects of earnings on health issues caused by work.

48 M. Lallement, *Europe and the economic crisis: forms of labour market adjustment and varieties of capitalism.*, [in:] *Work Employment Society*, 2011, 25, pp. 627.

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We can already observe some of these adjustments mechanisms by looking at their impact on employment, wages and productivity (Figure 3). In countries where internal flexibility mechanisms have been preferred, the effect of the crisis is stronger for productivity (Germany) while employment and/or wages were primarily affected in other countries (UK or Italy).

The crisis is likely to get long-term impact on working conditions and job quality. It is not possible to already observe these dynamics empirically as the *composition* of the working force has changed with the strong increase in employment. In countries where low quality jobs have been the first hit by the crisis, the average level of job quality of the *remaining* jobs may have slightly increased<sup>49</sup>.

The future of job quality will also be impacted by policies implemented in European countries as a response to the crisis. The Troika (EC, IMF and ECB) has imposed labour market reforms as conditions of the bail-out of countries. The European Commission asks for more reforms in countries affected by recession and growing deficit. And countries such as Italy or France are asking for more time to reduce their deficit in exchange with additional “structural reforms”. These won't be without consequences on the labour market. Even if the job crisis is mainly explained by astonished level of growth and depressed level of demand and investments.

Long-term consequences of the crisis may also be driven by changes in aspiration, and more generally a redefinition of the place of work in the life of citizens. In times of massive underemployment and precarious jobs, jobs are less likely to be a vector of emancipation for individuals. Societal changes may follow this tendency, giving more importance to the balance between work and personal life, and to other types of activities (such as the time spent in community activities or to take care of the others).

## Conclusion

The newly established European Commission has now a Commissioner (Vice-President) in charge of the Euro and Social dialogue (Valdis Dombrovskis), while another Commissioner (also Vice-President) will be in charge of Jobs, Growth and Competitiveness (Jyrki Katainen). A third one will be in charge of Employment, Social Affairs, Skills and Labour Mobility (Marianne Thyssen). None of them are from the Left. We have to see how they will share their responsibilities and which will be the priorities for the next five years. We do not see so much hope in this direction.

***More and Better Jobs slogan is more accurate than ever. Progressive will gain thinking how redefining their vision on the so-called structural reforms and rethink***

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49 Eurofound, *European Jobs Monitor 2014. Drivers of recent job polarization and upgrading in Europe*, Publications Office of the European Union, Luxembourg 2014.



the content of such policies. It is possible to push for a more productive economy while preserving or improving job satisfaction and more generally the quality of life. But this is not automatic and progressive should promote policies improving both productivity and quality of life. The focus on *quality gains* instead of productivity gains and a constant look to job quality when reforming labour markets can be the two guidelines of a renewed progressive vision of what should be structural reforms.

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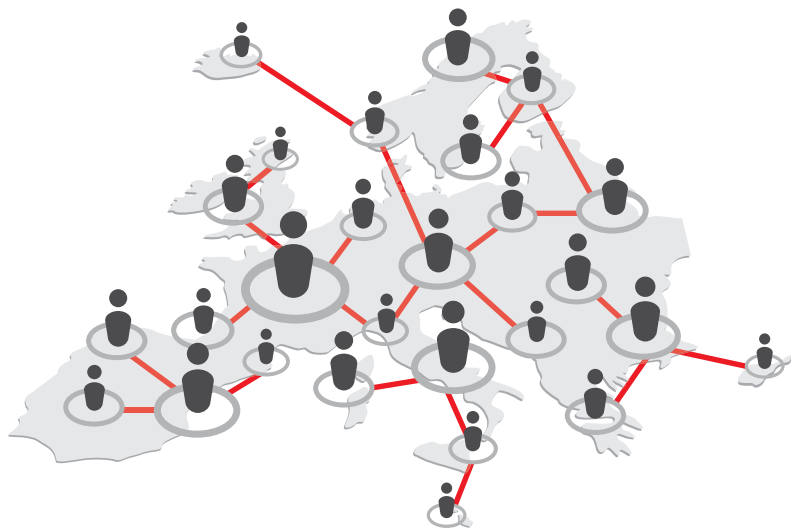
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Ronny MAZZOCCHI

# **The Economic and Social Consequences of the Obsession for Competitiveness in the EMU**



**Key words:**

**Competitiveness - International Trade - Internal Devaluation - Economic Policy  
- Welfare State**

**Abstract:**

The debate around *competitiveness* is broad and controversial. Krugman (1994) has defined competitiveness as a “dangerous obsession”, which is not founded in terms of the theory of international trade or the national accounts, as well as it is misleading with regards to the policy conclusions that are being drawn from it. But *obsession with competitiveness* has long been dictating the terms and remained at the heart of European debate. Indeed, the opposite to it - *lack of competitiveness* - has been considered as the main cause of the European crisis. In this perspective, *improvement in competitiveness* - by way of austerity policies and internal devaluation - is presented as the solution to the crisis. The aim of this paper is first to explain why defining the economic problem as one of external competition is meaningless and, secondly, that the narrow analysis of competitiveness can result in dangerous domestic economic policies, both in the short and in the long run.

## 1. Introduction

There are claims that have the force of a dogma; there are stereotypes that have crept in the collective imagination so quick that now most of them are not even perceived as clichés. **One of these dogmatic claims is the one of competitiveness. Along with privatization and liberalization, it is one of the most pervasive cultural phenomena in the economic policy debate of the last three decades.** Many people take for granted that the economic problem facing any modern state is essentially one of competing on world markets. The prevailing position consists in a view that international trade is like an arena of “win-lose” competition among nations. In the words of the former President of United States Bill Clinton, “*each nation is like a big corporation competing in the global market*”.

Also the European debate is dominated for more than twenty years by the issue of competitiveness. **In the 1980s and 1990s unemployment was presented as a problem of lack of competitiveness with the US and Japan<sup>1</sup>, while in more recent years competitiveness has been considered as the main cause of the European crisis.** In this perspective, Italy, Greece and Spain are not competitive enough. On the contrary, Germany and Netherland are very competitive. Therefore, the improvement in competitiveness of the so-called PIIGS is seen as the solution to the crisis.

The metaphor of competitiveness derives much of its attractiveness from its seeming comprehensibility. First, the competitive image is exciting, and we know that thrills sell tickets. Second, the metaphor makes difficulties easier to solve. It easily identifies a culprit and the way out of the difficulties. Third, it is a political device that assists in justifying unpopular choices. This strategy is neither new nor original. It is linked to the political-economic paradigm to which Albert Hirschman has given the name of *reform-mongering*<sup>2</sup>.

However, **the idea that the fortunes of a country are determined by its success on world market is only a claim. Empirical evidence shows that this hypothesis is wrong: leading nations are not to any important degree in economic competition with each other, and none of their major economic problems can be attributed to failures to compete on world markets.** So, what is wrong with competitiveness? We know that a company is not competitive if – in the long run - it cannot afford to pay its workers, suppliers and bondholders. But for countries the concept of competitiveness is much more poorly defined and more strongly contested.

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1 Commission of the European Communities, *Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century.*, [in:] *White Paper*, Brussels: Commission of the European Communities 1993.

2 A. O. Hirschman, *Come far passare le riforme*, [in:] L. Meldolesi (a cura di), Bologna, Il Mulino 1990.

The common fear is that an economy that fails to keep up with its trading partners will suffer severe economic damage, incurable trade deficits, large-scale unemployment, and perhaps economic collapse. However, this fear is not justified. International competition does not put countries out of business. There are strong equilibrating forces that normally ensure that any country remain able to sell a range of goods in world markets, and to balance its trade on average over the long run, even if its productivity, technology, and product quality are inferior to those of other nations. And even countries that are clearly inferior in productivity to their trading partners are normally made better off by international trade.

The aim of this paper is first to explain why defining the economic problem as one of external competition is meaningless both from the theoretical and the empirical point of view. This partially calls into question the approach that the Progressives have had in the last 10 years: **maintaining productivity growth and technological progress is important for its own sake, and has nothing to do with international competition.** Indeed, the countries with lagging productivity are still able to balance their international trade, because what drives trade is *comparative* rather than *absolute* advantage. Only having clarified this point, it becomes possible to identify what are the most appropriate policies to increase productivity. In fact, so far the obsessive focus on "competitiveness" made wage-cuts apparently the best solution to achieve this goal.

Secondly, I will try to show that **the narrow analysis of competitiveness can result in dangerous domestic economic policies, both in the short and in the long run.** As for the short run, the focus will be in particular devoted to the internal devaluation policies imposed to individual EMU-countries to improve their external position. In the absence of enough monetary accommodation by financial system and with an insufficient level of investment from northern Europe, the risk is an outright deflation with generalized decline in the social welfare and in the living standards.

Concerning the long term, I would like to focus on three aspects. First, the false problem of competitiveness could result in the wasteful spending of public money supposedly to enhance EU competitiveness. Second, the obsession of competitiveness could lead to trade conflicts and protectionism both between the EU and the rest of the world and within the EU. Finally, the myth of competitiveness could result in bad public policy. The weakening of the European social security systems has often been justified by the increasing difficulty of supporting their costs in a globalized economy characterized by increasing competition. However, the gloomiest predictions about the destiny of the welfare systems collide with what we observe in reality. **There is a clear positive correlation between the degree of openness to foreign trade and the size of public spending.** This relationship is explained by the fact that public spending plays a role in the absorption of shocks, which are larger the more the economy is exposed to perturbations that are generated in international markets. The increased international exposure determines therefore a greater demand for protection by the state.

The paper is organized as follows. Section 2 presents – and hopefully clarifies – some basic issues on international trade theory. Section 3 discusses why that of competitiveness is a meaningless concept. Section 4 explains why within the European Union there is no problem of competitiveness. Section 5 presents the main policy implications of this obsession with competitiveness and shows also the damage they can cause to our economic systems. Section 6 concludes.

## **2. International Trade and Economic Theory: a Required Clarification**

Foreign trade is an old phenomenon. In the modern times, international trade has become more common than ever before, and it is hard to imagine our world without international trade. Each time we buy goods, parts of them or even the whole good was produced abroad. At the same time, German cars, for example, are driven in nearly every country of the world. It is not a question whether a country should participate in international trade. Besides a few exceptions (e.g. North Korea), every country participates in international trade. The overall amount of international trade is constantly increasing. Even setbacks like the Great Recession of 2008 have had only a temporary negative effect on world trade. Between 1948 and 2004 the volume of world trade (in US dollars) increased about one hundred fifty fold. International trade has grown by 4 per cent each year on average since 1920. In the same period, worldwide GDP grew only by 2.7 per cent each year on average.

The centrality of free trade in our world is thus reflected by its importance in economic theory. Theoretical approaches are significant to analyse the benefits and the development of free trade. The theory tries to answer questions about the direction or pattern of and the gains from international trade. What circumstances or developments determine which goods a country exports and imports? Who benefits from free trade? Do all countries benefit likewise? Or can some countries actually suffer a loss as a result of free trade?

The classic analysis of the equilibrating forces in international trade is more than two hundred years old. David Hume<sup>3</sup> pointed out that in the case with the gold standard a country that imports more than it exports has a drain on gold and a fall in the money supply. Prices and wages fall; hence the goods and labour in that country become cheap so that they grow attractive to foreign buyers. In this way, the deficit in trade is corrected. **In the contemporary economic systems, where precious metals are no longer the principal medium of exchange, deficit countries usually adjust by depreciating their**

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3 D. Hume, *Essays, Moral, Political, and Literary.*, [in:] W. R. Allen (ed.), *La teoria del commercio internazionale da Hume a Ohlin*, Etas Kompass, Milano 1968.



currencies rather than by letting wages and prices fall. Also, international capital movements have as their counterpart trade imbalances: a country that is able to attract an inflow of foreign capital will also run a trade deficit, whereas a country that is exporting capital will run a surplus. Nonetheless, over the long term, major industrial countries show a strong tendency toward equality of imports and exports, regardless of their productivity and technological performance. Suppose that a country lags behind other nations in productivity in all or almost all industries. The equilibrating forces ensure that it will be able to find a range of goods and services to export. That country will export those goods in which its productivity disadvantage is smallest. In other words, it will always find a range of goods in which it has a “comparative advantage” even if there are no goods in which it has an “absolute advantage”.

David Ricardo<sup>4</sup> explained this key idea in an example involving England and Portugal. In Portugal it is possible to produce both wine and cloth with less labour than it would take to produce the same quantities in England. However the relative costs of producing those two goods are different in the two countries. In England it is very hard to produce wine, and only moderately difficult to produce cloth. In Portugal both are easy to produce. Therefore while it is cheaper to produce cloth in Portugal than England, it is cheaper still for Portugal to produce excess wine, and trade that for English cloth. Conversely, England benefits from this trade because its cost for producing cloth has not changed but it can now get wine at a lower price, closer to the cost of cloth. The conclusion drawn is that each country can gain by specializing in the good where it has comparative advantage, and trading that good for the other. Therefore **international trade is not about competition; it is about mutually beneficial exchange.**

The theory of international trade has created a lot of misunderstandings in the public debate. The first concerns wages. The basic *Ricardian* model envisages a single factor; labour, which can move freely between industries. Wages are thus determined in a national labour market. The wages earned in one industry are largely determined by the wages similar workers are earning in other industries. As a consequence, the link between productivity and wages reflects the productivity of a country *as a whole*, and not at the level of the individual company.

Associated with this problem there are two other misunderstandings. The first is related to what international trade should do to wage rates. It is a fact that some Bangladeshi apparel factories manage to achieve labour productivity close to half those of comparable installations in the United States, although overall Bangladeshi manufacturing productivity is probably only about 5 per cent of the U.S. level. Non-economists find it extremely puzzling that wages in those productive factories are only 7 per cent of US standards, but this is exactly what the theory of Ricardo stated.

4 D. Ricardo, *On the Principles of Political Economy and Taxation.*, John Murray, London 1817.

The second misconception – strictly related to the first - contributes to a campaign against international trade and in favour of protectionist policies. It is argued that free trade would require a general lowering of wages to enable the ability to compete in international markets. In this way it stimulates the desire to defend itself through protectionist barriers. A very clear example of this is that provided by Michael Lind: "*Many advocates of free trade claim that higher productivity growth in the United States will offset pressure on wages caused by the global sweatshop economy, but the appealing theory falls victim to an unpleasant fact. Productivity has been going up, without resulting wage gains for American workers. Between 1977 and 1992, the average productivity of American workers increased by more than 30 per cent, while the average real wage fell by 13 per cent. The logic is inescapable. No matter how much productivity increases, wages will fall if there is an abundance of workers competing for a scarcity of jobs, an abundance of the sort created by the globalization of the labour pool for US-based corporations*"<sup>5</sup>. The argument is known to be very attractive and persuasive. Unfortunately - as shown by Krugman<sup>6</sup> - it is not true.

Indeed, the 30 per cent productivity increase Lind cites was achieved only in the manufacturing sector. In the business sector as a whole the increase was only 13 per cent. The 13 per cent decline in real wages was true only for production workers, and ignores the increase in their benefits: total compensation of the average worker actually rose 2 per cent.

And even that remaining gap turns out to be a statistical quirk: it is entirely due to a difference in the price indexes used to deflate business output and consumption (probably reflecting overstatement of both productivity growth and consumer price inflation). When the same price index is used, the increases in productivity and compensation have been almost exactly equal. This result is not surprising. Any difference in the rates of growth of productivity and compensation would necessarily show up as a fall in labour's share of national income. But the share of compensation in U.S. national income actually rose slightly over the period Lind describes in his article.

In conclusion, there are three important implications that follow from the *Ricardian* framework.

- First, differences in technology between nations and across industries provide the motivation for international trade.
- Second, technological superiority - i.e. higher labour productivity - is not a guarantee that an industry will be able to compete successfully. Although technologically superior to foreign producers, a domestic industry will nonetheless disappear if it does not also have a comparative advantage.

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5 M. Lind, *To have and have not.*, Harpers 1995, 290, pp. 35-39.

6 P. Krugman, *Ricardo's difficult ideas.*, MIT. URL: <http://web.mit.edu/krugman/www/ricardo.htm> , 1996.

- Third, although wages may be lower in the foreign industry, this does not imply the demise of domestic production under free trade. Higher wages can be maintained in the technologically superior country's comparative advantage industry, especially if the international mobility of labour is not so high as all available empirical evidence seems to confirm.

### 3. Competitiveness: a Meaningless Concept

For over twenty years, improving a nation's competitiveness has been frequently presented as a central goal of economic policy in all developed countries. There is no meeting or conference in which the increase of competitiveness is not identified as a key element to pursue. In fact, there seems to be a lot of confusion about what exactly competitiveness is.

Competitiveness - as usually defined in the official documents - has both a microeconomic and a macroeconomic dimension. At the micro level, competitiveness refers to the ability of growth of a company, i.e. its ability to produce efficiently and to achieve profits, in accordance with the market rules in terms of price and quality. In this perspective, the increase in competition in product markets and services should encourage businesses to step up the adoption of new technologies or the amount of investment devoted to R&D (research and development) to achieve a leading position in respect of their rivals<sup>7</sup>.

Empirical evidence shows that competition stimulates innovation capacity of enterprises, and this leads to considerable improvements in terms of productivity. Numerous studies demonstrate the existence of a positive relationship between the increase in the degree of competitiveness of markets and innovative activity, both at the level of firms<sup>8</sup> and at the level of industrial sectors<sup>9</sup>. Other studies, however, have a relationship is not unambiguous and non-linear<sup>10</sup>.

7 P. Aghion & P. Howitt, *Endogenous Growth Theory*, MIT Press 1998.; J. Boone, *Competitive Pressure: The Effects on Investments in Product and Process Innovation*, [in:] *Rand Journal of Economics*, 31(3), 2000, pp. 549-569.

8 R. E. Caves & D. Barton, *Efficiency in the U.S. Manufacturing Industries*, MIT Press, Cambridge 1990; R. E. Caves et al., *The Economic Theory of Index Numbers and the Measurement of Input, Output, and Productivity*, [in:] *Econometrica*, 50(6), 1982, pp. 1393-1414; A. Green & D.G. Mayes, *Technical Inefficiency in Manufacturing Industries*, (in:) *Economic Journal*, 101, 1991, pp. 523-538.

9 M. E. Porter, *The Competitive Advantage of Nations*, Free Press, New York 1990.; M. N. Baily & H. Gerbach, *Efficiency in Manufacturing and the Need for Global Competition*, [in:] *Brookings Papers on Economic Activity: Microeconomics*, 1995, pp. 307-358.

10 P. Aghion et al, *Competition, Imitation and Growth with Step-by-Step Innovation*, (in:) *Review of Economic Studies*, 68, 2001, pp. 467-492; A. Bassanini & E. Ernest, *Labour market regulation, industrial relations and technological regimes: a tale of comparative advantage*, [in:] *Industrial and Corporate Change*, 11(3), 2002, pp. 391-426.

At the macroeconomic level, the concept of competitiveness is more controversial and often leads to misunderstandings. Though, few persons know precisely what this means and whether it is even sensible to talk of competitiveness at a macroeconomic level at all. According to the OECD<sup>11</sup>, economic competitiveness is *“the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term”*. In other words, competitiveness can be assessed as the ability of a country to operate in a competitive environment whilst maintaining an internal balance, namely the standard of living of its population<sup>12</sup>.

The data most commonly used to measure competitiveness are those produced by the International Institute of Management Development (IMD) in Lausanne, and the World Economic Forum (WEF) in Geneva. However, even some national research institutes and government commissions specially appointed in the U.S. and in Europe have ventured into the task of producing similar indicators. In the case of the European Commission, it was published a scoreboard of industrial policy, based on 40 quantitative indicators, collected in seven groups, able to measure all the progress in terms of competitiveness of the EU as a whole and its Member States.

The rankings of the various countries are obtained through the use of indicators that differ by type. We distinguish the indicators of competitiveness in the narrow sense and those of the result. The former are indicators of the specific factors considered most relevant and significant for competitiveness, such as those relating to the domestic economy, the cost of labour, the degree of internationalization, the size and role of government, the structure of financial markets, infrastructure, and management characteristics of the population, the scientific and technological capacities. On this type of factors, it is believed that governments can intervene and affect the results through appropriate policies that aim to address the deficiencies and to fill the gaps that exist between the different countries. The latter are indicators such as GDP per capita, employment rate, the export performance and the profitability of the whole production system. They are indicators that reflect the general trend of the economy. On these indicators is not possible to intervene with specific policies, but they are influenced upon the results of policies implemented on individual competitiveness factors previously mentioned.

The aggregate global competitiveness indexes have some important drawbacks. First, they certainly present elements of heterogeneity, as evidenced by the diversity of the positioning of some countries in the rankings compiled by different organizations. A further element of arbitrariness index is related to the fact that the country that appears almost

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11 OECD, *Technology and the Economy: The Key Relationships., Report on the Technology/Economy Programme*, OECD Paris 1992.

12 L. D'Andrea Tyson, *Who's Bashing Whom: Trade Conflict in High Technology Industries.*, Institute for International Economics, New York 1992.

always in the first or in the first places of the rankings, namely the United States, is also the one that presents a structural imbalance in the balance of the current account. This would require a lot of caution in using these indices for any policy consideration. Unfortunately this is often not the case.

#### 4. Competitiveness in Europe

The competitiveness is at the centre of European public debate for many years. In June 1993, Jacques Delors made a special presentation to the leaders of the nations of the European Community, meeting in Copenhagen, on the growing problem of European unemployment. He explained that the root cause of European unemployment was a lack of competitiveness with the United States and Japan<sup>13</sup>. In the subsequent years this belief was incorporated into the foundational documents of the EU. At the June 1997 Amsterdam summit, representatives of the Member States made an important change to the 'Treaty Establishing the European Community' and introduced "competitiveness" as an objective in its own right.

Since then, the (alleged) lack of competitiveness has always been an obsession of the ruling classes of Europe. To find a solution to this problem, in 2000 the well-known Lisbon Strategy was launched. Its aim was to make the EU *"the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion"* by 2010. Following the guidelines of this strategy, the economic policy measures adopted in Europe in the last years have been directed at defining and ensuring a clear regulation of competition in product markets of the euro area, in order to build a European market that can stimulate investment by businesses. This is obviously a good thing and the failure of the first Lisbon strategy would have to call into question the fact that the pursuit of its goals has been entrusted to the individual Member States rather than determine a greater involvement of the European institutions.

The euro crisis has instead called upon the differences in competitiveness within the euro area. Although among economists is now widely diffused the belief that the problem of the European Union - and particularly of the Eurozone - is to be found in the weakness of its institutional framework and its governance, the dominant view in both the European Commission and among EU governments is that the growing current account deficits emerged in the so-called PIIGS over the past decade would have been a clear sign of lack of competitiveness of these countries. The recipe should then be to cut the cost of production - in particular nominal wages - in order to be able to recover competitiveness

<sup>13</sup> It should however be remembered that in that context Delors said that the solution was a program of investment in infrastructure and high technology.

and therefore to compete again with the leading countries of Europe. But is it really so?

An indicator that is often taken to measure the competitiveness of a country is the unit labour cost (ULC)<sup>14</sup>. Basically, the ULC measure how much money wage per hour worked must pay a firm to produce in that hour of work a unit of product. In fact, the ULC expresses the relationship between money wage per hour worked and labour productivity per hour worked. It is also believed that an increase in ULC may be transferred entirely on prices, thus higher ULC implies higher prices. In this sense, therefore, the ULC is a substitute measure for external competitiveness on an economy. For example, it is said that Germany is able to export more than import because it is more competitive than Italy, as it has a lower ULC, and therefore a lower level of prices.

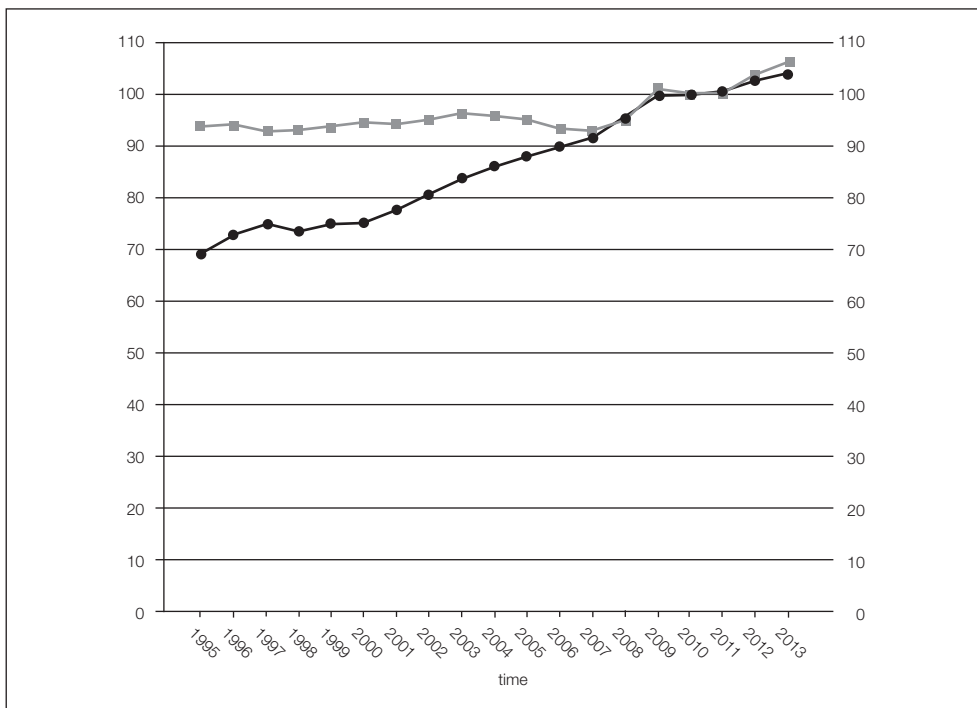


Figure 1 – Unit Labor Cost, 2000-2013 in Europe. Germany in grey, Italy in black

However, if we look at the evolution of the ULC from 2001 to 2013, we note that the conclusion is not so simple (Figure 1). Between 2001 and 2006, ULC in Germany was permanently higher than the Italian one. Between 2006 and 2012 the opposite occurred. The trend was reversed again in 2012. In accordance with the principle of ULC, producer prices in Germany should be higher than in Italy at least between 2001 and 2006 and between 2012 and 2013, and thus the external balance should be worse. However, the

<sup>14</sup> We use the ULC instead of the Real Effective Exchange Rate (REER) because in an economy with fixed nominal exchange rates the two concepts are identical.

German external balance throughout the period under consideration was always better than the Italian (Figure 2). Same thing can be said by comparing the data of Italy with those of Greece. The Italian ULC was, on average, higher than the Greek. Conversely, the external balance of Italy was permanently better than that of Greece.

It must be said that the correlation between ULC and external balance of a country is very controversial and not universally accepted. For example, Wyplosz<sup>15</sup> rejects the idea that the analysis of the ULC can give some clues to understand the evolution of the trade deficit. While acknowledging that in Germany and Austria since 1999, wages increased very little in relation to productivity and that - in this way - the ULC has decreased, Wyplosz argues that this element has affected the foreign balance to less than 10% and therefore do not can be identified as the main cause of intra-European imbalances.

The analysis of Wyplosz is generally challenged in two respects. The Conservatives usually argued that carrying out an analysis of the relation between ULC and foreign trade balance, one should take into account not only the current trade imbalances, but also of the factors that may contribute to worsen the situation in the future. In other words, if the trends that have characterized the first decade of the euro would continue in the coming years, the gap between the ULC in different countries would be exceptionally large, bringing well above the 10% of the relationship between this indicator and the foreign trade balance. Progressives, however, argued that the analysis of Wyplosz completely ignores the implications that the differences between the ULC will have on profit margins and consequently on income distribution in different countries. It is no coincidence that the share distribution of wages has decreased in the entire EU, but most markedly in countries like Germany and Austria, where at the same time the propensity to save, especially by businesses, has increased. Since the propensity to consume for employees is generally much higher than the propensity to consume for high-income people, a distribution more biased towards the profits will cause poor domestic demand in the countries of central Europe. This will lead to a slowdown in demand for imports and thus to a further increase in the trade surplus for the countries of that area. Therefore, in addition to the usual effect on prices, there is a second destabilizing effect to take into consideration that passes through the distribution of income and the strength of the demand<sup>16</sup>. Although this second explanation is entirely plausible and somewhat persuasive, it does not question the one provided by the Conservatives. It thus remains the belief that the origin of everything is the unit labour costs. This is probably the reason why the contrast of the Progressives to the competitive deflation policies was so weak.

15 C. Wyplosz, *Happy 2011*, VoxEu.org, 5 January 2011.

16 E. Stockhammer et al, *Functional income distribution and aggregate demand in the Euro area.*, (in:) *Cambridge Journal of Economics* 33(1), 2009, pp. 139-159; E. Hein & L. Voegel, *Distribution and growth reconsidered: empirical results for six OECD countries.*, [in:] *Cambridge Journal of Economics* 32(3), 2008, pp. 479-511.

This type of policy, however, has not allowed the promised improvement in competitiveness. If we look at the process of internal devaluation that has taken place in most of the PIIGS since 2009, we could observe that external rebalancing has come at the cost of an internal imbalance. The huge increase in unemployment, which has been observed in the European periphery, makes it difficult to define those countries as competitive under the OECD's definition we saw above.



Figure 2 – Current account position of Germany (grey) and Italy (black)

To reconcile internal and external balances we should clarify that competitiveness of a nation is no more than its productivity, to the extent that this determines both ULCs and changes in living standard. As Krugman<sup>17</sup> correctly argued, whereas the competitiveness of corporations is measured in relative terms - with “winner” and “losers” – the competitiveness of nations is not a *zero-sum game*: because it is productivity gains - in absolute rather than relative terms – that determine improvements in living standards, a truly competitive nation is a source of demand for the rest of the world. In other words, the growth rate of living standard equals the growth rate of domestic productivity. Even though world trade is larger than before, national living standards are determined by domestic factors rather than by some competition for world markets.

17 P. Krugman, *Competitiveness: A dangerous obsession.*, [in: ] *Foreign Affairs*, March/April 1994, pp. 28-44.



## 5. Policy implications for the EU

Thinking and speaking in terms of competitiveness poses real dangers. **The most obvious if least worrisome danger of the obsession with competitiveness is that it might lead to misallocation of public resources.** Recent guidelines for government research funding in many Member States have stressed the importance of supporting research that can improve international competitiveness. This exerts at least some bias toward inventions that can help manufacturing firms - which generally compete on international markets - rather than service producers, which generally do not. Yet most of our employment and value-added is now in services, and lagging productivity in services rather than manufactures has been the single most important factor in the stagnation of many Member States' living standards.

**A much more serious risk is that the obsession with competitiveness will lead to trade conflict among Member States and between the EU and the rest of the world. If the welfare of a country is increasingly described as the outcome of a global trade war, and if the citizens perceive that, despite its best efforts, their country does not seem to be winning, then the competitive diagnosis inevitably suggests that to close the borders is better than to risk having foreigners take away high-wage jobs and high-value sectors. This is what is happening both in international relations and in the relationship between centre and periphery in the Monetary Union. Paradoxically, the obsession on competitiveness greases the rails for those who want confrontational if not frankly protectionist policies.**

Perhaps **the most serious risk from the obsession with competitiveness, however, is its consequences on the future of social security systems in Europe.** In fact, one of the reasons for the increasing difficulty of supporting an extensive system of social protection is commonly found in the process of economic globalization. If the extension of markets has offered important opportunities, the obsession with competitiveness has led to pressure to reduce production costs. The ability to reallocate production to countries with lower labour costs has prompted many governments to reduce the company tax-burden on labour. On the other hand, **the high mobility of capital (and also of certain categories of highly skilled workers) triggered mechanisms of tax competition, for which each country has an incentive to reduce taxation in order to attract resources. It is clear that these factors reduce the ability of nation states to collect funds through taxes and it is thus creating problems of inter-temporal sustainability of welfare systems. Moreover there is a clear tendency of governments to concentrate the tax burden**

**The most serious risk from the obsession with competitiveness, however, is its consequences on the future of social security systems in Europe.**

**on less mobile factors, such as low-skilled workers with very negative redistributive effects.**

In this context, there has been someone who has openly declared the end of the European social model, i.e. a model characterized by high levels of social spending and regulation of markets and therefore incompatible with the requirements of sound public finances and international competition. According to this point of view, the Eurozone crisis would be the end of that security and well-being guaranteed by public intervention. Politicians, commentators and some economists continuously advance the indication of the need to “reduce government spending”. The European Social Model is presented as a luxury we can no longer afford in the current situation. On this line moved both the ECB governor Mario Draghi in a famous interview with the Wall Street Journal in February 2012<sup>18</sup>, and King Willem-Alexander of the Netherlands in his speech to Parliament in September 2013<sup>19</sup>.

However, the gloomiest predictions about the destiny of the European welfare systems collide with what we observe in reality. Rodrik<sup>20</sup> showed a clear positive correlation between the degree of openness to foreign trade and the size of public spending. This is particularly evident in the case of small open economies of Central and Northern Europe (Austria, the Netherlands, Norway, etc.). But the same regularity is found for all the OECD countries. This relationship is explained starting from the fact that public spending plays a role in the absorption of shocks, which are larger the more the economy is exposed to perturbations that are generated in international markets. The increased international exposure determines therefore a greater demand for protection by the state. The analysis of Rodrik seems to confirm that the direction of causality runs from the degree of international exposure, to the level of expenditure, and not vice versa. The conclusion is that “policies which reduce the role of the State and who do not care about economic insecurity generated by globalization could damage the prospects of maintaining a system of free trade.

**The logical link between increased international capital mobility and reduction of social protection (and thus of public spending and taxation) is therefore not so obvious. If mobility results in a shift of risk from capital to labor, it also leads to an increase in demand for protection. Taking into account the insurance tax, the optimal level of taxation could therefore be even higher than in the case of a closed economy<sup>21</sup>.**

<sup>18</sup> It is probable that the claim of Draghi did not want to be so clear-cut.

<sup>19</sup> The Head of State of the Netherlands has indicated as irreversible a reduction of services provided by the welfare state and has proposed a society in which citizens “should take care of themselves”.

<sup>20</sup> D. Rodrik, *Why more open economies have bigger governments?*, [in: ] *Journal of Political Economy*, 106, 1998, pp. 997-1032.

<sup>21</sup> G. Arachi & M. D'Antoni, *Redistribution as social insurance and capital market integration.*, [in: ] *International Tax and Public Finance*, 11, 2004, pp. 531-47.; M. D'Antoni & R. Mazzocchi, *L'Europa non è finita. Uscire dalla crisi rilanciando il modello sociale europeo.*, Editori Internazionali Riuniti, Roma 2013.

It is interesting to note that the role of public spending suggests a positive relationship between “state insurance”, ability to compete on international markets and economic growth. The insured person will be more inclined to take more risks. Often the riskiest options are also those with higher average productivity. Obviously, we think first to all investment activities of the entrepreneur. But also who does not carry out business activities often have to choose between options with different risk profiles. Of particular importance is the need for individuals to ensure what is their main asset: human capital, skills and experience, ability to work. It is a form of capital that is exposed to the risk of disease and disability, but also the risk of being depleted by long periods of inactivity or by the need to accept jobs and tasks that do not allow the employee to update and maintain these skills. Social protection, protecting people from the risk, encourages risk-taking and thus encourages investment, especially in the human capital that modern economic analysis considers crucial variable for growth<sup>22</sup>.

## 6. Conclusions

Countries that engage in foreign trade are wealthier than those that do not. From the history of economic thought we know that one nation trades with the rest of the world for main two reasons. First, the goal is to increase the internal well-being buying goods and services that are not produced at home. Second, to increase the scale of production in order to increase productivity (especially for small economies). Imports furnish materials for new manufactured goods, and exports allow domestically produced goods that could not be consumed at home to be traded for foreign merchandise, thus increasing the power of the state as well as individual well-being. Foreign trade has historically preceded refinements in domestic manufacturing and industry. Historically foreign trade has been seen as a way of increasing citizens’ exposure to items that are not available at home, due to different soil and weather conditions, and thus increasing their well-being by making available products that are not available domestically. Thus, foreign trade increases the standard of living for the vast majority of the citizen.

Trade is something that is mutually beneficial: both parties gain. Prominent scholars spend a great deal of time refuting the idea that one nation’s gain is another’s trade loss. Trade is a win-win rather than a win-lose situation, as some modern-day mercantilists<sup>23</sup> would have us believe. International trade is thus not about competition. If that was so, probably no country would venture ever in an open economy with the risk of being run over by other countries. The reason why countries almost always seek to relate to other countries is that international trade creates mutually beneficial exchange.

22 R. Barro & X. Sala-i-Martin, *Economic Growth.*, McGraw-Hill, New York 1995.

23 L. Thurow, *The Zero-Sum Society: Distribution and the possibilities for economic change.*, Basic Books, New York 1980.

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From this consideration comes another important item: imports – not exports – are the purpose of trade. The need to export is a burden that a country must bear because its import suppliers are crass enough to demand payment. To use the ability to export as an indicator of economic performance of a country is wrong. The volume of export by itself does not represent anything. On the contrary, it is often an indicator of mercantilist policies. The current situation in Europe describes exactly that: we observe a continent that is producing growing surplus of the current account but only squeezing domestic demand and imports. This policy is not only risky for the future of monetary union, but also for the rest of the world. Deutsche Bank has recently calculated that if the evolution of current account surpluses should continue with the present pace, in a few years they will go from today's 300 billion euro - for the most part achieved by Germany - to about 700 billion euro. This situation is alarming because it implies that large masses of financial capital will have to leave the euro zone and be exported to the rest of the world, with the risk of bubbles (especially in the so-called BRICS), poor allocations, and so on. Thus, **international competitiveness is not only a meaningless word when applied to national economies. It is a dangerous concept.**

**Also with regard to the Eurozone, the obsession with competitiveness determines two important risks that are closely related to each other. The first is that the search for competitiveness leads to a reduction in taxes and a consequent dismantling of social security systems. As we have tried to show, the downsizing of the welfare state, rather than promote growth and exports, may even damage it. The second risk is that under the guise of competitiveness, we end up pursuing redistribution policies from the bottom to the top.** What has happened in the last forty years in the United States is a clear example. Since 1973 productivity went up 80 per cent, whereas the labour compensation (including benefits) of the median worker went up only 11 per cent. One third of the difference is due to a technical issue involving price indexes. The rest, however, reflects a shift of income from labour to capital and, within that, a shift of labour income to the top and away from the middle<sup>24</sup>.

In conclusion, **the only important thing for the well-being of a country is thus its productivity. The growth rate of living standard equals the growth rate of domestic productivity. Instead of recommending policies of wage deflation, with negative effects on income distribution, Europe should direct its efforts toward policies that raise the productivity of the various member states: increase in workers' training, introduction and diffusion of technological innovation, improvement of national infrastructures, improvements in organizational models of production processes, etc. And, of course, investments.**

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24 L. Mischel, *The wedges between productivity and median compensation growth.*, (in: ) *Economic Policy Institute*, 26 April 2012.

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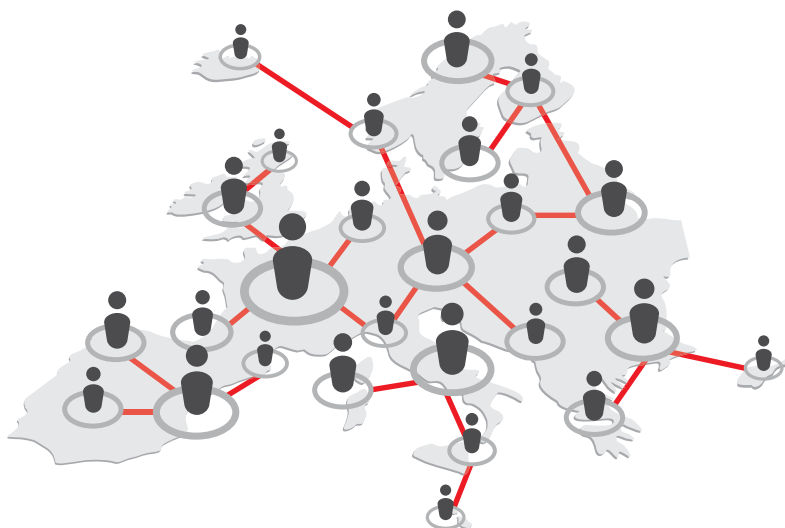


**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Carlo D'IPPOLITI

## Public Investments... To Do What? Beyond 'Bread and Butter' Social Democracy





**Key words:****Communication – Austerity - Big debate - Economic Planning****Abstract:**

The chapter discusses the results of the 2014 EP elections, noting that public opinion seems to lean more in favour than against austerity. Yet, the vast majority of economists (and most progressive observers) are convinced that new and large programs of public investments are necessary to avoid “secular” stagnation in Europe. Tackling this conundrum requires a new communication strategy, whereby fiscal policy is not just a matter of spending public money. Rather, public investments should be framed as part of a larger view, encompassing in what kind of society we wish to leave, and what role should the public sector play within it.

The economic and financial crisis has been around for so long that it is probably better to refer to stagnation in Europe (with some countries exhibiting feeble growth, others in recession) as the *new normal*. A majority of economists and policy-makers have finally come to admit that Europe faces an insufficiency of aggregate demand. However, the current European strategy to cope with it is through supply-side policies. These are aimed at increasing cost-competitiveness, thus hopefully price-competitiveness, which in turn would (hopefully, again) boost exports.

FEPS and the progressive movement have been criticising this strategy for years now, and yet public opinion and the electorate has not been significantly moved (so far?). There seems to be no politically viable alternative to austerity and its associated drag on the economy and our welfare.

**In this work I will focus on a possible alternative communication strategy for a progressive turn in economic policy. I will put forward a hypothesis on how a progressive stance could be framed in a positive way rather than as an alternative to austerity.** This may be done with reference to some degree of economic planning in Europe, that is proposing to try to actively shape our future, rather than considering ourselves as too little and powerless to decide. The word 'plan' has obvious negative emotional value, and I am not advocating to explicitly use it in our communication strategy, but I am using it for lack of alternatives in the economic debate. In the political debate it is not too different from some radical interpretations of the term 'predistribution', in so far as it implies returning Europe to a situation in which governments try to influence what our economy produces and how.

I will first sketch the current European response to its crisis (this recap will be very quick: already very good work has been done by FEPS on this topic). Then, I will analyse recent data on public opinion on Europe's current strategy, showing that it actually exhibits an unfortunate support for austerity, though confusion reigns supreme in such "technical" matters. Next, I will consider an example of how could such 'conservative' public opinion be convinced to change its mind through a different rhetoric. This example will concern public investments in particular. This topics, though being rather technical, lends itself to a progressive rhetoric of 'prudence' and 'foresightedness' that in the public debate may rival the powerful analogy of "keeping our house in order", used by the conservatives to justify public expenditure cuts.

The implicit premise of the work is that if voters do not need social democrats as an alternative to the conservatives, they will not vote for us. The main message is that if we do not inspire and offer a vision to voters, counting the beans on this or that specific policy is not enough.

## Prepare for Europe's lost decades to come

Despite the appearance of an anti-government America and an anti-market corporatist Europe, measures to directly support aggregate demand have been notably smaller and shorter lived in Europe than in the USA (see fig. 1 for a comparison of monetary and fiscal policy in the euro area and in the USA). Political reasons and distributive conflicts explain the European avoidance of demand management policies: for example the different economic conjuncture in the centre and the periphery of the Eurozone and within and outside the Eurozone, a different institutional setup and political landscape, etc.<sup>1</sup> As a consequence, and as a reinforcing mechanism, in Europe there is also stronger ideological opposition to Keynesian policies, both in academia and in public institutions such as the European Commission and the European Central Bank.

Such more radical *laissez-faire* stance has historical and institutional roots in Europe and, by virtue of its dominance, has deeply influenced public opinion at large notwithstanding our efforts to the contrary. We are thus in a conundrum: the European Union has actively transformed a deep crisis into a continuing state of stagnation, with associated high unemployment and poverty especially in peripheral countries, but at the same time there seems to be no political space for a left wing turn in economic policy.

In a short note after the 2014 European elections I noted that a first rough analysis of aggregate data suggests that member parties of the S&D group exhibit electoral fortunes more closely related to economic trends in their country (in terms of employment, poverty and inequality) than member parties of other groups.<sup>2</sup> Yet, somehow worryingly, S&D parties are often associated by voters to EPP parties, in the sense that they are "treated" the same way in the face of similar economic trends (with the exception of inequality). Thus, **European progressives**

**European progressives have strong reasons to focus on the economy, and to more strongly separate themselves from the current EPP dominated European strategy.**

1 These aspects have been discussed in several FEPS documents: while obviously important, I will focus here on the ideological front. See for example R. Mazzocchi, *Europe beyond Maastricht. The Role of Inter-State Transfers, Social Protection and Cultural Homogenization.*, [in:] *For a New Social Consensus in Europe. A promise of jobs, welfare and empowerment*, FEPS Next Left Focus Group, Brussels 2014.

2 C. D'Ipolti, EP elections and the economic crisis: preliminary critical thoughts. (in: ) *Turning point of May 2014 Progressive European Reflections*, FEPS Next Left, Brussels 2014.

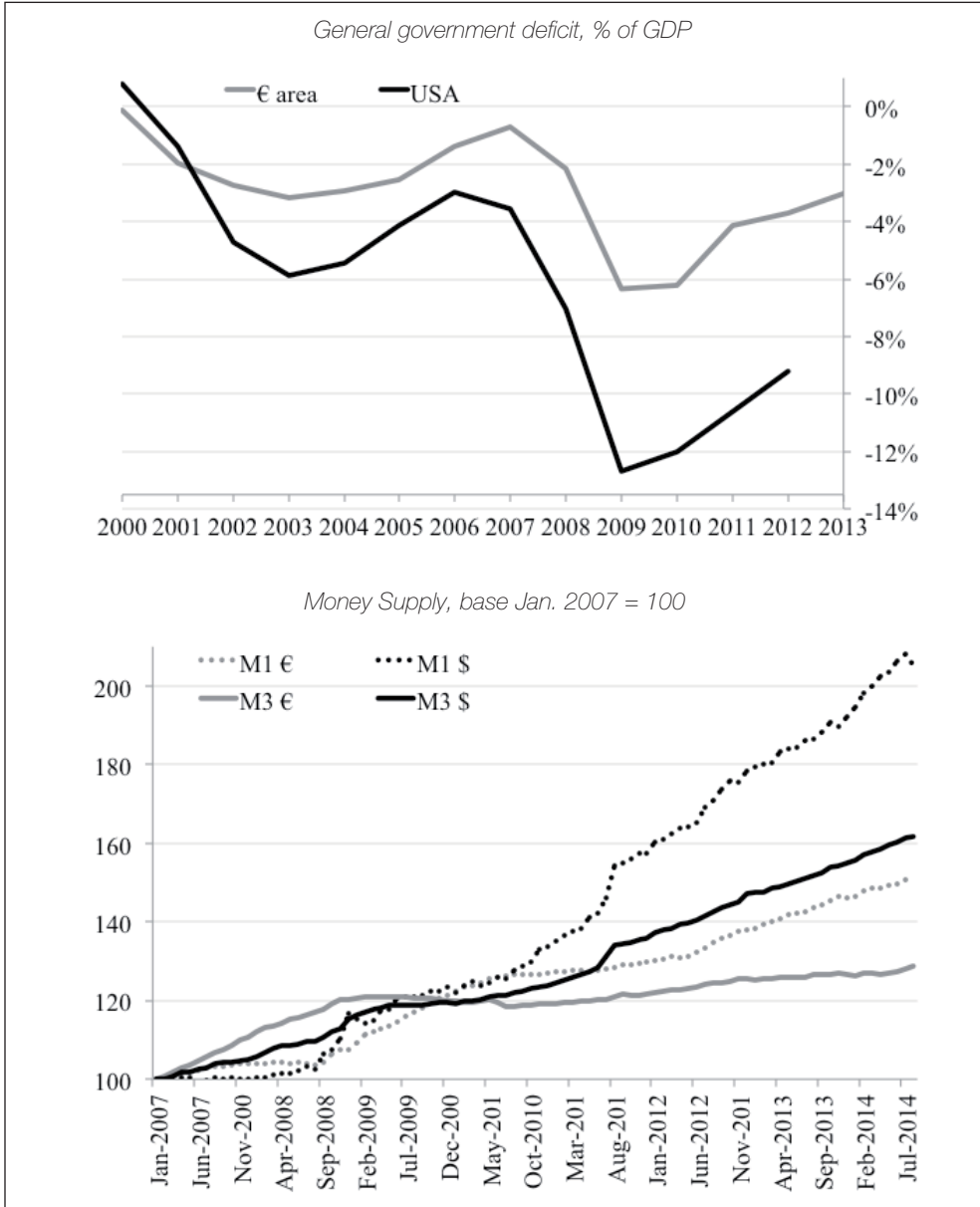


Figure 1 – Austere Europe vs. Keynesian USA

Source: elaboration on OECD, <http://data.oecd.org>.

Note: M1 is a "narrow" measure of money supply, M3 is a "broad" measure.

have strong reasons to focus on the economy, and to more strongly separate themselves from the current EPP dominated European strategy.

Yet, the only sad political debate that recurrently emerges concerns the concession by the European Council of one or two extra percentage points of public deficit to this or that

Member State. Such narrow view is the travesty of the debate that we need. If anything, we should not be talking about deficit but levels of expenditure and taxation. But even this is beside the point: indeed we should concern ourselves with a considerably 'higher' issue, that is the role of public action in the economy, ultimately, the kind of society we want to live in and the social institutions that determine what is produced and how.

### What the economists think

The main limit of the current economic debate is the strong hiatus between a 'highbrow' and a 'lowbrow' debate. In the latter, the social role of economics, the dismal science, appears to be the bastion of 'don'ts', among which public spending reigns as a big 'no no no'. Economists are supposed to remind society of the virtues of the market and the vices of politicians – and that only. Several colleagues are indeed happy to do exactly so: as there are right wing and left wing plumbers, so there are conservative and progressive economists. The problem is that the unilaterally conservative caricature is very far from what one finds in scientific journals, books and conferences. A whole line of economic research is devoted to the study of the conditions under which the State and the market work more or less well, and research is far from being conclusive in general. Since decades, several textbook examples of "market failures" are well known, e.g. the problems of externalities, coordination problems, etc. So for example virtually no economist would claim that privatising a monopoly univocally increases social welfare.

On the contrary, **the simplified vulgarisation of economic theory that most Europeans (and most voters) are exposed to, unilaterally excludes any direct public involvement in the production of goods and services. Indeed, "supply side" policy has somehow become a synonym for pro-market, *laissez-faire* policy. In the political debate, in economic matters the progressives are distinguished from the conservatives only by their stronger agreement to *redistributive* policies.** None of the two political families dare proposing a stronger public sector involvement in the *allocation* of resources. Talk of "structural reforms" is normally associated on both sides of the political spectrum with liberalisations, privatisations and any other policy unilaterally aimed at better letting the market, and it alone, deal with allocation.<sup>3</sup>

A crucial example of this shared attitude has been the wave of publicly financed bailouts of banks and financial institutions. According to the European Commission, between 2008 and 2013 more than 400 decisions were taken, authorising State aid measures to the financial sector.<sup>4</sup> Of these, capital support measures (recapitalization and asset relief

<sup>3</sup> This is confusing and annoying given that the origin of the word lies in the social democratic approach to radical reform of capitalism, in opposition to revolutionary socialism.

<sup>4</sup> European Commission, *State Aid Scoreboard 2013*, Brussels 2013.

measures) amounted to €591.9 billion (4.6% of EU 2012 GDP); while guarantees and other forms of liquidity supports reached their peak in 2009 with an outstanding amount of € 906 billion (7.7 % of EU 2012 GDP). Despite the mobilisation of such gargantuan resources out of the public purse, even partial nationalization of banks (e.g. in the form of acquisition of shares with exercise of the associated management rights) took place very sporadically (e.g. Northern Rock, RBS, Dexia) and only in extreme cases.

The USA and European governments *threw money at the banks* (it was indeed necessary) without asking almost anything in return. They did not dare to mingle in the management of financial institutions on the assumption that politicians and civil servants are not good at lending money. But the most severe financial crisis since 1929 had just shown that bankers are not extraordinarily skilled at it either. One cannot ignore the ability of powerful financial institutions to shape the policies of their own bailouts. But it generally emerges here also a deep fear of a possible role for the State in shaping the allocation of resources, as it would have happened through an involvement in credit and lending activities.

The same preconception against an allocative role for the public sector underlies most of the current objections to the 'stupid' (cit.) Maastricht rules. For example, the speech by Mario Draghi at the annual meeting held at Jackson Hole in 2014<sup>5</sup> was widely praised for it finally advocates for a more relaxed use of the flexibility embedded in the current European rules governing government budgets. However, it does so in one direction only, namely by proposing to lower the "tax burden". Thus, such supposedly progressive position is not very different from that held for several years now by many right-wing economists in the USA.<sup>6</sup> Since the inception of the euro crisis, they criticise European austerity because it would hinder the otherwise full development of the markets' animal spirits. Alesina et al. are not alone in stressing the difference between the good public deficits that may arise from tax reductions and the evil deficits that must follow public expenditure increases.

Thus, it is naïve to imagine a debate in terms of a Keynesian left, advocating for a few percentage points more in governments' deficits, versus a 'rigorous' right, defending fiscal orthodoxy. On the contrary, the underlying debate concerns the size of the public sector in the economy, and Europe has squarely taken the road to the right, regardless national public deficits.

The ideological nature of this debate is clear when we consider not only the destructive criticisms to which Alesina's own works were subjected,<sup>7</sup> but especially the works by

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5 M. Draghi, *Unemployment in the euro area*, Speech by Mario Draghi, President of the ECB, Annual central bank symposium in Jackson Hole, 22 August 2014.

6 Indeed, the speech explicitly refers to A. Alesina, C. Favero & F. Giavazzi, The output effect of fiscal consolidation plans., *mimeo*, May 2014.

7 For example the infamous A. Alesina & S. Ardagna, *Large Changes in Fiscal Policy: Taxes Versus Spending.*, *Working Paper*, National Bureau of Economic Research (NBER), 15438, 2009.

the IMF recognising the enormous mistakes in its own (and the European Commission's) previous estimates of the fiscal multiplier.<sup>8</sup> According to the IMF, especially in times of a depression as we live in now, 1 more euro spent by the government translates into roughly 1.5€ of extra GDP.<sup>9</sup> This being the case, a 1% increase in public expenditure at the Eurozone level would *reduce* aggregate Eurozone public debt even if it was entirely financed by new debt. Given the current Eurozone aggregate debt, it would so by about 0.46%. That is, at the macroeconomic level, given the current grim conditions, you can reduce the debt by creating new debt.

On the contrary, being based on erroneously small fiscal multipliers (around 0.5), the yearly exercises within the European semester so far have systematically underestimated the negative impact of austerity on public budgets. It is thus a necessary and unsurprising result that consolidated gross public debt in the EU28 has grown from 58.8% of GDP in 2007 to 87.1% in 2013, and from 66.2% to 92.6% in the Eurozone – without decreasing in any single period despite the austerity.

And yet, at the lowbrow level of debate, austerity is still justified by its supposedly positive effect on public finances. Such lie is of course unacceptable in the community of economists, many of which are able to actually look for the data in Eurostat's website. Thus, in the highbrow debate we find two different sorts of justifications for austerity. A 'moderate' one has it that "[t]he necessary fiscal consolidation had to be frontloaded to restore investor confidence" because "fiscal policy was constrained by concerns over debt sustainability and the lack of a common backstop [that is, by the impossibility for the ECB to buy sovereign bonds]" (ibid., p. 3). This was unfortunate, because "monetary and fiscal policy effectively tightened in tandem" (ibid.), but it was unavoidable, because that was what financial markets were demanding, and no one really wishes to review the role of (financial) markets in our society.

A sharper stance is instead taken by those who stress the role of balance of payments imbalances. According to this view, the real problem during the sovereign debt crisis was not public debt but rather peripheral countries' dependence on foreign credit. Due to an accountancy identity, this is the same as saying that the problem was (and is) that these countries exhibit a current account deficit, i.e. in most cases they import more than they export. According to right wing economists, austerity could address this problem in two ways: by reducing public sector demand it may lower imports; and by reducing employment and wages not only it would further decrease imports, but it would especially reduce firms' labour costs, thus improving their competitiveness, with a supposedly positive impact on exports, as noted above. Left wing economists do not usually object to this interpretation

8 O. Blanchard & D. Leigh, *Growth Forecast Errors and Fiscal Multipliers.*, IMF Working Paper, WP/13/1, January 2013.

9 See chapter 3 of International Monetary Fund (2014), *World Economic Outlook*, October, Washington (DC).

of the causes of the crisis, but instead propose that rather than having deficit countries reducing their wages and increasing their unemployment it would be preferable to have surplus countries raising their wages and lowering their unemployment (this quite sensible position was taken in several FEPS events, for example).

Incidentally, we have here a clear instance of how the distance between the academic and the political debate is not casual or neutral: in this case, it is produced by the impracticality of explaining to workers that they have to pay for the crisis. To several policymakers, it must have seemed much more convenient to refer to cumbersome “*downward wage adjustment*” (to use again Draghi’s words) rather than clearly explaining in the political arena that the objective of austerity is not reducing public debts but rather increasing unemployment.

In conclusion, one cannot say that economists are *altogether a bunch of progressive people*.<sup>10</sup> But concerning fiscal policy (as in many other respects) results from economic research are much more nuanced and much less definite than what trickles down in the political debate. There, as shown in the next section, there is no room for such “details”.

## What ‘the people’ think

A number of material causes concur to explain the indisputable success of economic conservatism in the political sphere, and they certainly deserve to be further investigated. Here however I wish to focus on the cultural causes, i.e. its rhetorical success in the “marketplace of ideas”. Specifically, one form in which the ideological opposition to demand-side policies has been imbibed by large strata of European public opinion is the larger, widespread suspicion vis-à-vis public intervention in the economy. It hardly needs mentioning that, should this trend become permanent, the European social model and Europe’s social democrats would be nearing an end.<sup>11</sup>

**According to a Eurobarometer survey, the share of Europeans who think that reducing the public deficit and debt in their country cannot be delayed is on average 78%.<sup>12</sup> In no country they are a minority. On the contrary, the number of those who think that reducing deficit and debt is not a priority now is on average 35%.** Taken at

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10 Though some studies suggest so: for example it has been estimated that in the USA for every Republican economist there are 2.5 Democrat economists, and that 67% of Italian economists self-identify as left-of-the-centre. See: D. B. Klein & C. Stern, *Economists’ Policy Views and Voting.*, [in:] *Public Choice*, vol. 126, 2006, pp. 331-342; L. De Benedictis & M. Di Maio, *Economists’ Views about the Economy. Evidence from a Survey of Italian Economists.*, *Rivista italiana degli economisti*, vol. 16 n. 1, 2011, pp. 37-84.

11 C. D’Ippoliti, A. Imbernón Sáinz & B. Wilhelm, *Progressive Economic Governance: How Eurobonds Relate to European Integration.*, FEPS Young Academics Network, available online at [http://www.feps-europe.eu/en/news/385\\_how-eurobonds-relate-to-european-integration](http://www.feps-europe.eu/en/news/385_how-eurobonds-relate-to-european-integration)

12 European Commission, *Standard Eurobarometer*, vol. 81, Spring 2014, Brussels 2014.



face value, these data could be read as highlighting a political divide, with the conservative view currently being majoritarian. But this reading is too superficial.

**The share of Europeans who, having understood the priorities of the EU, think that Europe is going in the right direction oscillated between 38% and 45% between 2011 and 2014. They were consistently a minority.** Moreover, possibly due to the technical difficulty of the matter, opinions appear to be profoundly affected by the framing of the issue. In some countries, including Germany, as many as 40% of the people interviewed think that reducing the deficit is not a priority. But if asked is fiscal restructuring can be delayed, 85% think it cannot. Thus, potentially some 25% of the people may change their mind depending just on how the question is formulated,<sup>13</sup> and there seems to be room for political leadership to shape public opinion, rather than following it.

The same phenomenon related to the framing of the issues probably explains the parallel and even more evident contradictions of public opinion concerning structural reforms. As many as 79% of Europeans agree with the need for “*significant reforms*”, and for example 76% think that governments should save today in order to prepare for population ageing. Yet, when asked about the expediency of raising retirement ages only 26% of the interviewed agrees. Perhaps, when the topic becomes closer to people’s life and experience, they are better equipped to understand the (negative) implications of economic policy for their wellbeing. On this tone, it is very interesting to highlight that, asked which sectors had the most positive effect from economic reforms, only 8% indicate the labour market, 5% product markets (telecoms, etc.), 3% pension system or social security, and 4% “*reforms in general*”. As many as 65% are unable to answer the question. **It seems that structural reforms remain a buzzword only in so far as electors do not understand what we refer to.**

Yet, clear hostility towards the expansion of public regulation and public intervention in the economy are evident when the public sector is represented by an entity remote from the everyday experience of citizens, such as the EU. As little as 32% of Europeans support the introduction of Eurobonds, with a fall of more than 10 percentage points with respect to the 2013 survey. Even more alarming, those supporting the introduction of a tax on financial transactions (FTT) are a minority, just 45%, with a -17% fall in less than a year. One could think that these trends are caused by the calm that dominates markets since Draghi’s 2012 open mouth operations. Europeans would have forgotten of how bad markets can hit. But this self-reassuring explanation is not supported by the data: still today 62% of Europeans agree with a more important role of the EU in regulating financial services, and 63% agree with a banking union. Thus, the scepticism towards Eurobonds and FTT may rather concern the very idea of the EU as a public entity enlarging its scope. (fears may

13 These conflicting opinions were not expressed by the same people: the sample was divided in two, and exposed to the two alternative framings of the question reported in the text.

also concern transfers of resources between countries, which are by no means necessarily implied by Eurobonds, though this seems impossible to explain at the political level).

One message that we could grasp from these data concerns the viability of a political message alternative to austerity. While more detailed analyses would be necessary, it seems that a major objection to potentially any plan aimed at increasing public spending, even in periods of downturn such as the present one, and even if they are funded by relatively popular tax receipts such as an FTT, is taxpayers' suspicion over what would the public sector do with such resources.

## **We must do it for the sake of our children!**

Even if the above analysis may be too sketchy, and the vagaries of public opinion too volatile, everyday experience suggest that the conundrum identified at the beginning (we need stimulus measures, but the majority disagrees with it) is in place. Throughout Europe, every proposal that implies an increase in public spending is generally met with the objection that policy is about priorities, and that the resources for any new measure should be found within the existing public budgets, without further “burdening” the private sector. This quite responsible and serious, but alas it is the wrong thing to do right now. As discussed above, even the IMF recognises that in times of crisis public spending pays for itself.

But this sort of argument meets with scepticism and hostility. As shown above, **macroeconomic debates are probably too abstract and complex to be effectively thrown onto the press or the electorate, and the consequence is that they remain the exclusive domain of a “selected few”, while population at large must stay content with the depressing analogy of keeping our house in order. However, by withdrawing from the macroeconomic battle field, every time social democrats propose a specific spending measure they remain vulnerable to the accusation that there only are two sorts of social democrats: the tax-and-spend and the borrow-and-spend guys (and supposedly both are bad).**

At a time when demand stimulus measures are strongly needed, it is necessary to explain and justify them, despite the negative attitudes that a substantial part of the electorate shows. To do so, it is necessary to frame the problem in new terms. In my view, a possible way out is to take an abstract debate and translate it into an ideological one, i.e. one on the vision and the high ends of the society we want (of the sorts dealt with in another contribution in this book by P. Zwicky).<sup>14</sup> Focusing on the specific case dealt with

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14 P. Zwicky, *Daring More Democracy – Reflections on the Future foundations of welfare societies.*, [in:] *For a New Social Consensus in Europe. A promise of jobs, welfare and empowerment*, FEPS Next Left Focus Group, Brussels.

here, the point would be to focus not on “spending” (a value ridden word) but on the need for an active role for the public sector in the economy.

Public investments are a good example here, because they could effectively be framed in terms of farsightedness and prudence towards the future. As the right has done by effectively stealing the concept of structural reforms and reformulating it to its ends, the idea of preparing for the future should be taken up by the left to neutralise the false rhetoric of fiscal rigour, countries' homeworks, and the like.

Let us take one of the questions asked to the Eurobarometer sample: should governments save now, to prepare for population ageing in the future? In the academic debate, the question is meaningless: a country cannot save for its future, it can only invest in preparation for it.

Consider a family (just because this is the misleading example that conservatives use). When it saves for its future, it actually gives some money to a subject (usually a bank) that promises to give it back (with an interest) in the future. Alternatively, the family could buy durable goods, such as a house. But if they will ever want to use it to finance consumption, e.g. to buy food, the family will have to sell its house. So the only difference with giving the money to a bank concern the time at which the family makes an exchange in the market: left to itself the family will not eat its cake in the future, no matter how much it saves. Indeed, there can be no difference concerning the fact that future consumption will only be possible if somebody in the future will give the family the consumption goods that the family has not produced. This happens because chocolate and ice cream melt, they cannot be stored and “saved”.

The same reasoning applies for a country: it can prepare for its future only by creating the conditions in which somebody will give our grandpas the ice cream or chocolate bars that they will desire; it can only be their grandchildren or some foreigner. In other words, a country can prepare for the future in two ways only:

- 1) by saving and lending the money abroad, or
- 2) by investing and making sure that in the future there will be ice cream factories and workers employed in them. Both strategies have nothing to do with the public deficit (or “government saving”, which is the same).

The first road – saving and lending abroad, i.e. accumulating a structural current account surplus – is implicit in the current austerity strategy. Its limits were discussed in my previous contribution to the Next Left Focus Group.<sup>15</sup> The second road shows just how crucial investments are, if we really want to “prepare” for the future.

<sup>15</sup> C. D'Ippoliti, *The European Union as Peter Pan.*, [in:] *For a New Social Consensus in Europe. A promise of jobs, welfare and empowerment*, FEPS Next Left Focus Group, Brussels 2014. See also C. D'Ippoliti, “introduzione: l'Unione Europea è 'mammona'”, *Moneta e Credito*, vol. 66, n. 264 (December 2014), pp. 377-395.



Figure 2 – Austerity is undermining our future

Source: elaboration on Eurostat, <http://epp.eurostat.ec.europa.eu>.

Note: The aggregate gross fixed capital formation is used to measure investments.

Thus, a sensible framing of the issues related to fiscal policy, if we want to stress the virtues of prudence and responsible management of the common good, for example in the face of population ageing, is to look not at the impact of austerity on public deficits, but at its impact on the “quality” of public budgets.

As shown in figure 2, European governments have shut down investments considerably more than they reduced overall public expenditure. Public sector investments in the EU28

have been slashed by a fourth: from 2.9% of GDP in 2009 to 2.2% in 2013. The drop is so large that even in nominal values they decreased (that is, even ignoring inflation): from €343 bn to €290 bn. Not by coincidence, this happened exactly at a time when the private sector was reducing its investments too, due to the need to reduce its debts: from 18.7% of GDP at its peak in 2007 to 15.1% in 2013.

As shown in figure 3, investments have become so low that even in the G7 countries they are insufficient to deal with the normal deterioration of infrastructure (with the exception of the UK, where the worst seems to have taken place between 2007 and 2009).

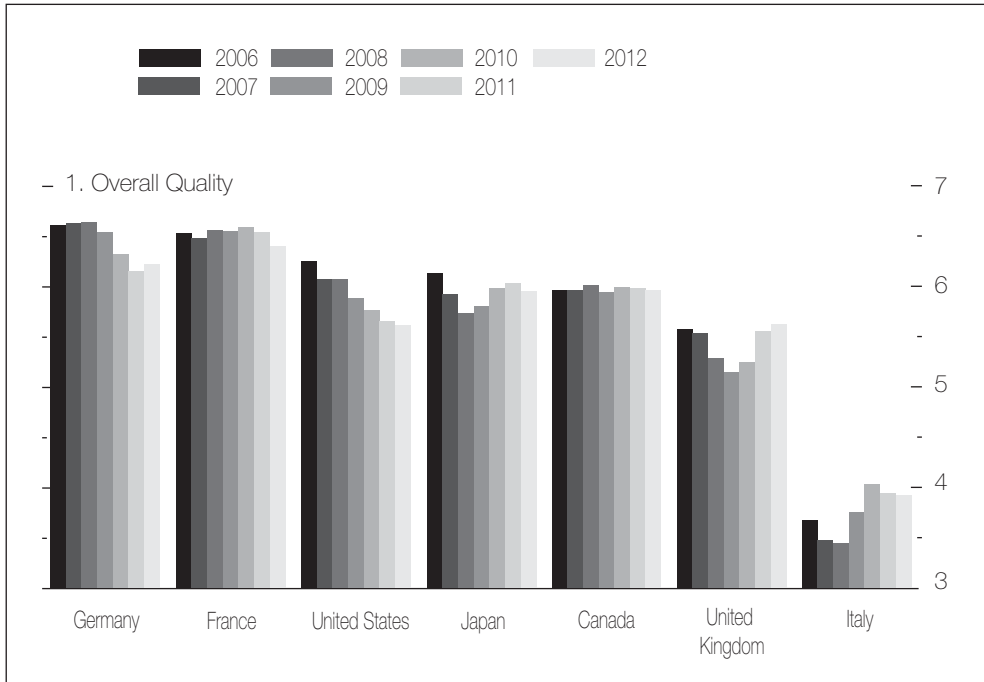
Such deterioration in the 'quality' of public budgets (both in physical and in accountancy terms) happens because the benefits of investments are not immediately visible to the bulk of the electorate. Cutting here is easier for governments than reducing social transfers or firing staff. However, from what was said above it should be clear that this way we are undermining the future of our children. This should be pointed out to the moralisers over public deficits.

Admittedly, this argument too may be subject to the objection that resources for more investments should be found within the existing budgets, with no new debt. To answer such objection, a modicum degree of macroeconomics appears to be unavoidable. Citing the IMF: *"The output effects are larger when public investment shocks are debt financed than when they are budget neutral [...]. In particular, although a debt-financed public investment shock of 1 percentage point of GDP increases the level of output by about 0.9 percent in the same year and by 2.9 percent four years after the shock, the short- and medium-term output effects of a budget-neutral public investment shock are not statistically significantly different from zero"* (ibid., p. 9).

This can be translated by saying that if public investment will substitute for some other public expenditure (e.g. the welfare state), what we gain here we lose there, with no overall benefit. Moreover, such additional sacrifice is not needed now, nor is it justified on economic grounds. The hot topic of public deficit partly re-emerges, this is inevitable at times, but it has now acquired a new, positive framing, which goes beyond the critique of the supposed "fiscal prudence" of balanced budgets.

Obviously, citing the IMF or anyone else is an "appeal to authority", which cannot lead to a conclusive argument in a scientific debate. But in the political debate, it seems to be sufficient to remark that the professionals who study these matters do not (necessarily) agree with the recipes of austerity. Given such 'uncertainty' it is better to be prudent and prepare for the future: by investing in it. As already mentioned, this is an argument about how to frame the alternative to austerity in the political debate, not an argument about how to win the highbrow debate in the scientific community.

Incidentally, it is important to notice that preparing for the future requires action now. There are several reasons for it is wrong to imagine the crisis as a temporary phenomenon, which somehow will pass by itself. Some (admittedly complex) examples are:



**Figure 3 – Quality of infrastructure in G7 countries**

Source: IMF (2014), based on data from the World Economic Forum, Global Competitiveness Report survey.

- 1) “hysteresis”, i.e. economic phenomena tend to become permanent when they continue for too long: for example a long term unemployed finds it harder to find a job than someone who has just lost his/her occupation, because a long spell of unemployment produces a loss in a person’s skills;
- 2) high unemployment and recession place a further strain on a country’s banking system, making it even harder to stop the deleveraging process (i.e. the causes of the recession in the first place);
- 3) short-term fluctuations are often concentrated in certain countries and in certain sectors, e.g. constructions, and thus they produce a vast amount of unemployed difficult to reallocate in other sectors due to their low and specific skills: it becomes structural unemployment; finally, and perhaps the most important point in this context,
- 4) investments are par excellence the chain linking the short and the long term: they produce aggregate demand and employment in the short run, and create productive capacity and therefore potential supply in the long run. All this is to say that we must reject the logic of sacrifices now in exchange for heaven in the future: in economics you normally have happiness now and in the future – or never.

From this perspective, **it becomes clear that the focus on investments proposed here (besides being the right thing to do from the economic point of view) is just an example of a larger change of framing. They imply stopping the passive waiting for the future, the recovery, or Godot, and starting shaping the direction of the future we want.**

## Some conclusions

Europe needs a drastic change of direction. We know can only happen in the European Council and the European Central Bank (with the launch of its Euro-style Quantitative Easing, the latter has probably done now everything it could, given its Statute). But we cannot ignore that the current policy track has come first at the 2014 elections for the European Parliament as well as several national elections. Public opinion, it seems, leans more towards than against austerity. Thus, social democrats need (not only, but also) a different communication strategy. In my view, **it is thus necessary to embrace a high vision of society, reconciling the image of a progressive economic policy with that of well founded principles.**

**Europe needs  
a drastic change  
of direction**

To develop a convincing communication, we obviously need a high, large debate, e.g. along the lines pursued in this book by Zwicky (2014). However, pedestrian topics such as fiscal policy should not be totally left out of it. In this context, the 'vision' should be that public expenditure and debt are not immoral; unemployment is.

In practice, this means that putting forward specific examples of useful spending policies is not enough to dismantle the widespread bias against public intervention in the economy. **It is necessary to reaffirm the usefulness of public action to support and flank the operation of the market at a more general level. The proposed policies should always relate to the kind of society we want to live in, that is in the economic domain what is produced and how.** In the economists' jargon, it is necessary to reconsider the public sector's allocative function, well beyond the traditional focus on its redistributive role.

At a more general level, the issue is that which (with language now considered as radical) was known as a certain amount of 'economic planning'. Leaving to the market alone the entire social function of determining what is, and what is not, produced is an unprecedented and extremist policy stance that Europe should immediately stop.

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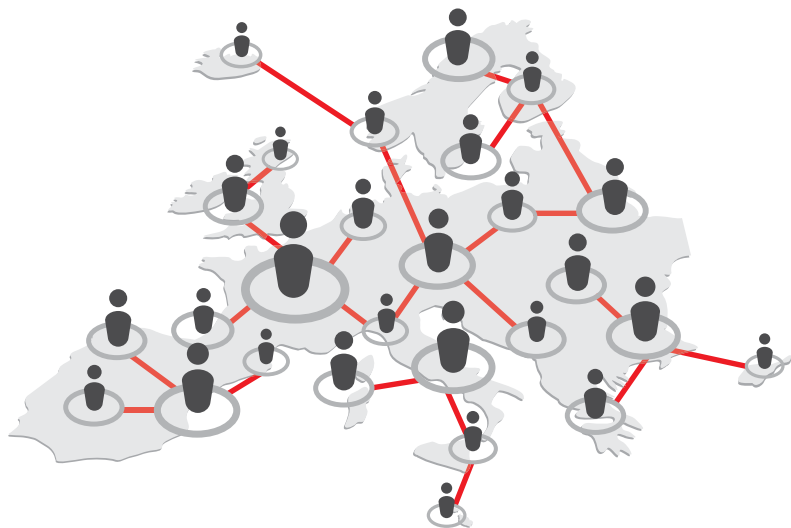


**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Michael WEATHERBURN

# **The Politics of Productivity: Big Data Management and the Meaning of Work in the Post-Crisis EU**



**Key words:**

**Productivity – Work – Management – Big Data - Economic Democracy**

**Abstract:**

This chapter, which focuses on Britain, examines debates around productivity, particularly labour productivity and the workplace. It explores emergent research on the changing workplace, exploring specific issues such as competitiveness, working hours, the intensification of work, gain-sharing, and the effects of computerisation on employees. Highlighted throughout is the increased attention being paid to work and the environment by a variety of authors. It then moves onto an examination of the “British productivity puzzle” and questions whether commentators critical of the British labour force are evaluating the situation fairly. These issues are then set in a historical frame: the chapter then examines the complex labour negotiation apparatus erected in world war two, the unprecedented employment of management consultancies by the state during that period, and the emergence of a managerial form of socialism implemented by the postwar Labour government. It then uses recent research to explore the positive reforms such as shorter working hours, the living wage, and trade union negotiations implemented by private sector manufacturers during the great depression. It contrasts these progressive changes with regressive methods designed to increase labour productivity since the recession of 2008. It concludes by exploring recent calls for a localist turn in the Labour Party and labour movement more generally, and notes that progressive changes to the British workplace could positively contribute to the localist and environmental agendas.

The important issue of competitiveness and productivity, including labour productivity, has received much attention in recent years, including within the FEPS Next Left Focus Group. In the present volume, Ronny Mazzocchi explores what he terms the *false problem of competitiveness*, Remi Bazillier signals the importance of job quality and the fair distribution of increased productivity. This article touches on many of these issues such as intensified work processes, longer hours, and a declining union participation in the workplace and sets them in a historical frame, examining examples from similar, prior debates. The foci are the great depression and, addressing a speech made by David Cameron on this issue, World War Two. Its focus is Britain, which has experienced significant debates over labour productivity issues, although the thrust of this article is that these issues are relevant more broadly across the EU, and indeed elsewhere.

To further evaluate these issues, it addresses the fashionable notion of *Big Data*, and reveals that **there is minimal agreement on what Big Data even means, let alone whether it can return on the billions of euros, dollars and pounds which are presently being spent on it.** It then goes on to argue that Big Data may not only entrench existing distributional conflicts and increase the undemocratic managerialism inherent in the EU project, but, when combined with the forthcoming TTIP negotiations, may potentially augment or even multiply distributional conflicts. Finally, it charts the rise of “managerial socialism” within the Labour Party and engages with recent proposals to localise the Labour party and British politics more generally.

## **Productivity, the Workplace and Work**

While British unemployment remains high, as it does in the rest of the EU, **it is widely agreed that those with jobs have been working longer hours and work is more intense than it was for the previous generation. Indeed, the intensification of work, increase in job insecurity and longer working hours have, since the 1990s, rightly received much attention.** As the Rowntree Foundation has explored, job insecurity increased across many sectors between 1966 and 1986, and particularly among professionals between 1986 and 1999. This research discovered that employees were not so much worried about losing their jobs, rather they were concerned about a lack of control over the pace of work, weaker promotion prospects and a reduction of their responsibilities.

As noted by Bazillier, the European Employment Strategy (EES) encompasses not only full employment but also promoting the quality of jobs and productivity at work. However, as Bazillier writes, serious attempts to achieve the latter two goals fell short of the mark and these qualitative objectives were largely forgotten. Why was productivity low and what could be done about it? Too low levels of labour productivity can therefore be explained by firms' incapacity to deploy the capacity and skills of their workers. Indeed, A 2007 OECD study showed that higher waged workers are also more productive workers, perhaps as a result of training investment and the substitution of skilled labour for unskilled labour. That's why, sometimes, the entry of new firms can be a powerful tool to increase productivity than substituting workers within a given firm. Indeed, the evidence suggests that in times of economic problems, internal flexibility (i.e. within companies) is better than external flexibility (i.e. people in the labour market).

In addition, increasing the quality of goods and services will not only increase their output's market value, pay of the workforce (if the value increase is equitably distributed around the workforce), but, in industries in which productivity cannot increase much further, such as social, care, education and health work, will instead lead to an increase in employment in those industries in order to pick up the slack. As Bazillier observes, these industries are particularly important to the EU as, given the ageing demographic of Europe, it is these industries, which are set to grow the future. This is a clear alternative to intensifying work to the detriment of the product or service.

The work itself, and its organisation and management, matter. As some recent authors observe, **the adoption of computers as the primary work tool and the use of the internet for remote working has led to many changes in the way much work and work-time is structured. Studies have shown that some employees like remote working, as it allows them to order their work around their other commitments, whereas others dislike remote working as it can lead to longer hours being spent on work tasks and an inability to switch off.**

Green goes further and argues that digital *Total Quality Management* systems have intensified the workplace as they have hastened the pace of work, increased the way in which work is delivered to employees with no gaps, and generate digital data, which allow the easy and retrospective monitoring of employees at a granular level. As Green also noted, the emergence of tiers of formalised human resources and personnel management specialists, now so common in many workplaces across the country, mirrored the synchronous decline of trade unions. Moreover, Green observed, employees who self-reported being 'under a great deal of tension' increased from 48% in 1992 to 58% in 2001, and that this intensification was greater in the public sector than the private sector, where work was already intense. He noted that the intensification of work coupled with a simultaneous falling of the discretion employees, could exercise over their work, particularly professional workers, has led to an decrease in job satisfaction.

Table 1: The Changing Intensity of Work in Britain.

	Private sector	Public sector
% who strongly agree that my job requires me to work very hard		
1992	31.5	31.9
1997	38.2	44.3
2001	36.7	43.2
% whose job involves working at high speed all or almost all of the time		
1992	19.1	13.8
2001	25.2	26.3
% who strongly agree that I work under a great deal of tension		
1992	13.5	18.4
2001	19.5	24.5

Source: Green, 2002, 31

It is also becoming increasingly clear that *wage share* - the share of productivity increases passed onto employees - has been decreasing for some years. One author has argued that the wage the wage share has fallen from 72.5 per cent in 1982 to 63.3 per cent in 2007. These falling wages have, it has been recently noted in relation to the UK, been replaced not with decreased domestic consumption, but with increased levels of domestic debt; in effect, a kind of *privatised Keynesianism*. It remains to be seen whether the increased wage share returned to employers is reasonable; perhaps, for example, it is not due to employees working harder or innovating more, but is due to increased investment in technology.

The rise of unemployment after 2008 has not helped to achieve Lisbon's goals, either. Indeed, updating the Rowntree Foundation's 1999 conclusions to fifteen years later, it would be fair to say that **employees remain worried about the intensification of work, and probably more so since 2008, but that they are now also worried about unemployment too.**

In an attempt to improve this situation, several methods of increasing productivity in a progressive fashion have been suggested. One is to develop more holistic ways of measuring productivity, which do not rely on analysing employees and their labour output alone. To achieve this goal, economists have developed sophisticated methods of measuring productivity, the best-known of which is *Total Factor Productivity*, which takes into account as many factors as possible, such as the contribution to productivity of machines, fixed capital, raw materials, and many others.

A related way of increasing overall productivity, without increasing strain on labour productivity, is via technological innovation and therefore increased capital productivity. Also, who benefits from increased productivity and why? Should increased productivity lead to gain- or profit-sharing in which the workforce benefits and growth is management

in a more sustained fashion? Alternatively, could increased productivity be used to decrease the hours of work? Co-operatives, credit unions and mutuals may also increase productivity and employee engagement. Or, there is of course the possibility, argued by several authorities that one could share extant workload out, and, in so doing, reduce unemployment, consumption and working hours, and preserve more collective resources for future generations. But there are other issues influencing these debates, the so-called “British productivity puzzle” being one of the main ones.

### The UK Productivity Puzzle

From a labour productivity perspective, the EU contains some of the most productive countries in the world. Within this, the G7 presently reports that the UK is less productive than other large and relatively wealthy EU countries (see Table 2):

Table 2: Labour productivity of the G7 countries

Country	Labour productivity
UK	100
Germany	131
France	132
Italy	111
US	135
Canada	105
Japan	89

Source: CIPD, 2014

As can be seen in the following Table 3, given Britain’s apparently low labour productivity, the British nonetheless work disproportionately long hours:

Table 3: Annual Working Hours

Country	Labour productivity
UK	1,650
Germany	1,408
France	1,552
Italy	1,778
Netherlands	1,377
USA	1,695
Japan	1,735

Source: Schor, 2012

Commenting on Britain's low position in this ranking, journalists and economists have frequently referred to "Britain's productivity puzzle"; the curious fact that following the crisis of 2008, levels of output have remained static, and have sometimes actually required more workers. This is counter-intuitive, as productivity usually increases during troubled economic times: workers work harder to keep their jobs and employers innovate to remain competitive.

Claims that British labour productivity is too low compared to Germany, France and the United States go back not just to the 2000s, 1980s, or 1940s, but all the way to the start of the twentieth century. When this issue is raised - and it frequently is raised - the implication is that labour productivity needs to be improved more in Britain than elsewhere, and the reasons for past failures ascertained. This is understood as a problem to solve, namely: why is British labour productivity low and what can be done about it? On the other hand, there are ongoing complaints by British public sector unions - the union movement is visibly weaker in the private sector - that workloads for schoolteachers and nurses, for example, are already set too high (usually estimated to be 50% too high for teachers) and that, to quote the head of the Trade Union Congress (TUC), Frances O'Grady's recent appeal, *Britain needs a pay raise*. Perhaps the question being asked - about pay - is misleading. With teachers working on average sixty hours per week, but only being paid for forty hours per week, it would seem that the manpower calculations on which labour productivity assessments are based, have become dysfunctional. In this sense, perhaps the British case is a microcosm of the rich world.

Given their long-standing focus on alternative economics, the New Economics Foundation (NEF) are unsurprisingly critical of labour productivity measurement, and explain the productivity puzzle in different ways from most economists. They also point out that the intensification of work has had wider structural impacts. Noting that British productivity has been stagnant but that output has been increasing, the NEF recently argued that stagnant British productivity was due to the *flexibilisation* of the labour force, particularly the use of *zero-hour contracts*. In turn, the NEF argue, low productivity forces employers to keep costs, including wages, down. This in turn leads to a vicious cycle of reduced buying power.

The NEF posit three solutions to the "British productivity puzzle". Firstly, the stance presently pursued by the British government: to increase global competitiveness by working employees harder, innovating more and competing with the lowest wages on the face of the planet. This solution is contested not just by the NEF, but also by several FEPS Next Left contributors, including Mazzocchi in this volume. Secondly, the NEF argues, productivity could be boosted by investment in infrastructure and new equipment. This suggestion is reasonable, he argues, as long as one ignores the effects of such an approach on the planet. Third 'is to refuse to play the game ... instead, to think about how we can organise an economy that sets itself meaningful, human goals, ahead of growth at any price'.



## Work and the Environment

The increasingly clear relation between work and environment is coming into being at an important time, as *reindustrialisation* has entered EU economic policy at the highest levels. The relative durability of the German economy since the 2008 crisis has certainly helped to bring the previously unexciting prospect of increasing Europe's manufacturing capacity to the fore. Indeed, it has been noticeably developing into a common call from both sides of the political spectrum. It is obvious why: **the left and right both see the renewal of European manufacturing as a symbol of the necessary shift away from reliance on the finance industry, and to more localised, if still national, economies. To both sides, this shift will hopefully bring with it sustained growth and “real jobs”.**

Also unsurprisingly, the concerns of the left and right are different: **the left typically hopes that these new jobs will be ecologically sound and will involve shifting energy consumption away from carbon-based materials to more sustainable sources. The right typically aims for the new EU industries to be globally competitive, and that unreliable oil and gas supplies will be replaced by more autarchic energy sources such as coal, fracking, and nuclear.** For the time being, these differences have melted into an uneasy, and almost certainly temporary, confluence of general agreement. And with such broad agreement from across the political spectrum, some level, and type, of re-industrialisation is likely to take place within the EU.

The EU Commission's decision to increase manufacturing's share of the EU economy from 16% in 2012 to 20% in 2020 clearly signaled the official pronouncement that the *deindustrialisation* of the late twentieth century went too far. It was also a decision which will disproportionately affect different EU member states: 25% of the economic output of some EU members like Germany, Hungary, Ireland, and the Czech Republic comes from manufacturing, whereas the figure for some, such as France, the UK, and Greece, is much lower (10%). This issue is also being reported as important in the USA.

Even if this economic rebalancing towards manufacturing is a success, there is an increasing awareness that in addition to intensifying human resources by means of technology, longer hours, and lower wage shares, the limitations of the planet's resources will ensure that infinite growth cannot continue forever. Several authors argue that the only way to deal with this is to modify our economic models to goals other than increasing productivity, profits and competitiveness. Schor rejects the growth-centred focus of the economy for ecological reasons and argues that if work were shared out more fairly, this would increase employment and give citizens time to participate in local democracy. Given, Schor observes, the wide voter alienation across the EU from traditional parties and card-carrying party politics, there could not be a time when local democratic activity is needed more. Moreover, Itzigsohn has argued for a “solidarity economy” in which the marginalised and unemployed inevitably created by global capitalism could instead be

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employed in cooperatives, such as Mondragon in the Basque Country, which exist outside the formal money economy. In doing so, Itzigsohn argues, this would allow the twentieth century left to manoeuvre away from the twentieth century focus on the state, either in the marxist or social democratic sense. This would, he argues, mean that people work for the *reproduction of life rather than the accumulation of capital*.

Specifically in relation to the British case, the recent NEF's *"Time On Our Side"* raised many important questions regarding the hours of work and work's relation to economies and the planet. The book, which is an anthology produced by eighteen authors asked *Have you ever wondered why you're so busy, where your time goes, or how much your time is really worth?* (NEF, 2013). From the outset the authors seek to challenge not simply pay levels or workloads, but, as Pascal Zwicky also mentions in this Next Left collection of articles, the very notion that "time is money" at all. They importantly note that, for historical reasons, some of our human activity is matched to monetary value via the workplace, whereas *The rest of our time is assigned no monetary value whatever. It is not officially tradeable and, according to conventional economic wisdom, it is just a lost opportunity*.

Golden has also argued that consumerism and envy have been driving working hours up, and that self-enforced overemployment has become a rational choice for those wishing to climb the career ladder. However, Golden notes, overemployment is damaging to the household and personal relationships, and eventually can lead to workaholism. She notes that about 30% of people in the USA and Canada self-identify as workaholics. She suggests the better state regulation of hours, better education as regards the risks to health and safety caused by excessive working hours, and a progressive income tax designed to drive down the tendency to consumerism. It would be interesting to consider statistics for the EU too. Coupled with the observations presented in this chapter, there is a strong case to make for radical changes in the way we work.

## Competitiveness and the Historical Turn

Many authors have studied the notion that industrialisation brought with it the measurement, definition and control of time; a body of literature which studied the late eighteenth and early nineteenth centuries and the industrial revolution which took place at that time. However, several human relations specialists explicitly draw the connection between the habituation of workers to clocks and factory discipline in the industrial revolution period, and the relatively recent computerisation and digitisation of many, if not most, workplaces in the rich world.

As Mazzochi observes in this volume, the competitiveness debate often misleads commentators into thinking that there is no alternative. Building on Mazzochi's critique it is also possible to flip the question around: if competitiveness is such an emergency

demanding our immediate attention and efforts, then confused attention is being paid as to what happened in prior production emergencies. Indeed, when the British prime minister David Cameron addressed the Confederation of British Industry in 2012, calling for greater competitiveness, it was explicitly the example of Britain in World War Two which he evoked: *everything was thrown at the overriding purpose of beating Hitler. This country is in the economic equivalent of war today and we need the same spirit. We need to forget about crossing every 't' and dotting every 'i'. We need to throw everything we've got at winning in this global race.*

This is powerful rhetoric, and echoed Churchill's first speech as prime minister in May 1940, in which he declared that *we shall not hesitate to take every step, even the most drastic, to call forth from our people the last ounce and the last inch of effort of which they are capable.* However, Cameron did not hint at how Churchill continued, nor whether we, in the present day, should abandon the interests of property to compete in the 'global race': *The interests of property, the hours of labour, are nothing compared to the struggle for life and honour, for right and freedom, to which we have vowed ourselves.*

Had Cameron consulted the literature on the organisation and management of work in Britain in World War Two, he would have discovered claims about inefficiency as vague as are made about the "productivity puzzle" today. For example, as the social research body Mass-Observation put it in 1942: *All is not well in our war-production effort at present. Something is seriously wrong somewhere. Different people point the accusing finger at different wrong points and potential strong points. The person or thing pointed at differs, but the accompanying voice addresses itself primarily to one assumption: the need for a 100 per cent efficiency.*

The war brought about remarkable changes in management methods, particularly when both the private and public sectors established Joint Production Committees (JPCs) to ensure that workers felt represented in managerial decisions and negotiations related to pay and working hours. The war brought with it strong cooperation between the government and the trade unions which Cameron is so keen to vilify. The massive numbers involved are worth iterating: rising from 2,644 JPCs representing 1.9 million workers in 1942, JPC numbers peaked in June 1944, with 4,567 JPCs representing a total of 2.7 million British workers. Even the marxist Communist Party of Great Britain put its full weight behind this effort. The many government investigations into the JPCs indicated that both trade unions and management generally believed that JPCs were a good thing.

Moreover, the new types of managers and consultancies which came to the fore in the war did not retreat when the war emergency did. As James Burnham argued in *"The Managerial Revolution"* (1941), a new class of non-capitalist, non-political managers had, over the prior two decades, quietly taken control in capitalist, communist and fascist countries. While it was well known that corporations had been growing in size and influence for a long time, what was novel to his argument was he argued that this managerial class

had, starting with the totalitarian dictatorships, moved onto the capitalist democracies and received great impetus from wartime conditions. Although the conditions facing the EU and its methods of defining success are very different to those in the 1940s, the notion that socio-economic emergency conditions have given rise to a ruling class of managers, substituting for politicians, should at least be thought-provoking.

Specifically related to Britain and the Labour Party, research has revealed that the publication of Burnham's "managerial revolution" and specific war conditions pushed Labour in the direction of what Tiratsoo and Tomlinson call "managerial socialism". While the war brought management consultants to the state's attention, it was under the Attlee Labour government that private management consultancies started to win large government management contracts in the recently-nationalised industries and operations of the state. Moreover, it has recently been contested whether these consultancies actually increased efficiency enough to be worth paying the high consultancy fees.

The Great Depression period offers perhaps a better comparison with the past few years. It could of course be argued that the Cameron analogy is wrong: wars are when labour is at its strongest bargaining power and that in times of recession and depression, unemployment is high and union bargaining power is at its poorest. Indeed, it is well known in the relevant literature that British union membership and power was particularly weak during the great depression. Historical comparisons are instructive here too. It was the period in which progressive employers such as Rowntree's, Boots, and others shortened working hours in an attempt to cope with reduced demand, while also ensuring that workers were paid a living wage. The first 40 hour week in Britain was introduced at Mander Brothers, a paint manufacturer in Wolverhampton, in 1932. This was with full negotiations with Ernest Bevin, leader of the Transport and General Workers Union, then the largest trade in the capitalist world. It is no coincidence that the firm's head, Geoffrey Mander, was a Liberal MP. Moreover, these employers used extensive collective bargaining procedures to ensure that workers felt they could contribute to workplace decisions and fairness, and made this case on both economic and moral grounds.

These remarkable firms did this without compulsion from the state or any employers' bodies, and were influential on the way the enlarged British state coped with labour bargaining issues during the Second World War and also on postwar Labour and Conservative governments' productivity and industrial welfare initiatives. To provide a comparison with one of the only major industrial countries free enough to operate trade unions, research into the depression-era USA indicates that similar changes took place there among liberal business leaders such as the Morris Cooke of the Taylor Society, who supported cooperation between the International Labour Organization, the American Federation of Labor, the Congress of Industrial Organizations and the New Deal.

What's more, senior Conservatives have made these kinds of claims before, usually for political reasons, although the recent Conservative 2020 report on increasing efficiency

and profitability does not appear to be aware of this. This is important: as Theo Nichols has argued, many drives to increase productivity are based on the assumption that we actually know which specific institutions, organisations and individuals are unproductive. Examining the Thatcher government rhetoric in the 1980s, Nichols noted many pitfalls in assuming that productivity statistics were adequate measures of comparison both between the performance of the workforces of other companies and countries, and also that of prior British governments. He sought to demonstrate that in manufacturing industry, relatively low labour productivity was less about a particular attitude to work by managers or workers, but really due to subtle and previously undetected microsociological differences in the way equipment was used and maintained. It was mundane technical details like these, Nichols argued, that led to British manufacturing productivity being lower than that of (West) Germany.

When Nichols was writing, Britain had recovered from a deep recession which the governing Conservative party had claimed to have rescued from the ineffectiveness of prior Labour and Conservative administrations. This is a narrative very similar to the present Coalition narrative, although, given that Labour were in power for thirteen years, the Cameron administration does not even need to attack John Major's 1990-1997 administration. But Cameron cannot claim, as many Thatcherites did, to have increased productivity by curbing union power, increasing outsourcing to cheaper labour markets, or encouraging a fresh entrepreneurial spirit. Something is still wrong; there is apparently still a "productivity puzzle" to solve.

## Big Data and the Datacrats

The Big Data debate of the last few years has brought with it large volumes of research and investigations by technologists, economists, scientists and even historians. This project has gained such support, that, to coin a phrase, we might name the project's most enthusiastic evangelists "datacrats". The European Commission (EC) appears to be genuinely dedicated to the big data and "datacrat" cause: recent reports suggest that by 2016 the German big data market is expected to grow from € 650 million in 2013 to almost €1.7 billion (CBI, 2013), and the big data market in 'New Industrial France' will be 'close to €9 billion in 2020, with the maintenance or creation of over 130,000 jobs' by 2020. In October 2014, the EC announced a joint public-private fund of €2.5 billion to *master big data*, which, the EC argues, could lead to *up to 30% of the global data market for European suppliers; 100,000 new data-related jobs in Europe by 2020; 10% lower energy consumption, better health-care outcomes and more productive industrial machinery.*

The rhetoric surrounding 'Big Data' is alarmist and suggests that the EU has already fallen behind. In its July 2014 report on the centrality of big data to EU business activities, the EC argued that

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*The European digital economy has been slow in embracing the data revolution compared to the USA and also lacks comparable industrial capability. Research and innovation (R&I) funding on data in the EU is sub-critical and the corresponding activities are largely uncoordinated. There is a shortage of data experts able to translate technology advances into concrete business opportunities. The complexity of the current legal environment together with the insufficient access to large datasets and enabling infrastructure create entry barriers to SMEs and stifle innovation.*

The Big Data phenomenon, or at least the phenomenon that big data is both here to stay and works, is striking. Many assume, and sometimes specifically argue, that Big Data will bring a 'new industrial revolution' to the western world. The size, complexity and shape of these massive banks of data have also been much discussed, as have the analytics tools, which can be used to synthesise and analyse this data. Given the industry and government interest in the applications of big data, this attention is deserved. Indeed, in one form or another, Big Data analyses are already used in business, crime, security, healthcare, transport, utilities and research.

There is, however, also much scepticism around the topic, and even the most enthusiastic supporters point out many potential problems. While encouraged about the possibilities big data could bring, Mayer and Schoenberger observe that aggregating and cleaning datasets will be extremely labour-intensive and that exactitude will have to be abandoned for big data to be cost effective. They also observe that many data sets will become obsolete very quickly; an issue of course important in the use of old data for Big Data models. They observe that the data in use will not be aggregated according to some grand scheme, and that different data sets will use different data and parameters. Finally, they note the dangers to privacy that releasing data sets could entail, and that safeguards will have to be put in place in the event of using big data for the prediction and prevention of crime.

Literature more wary, and overtly critical, of Big Data also emphasises that the act of mixing data sets which were never intended to be mixed will, no matter the skill of the data scientist introduce false positive, and will multiply hypothesis. Moreover, the claim that Big Data will eliminate theory and scientific methods is simply unsupported. In addition, from a social policy perspective, any errors in the data will receive substantial multiplication, which in turn would exacerbate already-existing distributional conflicts. If they do, then the multiplication of the data under 'Big Data' systems can only serve to deepen these distributional conflicts further.

Critics and supporters alike point to problems, which may be caused by data interception. Moreover, calls for more Big Data and warnings about security issues are likely to increase. TTIP and its equivalents elsewhere in the globe have met with scepticism and opposition for several reasons: that TTIP will lead to an increase in corporate power, it will lead to a driving down of labour costs and thus either lower wages or outsourcing

to cheaper labour supplies, and that the data harmonisation between the EU and the USA could pose a security risk. But it will of course also add in an entirely new tier of productivity data so, for example, one could compare the productivity of supermarket workers in Albany, NY, Trieste and Vilnius. Thus we presently have, and indeed are actively creating, huge and potentially faulty data superstructures on which political and business decisions are being made and which potentially magnify distributional conflicts even within states where welfare provisions are strong.

It should also be remembered that TTIP also has a historical precedent in the form of the Anglo-American Council on Productivity (AACP). Established to make Britain prosperous, create markets for American goods and services, and to prevent Britain being dragged into communism, the AACP was a concerted from 1948-52 attempt improve the productivity of British industry by means of Americanisation. Part of \$300 million spent by the USA to increase Western European productivity, and fully supported by the British TUC and trade unions, the AACP was an unprecedented peacetime effort by the state and the unions, as well as the Americans, to increase British productivity and prosperity. This said, historians have sometimes been critical of the AACP, arguing that its resorted to the increase of labour intensity, the deskilling of workers, and, even then, that its efforts were never as successful as its goals. The comparison with TTIP, although without the union consultation, is striking.

Moreover, just as TTIP promises an alliance between the EU, so too was, to some extent, the EU actually created by major American economic and foreign policy goals. Formed in 1953 by US actions and funding, the European Productivity Agency (EPA) was designed, as the AACP had been, to increase European prosperity, to decrease the influence of communism, particularly in countries like France and Italy which had large communist parties, and to bolster Western European integration as a means to promote a NATO bloc in the West of Europe. The EPA, formed with the Organisation for European Economic Co-operation (OEEC), lasted from 1953 until 1961, when the USA and Canada joined the OEEC in forming the OECD. Indeed, were it not for the existence of the EPA and the OEEC, it is unlikely we could be talking about, and sometimes challenging, TTIP, now.

## Letting Go

It is important that critics of 'Big Data' observe that problems will be created, when the data sets become obsolete. This has happened before. In "*Relevance Lost*", Kaplan and Johnson posited that management accountancy controls introduced in US firms in the late nineteenth and early twentieth centuries lasted well into the 1980s and indeed were a root cause of the US's industrial problems at that time. In effect, they argued that the data allocation and control systems these firms were using, long assumed to be a neutral component of normal industrial

management operations, were no longer fit for purpose. Moreover, these authors blamed the specific types of management accounting used in US firms for the country's relative decline against Japan in the 1970s and 1980s. It is prescient how present-debates resemble these prior debates, albeit with Japan replaced by China.

It is known that some of the quotas and ratios used for top-level economic policy are dysfunctional. As many in the rest of the UK pointed out during the independence debate, the level of funding per person in Scotland is higher than in the rest of the UK. Indeed, the inventor of the "Barnett formula" which determines the level of funding per unit of population, Lord Barnett argued in the "*Daily Mail*", in line with a House of Lords select committee examining this issue that

*the current system was 'arbitrary and unfair' and should be scrapped. The committee also recommended that a UK funding commission be set up to allocate government block grants according to actual need.*

*The current formula may be simple and easy to administer, which is why the Treasury is resistant to change. But while it may pacify the Scots, it fails to take account of the fact Wales, Northern Ireland and, indeed, parts of England, have far greater social needs than Scotland.*

*I believe the Barnett Formula should be scrapped as soon as is practicable and replaced by a statutory body charged with distributing government spending in a way that the most money goes to areas that need it most.*

*After 36 years, during which I have become increasingly ashamed of having my name attached to the current system, they are quite welcome to use my name for this replacement system. I have become thoroughly disillusioned with the old one.*

The point being made here is important. Firstly, insofar as Barnett reveals that a frequently discussed and important economic ratio has its origins in a specific political emergency. Secondly, that even the inventor of the 'Barnett formula' believes that it should be scrapped and new measurements taken. Related, responses to the recent independence referendum in Scotland have been fascinating and shed light on unexpected aspects of not just the UK but the EU as a whole. After all, both have long been suffering a series of legitimacy crises, which has given rise to Eurosceptic populist parties such as UKIP, Front National, and Five Star. However, as Anthony Painter has recently argued in a Policy Network paper, the important lesson to take from the Scottish referendum is not that populist anti-politics have triumphed in Britain, it's that a new kind of politics have emerged instead.

The point could be not that we need to reform economics, but, in line with the conclusions of NEF, Wilkinson and Pickett, **we need to reform or abandon traditional economic models, specific datasets and management structures**. It would be difficult to abandon long-used indices of success and failure, particularly labour productivity, just



as it would be difficult to establish new ones. But that does not mean it shouldn't at least be tried. For example, instead of using rather incomparable matrices of already-extant data, the ONS could generate new data for its National Well-Being programme (David Cameron's 'Happiness Index'), rather than relying on various incompatible, extant measures.

As recently observed, Cameron's 'Big Society' trope gained much serious attention from across the political spectrum, including on the localist and statist lefts, suggesting that there is something desirable in the concept. And other similar initiatives have emerged, or been emphasised across the EU. However, the pilots were disappointing and amounted to little in practice. Moreover, one study showed, the pilots revealed that Big Society initiatives had the tendency to be captured by older, middle class interest groups; precisely the people who already have a disproportionately strong influence on local governance.

These localist arguments is being put forth in relation to government power among the Labour movement. This is particularly important, as, at the time of writing, Labour's role as state-as-manager is increasingly taken as a key reason why Labour's popularity has not rebounded in the way one might have expected from prior electoral experiences. As Jon Wilson argues in *"Letting Go: How Labour Can Learn to Stop Worrying and Trust the People"*

*If you get people in a room together, if people have the freedom to meet, talk and argue, they'll make better decisions about the things that affect their lives than anyone else. Labour needs to become a movement rooted in people's experience, not be the party of the central manager or bossy bureaucrat. The politician's purpose is to lead people not manage things. The vocation of politics is to create and lead institutions where those democratic conversations take place, and only in the last instance to decide.*

**It may indeed be time for Labour to abandon the "managerial socialism" of the postwar period.** While Wilson was specifically addressing British politics, where the democratic deficit is particularly deep, his arguments could be applied to other EU states, and the EU more generally. Also, as several authors argue, the employment of expensive consultants of questionable value, which emerged in the Labour Party during and after World War Two, is a habit with which Labour which has persisted ever since, and which was arguably intensified under New Labour. This issue is of course relevant in relation to the EU too, though extant research is somewhat alarmist and the topic requires a more robust analysis.

It is important that Wilson specifies *freedom* here. As Lisa Nandy MP argued at the Compass "Freedom" lecture at King's College, London, the time when freedom is discussed

**We need to reform or abandon traditional economic models, specific datasets and management structures.**

the most is during emergencies when society is under threat and freedoms reluctantly have to be ceded. Nandy argued instead that at times when society and the state are not under threat, we could, and should, explicitly debate relinquishing controls on freedom. She did not specify the workplace, though as discussed throughout this article, there are several cases to be made related to the measurement and management of work, and the involvement of the workforce, either directly or via labour unions, could, and perhaps should, be involved. Particularly relevant to this paper, in this volume Pascal Zwicky joins others in calls for a care revolution, by which the central conception of humans, particularly men, as fundamentally economic could be circumvented in progressive ways. As Matjaz Nahtigal discusses in his article in this FEPS Next Left Focus Group volume, could do with more experimentation with the EU, its operations, and its structures, rather than shore up managerial systems based on aggregated data which may not even be accurate or comparable, let alone suitable for high level policy decision-making.

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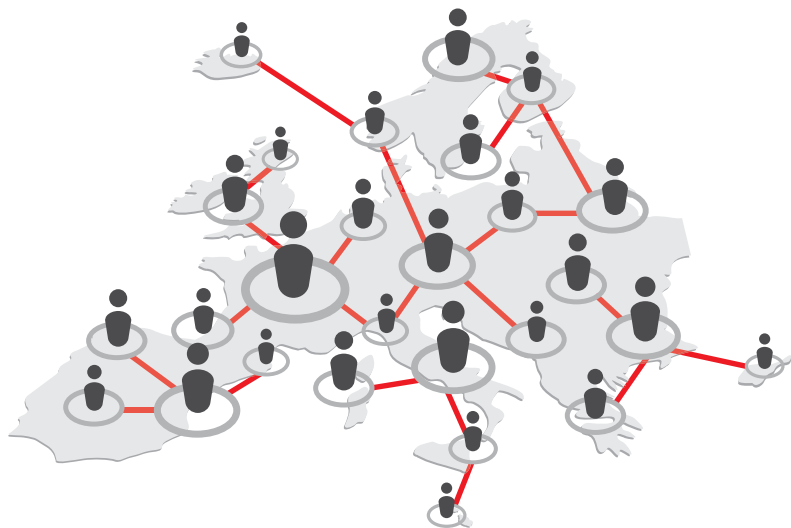


**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Nadia CARBONI

## **Gender Equality: Judicial Framework and Protection at the EU level**



**Keywords:**

**Gender Equality - Labour Market - Social Inclusion – Justice – EU  
Policies on Gender Equality**

**Abstract:**

Within the EU social policy, gender equality is a very important issue. So far, the numerous directives, which have been adopted in the EU, can be classified as representing of the three main approaches: equal treatment, positive action and gender mainstreaming. Looking at gender equality in the labour policy field, the paper points out that EU gender equality laws needs to be enforced. The European Court of Justice is especially called upon to play a stronger and crucial role in the effective enforcement of gender equality standards in the Member States. The paper is divided into three main parts: the first one is an overview about gender equality at the EU level; the second part describes the three main approaches on gender equality issues in the EU; the third part analyzes the implementation of the gender equality law in the labour market by drawing some conclusions about how to enforce the equality gender principle within the EU.

## An Overview

Equality between women and men has been a fundamental principle of the European Union since its inception. It is a political objective, but also an economic one, as it is crucial in helping the EU achieve its goal of *smart, sustainable and inclusive growth*.

The term “EU gender equality” refers to all the relevant treaty provisions, legislation and the case law of the European Court of Justice (ECJ) in relation to gender equality.

The principle of gender equality comes back to the XIX century feminist movements aiming at the liberation of women from their subordination to men<sup>1</sup>.

**Gender equality is a fundamental principle of the modern democracy and, most importantly, a human right.** “Equality” extends beyond the limited concept of “non-discrimination”. It is not only concerned with the denial of equality, but also includes the active promotion of equal rights. Moreover, gender equality is not exclusively a tool for the emancipation of women. Because the position of women has historically been inferior to that of men, equality has in the contemporary societies aimed at improving the situation of women. The concept of gender equality does, however, include also the promotion of men’s rights.

The idea of gender equality has greatly evolved since the establishment of the European Community. **Achieving equality between women and men in various fields such as the economy, decision-making as well as social, cultural and civic life has become one of the key tasks of the EU. Today, equality takes part to the EU’s wider strategy for economic growth, formulated in 2000 in Lisbon and revamped in the 2020 EU Strategy.**

Equality in the field of employment is of the great importance, since it is linked to the EU’s internal market project. In the Treaty establishing the European Economic Community (EEC) adopted in 1957, only one single provision (Article 119 EEC Treaty, after the entry into force of the Treaty of Amsterdam in 1999, Article 141 EC Treaty and now Article 157 TFEU) was included to combat gender discrimination, namely the principle of equal pay between men and women for equal work. The background to this provision was purely

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<sup>1</sup> A. Kravetz & R. Marecek, *The Feminism Movement.*, (in: ) *Encyclopaedia of Women and Gender: Sex Similarities and Differences and the Impact of Society on Gender*, Volume 1, 457-68. London: Academic Press, 2002.



economic; the Member States, in particular France, wanted to eliminate distortions in competition between undertakings established in different Member States<sup>2</sup>.

Later on, the ECJ (European Court of Justice) ruled that the economic aim is secondary to the social aim. It also held that the principle of equal pay is an expression of a fundamental human right. The ECJ has played a very important role in the field of equal treatment between men and women, in ensuring that individuals can effectively invoke and enforce their right to gender equality. Similarly, it has delivered important judgments interpreting EU equality legislation and relevant Treaty articles. While in the late 1950s there was only one article on equal pay, since then a whole plethora of directives, which prohibit discrimination on the grounds of sex in particular, have been adopted.

Especially with the entry into force of the Treaty of Amsterdam in 1999, the promotion of equality between men and women throughout the European Community became one of the essential tasks of the Community. It stipulated that both the Community and the Member States shall actively take into account the objective of equality between men and women when formulating and implementing laws, regulations, administrative provisions, policies and activities. The Lisbon Treaty emphasizes even further the importance of the principles of non-discrimination and equality as fundamental principles of EU law.

Another important moment in the development of EU gender equality law was the adoption of the Charter of Fundamental Rights of the European Union. This Charter prohibits discrimination on any ground, including sex; it recognizes the right to gender equality in all areas, thus not only in employment, and the possibility of positive action for its promotion. Furthermore, it also defines rights related to family protection and gender equality.

Recently, the European Strategy for equality between women and men for the period 2010-2015 confronts the challenges and obstacles to gender equality and reflects the Commission's commitment to continue and step up its activities in this field. The Strategy reaffirms the dual approach of gender mainstreaming and the adoption of specific measures in the priority areas identified: equal economic independence; equal pay for equal work and work of equal value; equality in decision-making; dignity, integrity and an end to gender based violence; gender equality in external actions. It emphasizes the importance of the partnership with the Member States, as in many areas the center for action lies at their level. In detail, the European Pact for Gender Equality adopted in March 2011 at the European Council, reaffirmed the close link between the Commission's Strategy for equality between women and men from 2010 to 2015 and Europe 2020 Strategy for smart, sustainable and inclusive growth. It called on the Member States to take steps to bridge the gap between men and women in the fields of employment and social protection, including the gender pay gap, promoting a better balance between

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2 S. Burri & S. Prechal, *EU Gender Equality Law*, EC 2014.

work and private life for women and men throughout their lives and combating all forms of violence against women. It also encouraged Member States to take action to mainstream the gender perspective in all public activities.

Finally, treaties, directives and regulations are important for the further development of EU gender equality policy, because they serve as a basis for the adoption of future legislation and other EU gender equality measures. Moreover, it is also important what especially treaties say in terms of values, tasks and general obligations, since they often guide the ECJ in the interpretation of the existing provisions and EU legislation.

## The main approaches to gender equality at the EU level

In the course of the years, the EU has adopted three main approaches for improving the situation of women in the society: *equal treatment*, *positive action* and *gender mainstreaming*.

### a) Equal treatment

The EU Community has been mainly concerned with the creation of a common market by removing barriers on the mobility of goods and labour, capital and services. As we wrote in the previous paragraph, gender equality issue did not find much space in the initial framework of the EU. By the way, the principle of equal pay for equal work was included in the Treaty of Rome. Later on series of directives have been adopted to clarify the principle, mainly based on “non-discrimination” (equal treatment model for combating inequalities).

The concepts of direct and indirect discrimination have notably developed by the ECJ. The anti-discrimination directives, which have been adopted since 2000, contain similar definitions of direct and indirect discrimination.

On the one hand, “direct discrimination” occurs

“... where one person is treated less favourably on grounds of sex than another is, has been or would be treated in a comparable situation”<sup>3</sup>.

In other words direct discrimination occurs when two conditions are satisfied: the cause of inequality is sex (*causa*), and the treatment received by a person is less favourable than that received by a comparably situated member of the opposite sex (*harm*)<sup>4</sup>.

On the other hand, “indirect discrimination” is defined as follows:

<sup>3</sup> Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation.

<sup>4</sup> E. Evelyn, *The Definition of Discrimination in European Community Sex Equality Law*, (in: ) *European Law Review*, 19, 1994.

“(...) where an apparently neutral provision, criterion or practice would put persons of one sex at a particular disadvantage compared with persons of the other sex, unless that provision, criterion or practice is objectively justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary”<sup>5</sup>.

The development of the concept of indirect discrimination has meant that a step has been taken towards a more substantive approach to equality, because it focuses on the effect of a rule or a practice and takes into account everyday social realities. Substantive equality requires that further steps are taken in order to realize true equality in social conditions. This may sometimes requires positive action, the topic of the next paragraph.

### **b) Positive Action**

In the early 1970s, Member States widely recognized the need for a more comprehensive model on gender equality than the simple non-discrimination approach. They stressed the need for “positive” intervention. In contrast to the equal treatment approach, in the positive action model “the emphasis shifts from equality of access to creating conditions more likely to result in equality of outcome”<sup>6</sup>. Positive action includes any form of action, which is designed to promote and benefit a disadvantaged group. The positive action approach consists of a number of techniques, such as special training and educational opportunities. These are not invasive techniques and are closer to the goal of substantive equality: the unequal situation will be corrected, yet without placing individuals outside of the protected groups in a worse situation<sup>7</sup>.

However, there are few problems in the application of the positive action approach. The first problem is that the use of its mechanisms is only possible if the legal framework allows for it. As regards national and EC law, it indeed seems that the still predominant equal treatment approach has constrained the positive action model from being widely applied<sup>8</sup>.

The second problem is that the level and scope of actions taken in various Member States is uneven. In other words, the scope and application of one of EU’s main principles vary throughout the Member States. Third, positive actions take various shapes of “soft” as well as “hard” measures. This makes the approach unclear.

5 Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation.

6 T. Rees, *Mainstreaming gender in the European Union* [in: ] *Journal of European Public Policy Special Issue* (7)3, pp: 432-56, 2000.

7 D. Caruso, *Limits of the Classic Method: Positive Action in the European Union after the New Equality Directive*, Jean Monnet Working Paper 10/02. New York, N.Y.: Jean Monnet, NYU School of Law, 2002.

8 C. O’Cinneide, *Positive Action and the Limits of Existing Law* [in: ] *Maastricht Journal of European and Comparative Law.*, 13 (4): 351-64.13, 2006.

### c) Gender mainstreaming

The Amsterdam Treaty introduced this approach in 1999. It is a very important technical tool in helping to develop and transfer the idea of gender equality to different policy fields.

However, the status of gender mainstreaming in the EU is not clear. Some consider it as one of the tools of the positive action approach, while others recognize it as a third, distinct approach<sup>9</sup>. In the broad sense, the gender mainstreaming approach is a holistic and long-term strategy for achieving gender equality by “engendering” the policy-making process. Instead of creating a separate policy for gender equality, the gender perspective is introduced from the beginning horizontally into all other policies, programs and procedures<sup>10</sup>.

Gender mainstreaming measures are per se “softer” and more general than the “hard” provisions of antidiscrimination. On the one hand, this approach could water down the already weak concepts in equality law. On the other hand, because gender mainstreaming identifies problems on gender equality in various policies, it can then be followed by more decisive measures addressing the negative effects of such policies<sup>11</sup>.

## Gender Equality in the Labour Policy

Despite a general trend towards more equality in society and on the labour market, progress in eliminating gender inequalities remains slow. Economic independence is a prerequisite for enabling both women and men to exercise control over their lives. It requires creating the opportunity for the full participation of women and men in the labour market all along the lifecycle as well as a more equal share of unpaid work.

**Employment has a big impact on the daily life of men and women<sup>12</sup>. For this reason, in order to assure the equal treatment of men and women, egalitarian employment provisions must be a priority in the reform agenda.** The labour market

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9 V. Schmidt, *Gender mainstreaming – an innovation in the Europe? The Institutionalization of Gender Mainstreaming.*, the European Commission. Leverkusen Oplade: Barbara Budrich Publishers, 2005.

10 D. Elson, *Gender mainstreaming and gender budgeting*. European Commission, DG Education and Culture and Jean Monnet Project. ‘Gender Equality and Europe’s Future’ Conference, Brussels, 2003.

11 J. Shaw, *European Union Governance and the Question of Gender: a Critical Comment*, Jean Monnet Working Paper 6/01. New York, N.Y.: Jean Monnet, NYU School of Law, 2001.

12 Historically, women have been more affected by unemployment than men. In 2000, the unemployment rate for women in the EU-28 was around 10 %, while the rate for men was below 8 %. By the end of 2002, this gender gap had narrowed to around 1.5 percentage points and between 2002 and mid-2007 this gap remained more or less constant. Since the first quarter of 2008, when they were at their lowest levels of 6.3 % and 7.4 % respectively, the male and female unemployment rates in the EU-28 converged, and by the second quarter of 2009 the male unemployment rate was higher. The decline of the men’s rate during 2010 and the first half of 2011 and the corresponding stability in the women’s rate over the same period brought the male rate below the female one once again. Since then the two rates have risen at the same pace until mid-2013, when they reached their highest value, both at 10.9 %. In the second half of 2013 both the male and the female rates declined, reaching respectively 10.6 % and 10.8 % at the end of the year (source EUROSTAT).

is largely divided in respect to gender. In other words, it is easy to find typically feminized sectors such as public administration, education and health care. Moreover, women tend to occupy lower and medium level posts, whereas there are only few women hired on the highest managerial levels of employment in e.g. political and economic sectors. This situation may be a result of the inability to reconcile the professional and private lives, and of an unequal division of home and family duties.

In 2013 in the European Union, the employment rate of men was 75%, while for women it stood at 63%, thus 12 percentage points less<sup>13</sup>. This gender gap is even more important when we consider the full-time equivalent employment rate. Moreover, in Europe 8% of men worked on a part-time basis, the average for women being 32%<sup>14</sup>. The different levels and types of women's involvement in paid work are strongly connected to the allocation of family chores and responsibilities between women and men. Women tend to adjust their labour supply when they have children or other care burdens, by taking leaves, requesting part-time arrangements or even withdrawing fully from the labour market. Men, by contrast, increase rather than reduce their labour market participation when their families grow. Women still spend 26 hours a week in unpaid work (such as household tasks, caring for dependents, etc.), against nine hours for men<sup>15</sup>. Such gaps are problematic not only in terms of reaching equality between women and men, but also in economic and social terms. Since women are increasingly qualified, even surpassing men in educational achievements, their underutilization in the labour market results in a waste of human capital.

To successfully promote the labour force participation of women, especially women with children, the right incentives need to be created in order to allow women to enter, re-enter and remain in the labour market. Hence, the role of men in achieving gender equality is of utmost importance as their necessary contribution in the private sphere should complement women's involvement in the labour market. In this area, the right incentives also need to be created in order to reach a more balanced share of family and domestic responsibilities.

The policies for the labour market are therefore relevant for gender equality. It was indeed the first target of gender equality law in European legislation. Currently in the EU, there are many directives, ECJ's judgments and "soft law" measures that concern gender issues in the labour market. The covered issues include, for example, equal pay, access to employment, equal treatment, parental leave and working conditions among the others.

In 2006, the New Equal Treatment Directive, adopted by the European Parliament and the Council, simplified and updated existing Community law on the equal treatment

13 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

14 *ib.*

15 Eurofound, *Women, men and working conditions in Europe*, October 2013; based on 2010 data. <http://eurofound.europa.eu/publications/report/2013/other/women-men-and-working-conditions-ineurope>.



Later on the New Equal Treatment Directive, which repealed the Directive on the application of the principle of equal pay for men and women – the so-called First Equal Pay Directive adopted in 1975 – stipulated that: “For the same work or for work to which equal value is attributed, direct and indirect discrimination on grounds of sex with regard to all aspects and conditions of remuneration shall be eliminated”.

In particular, where a job classification system is used for determining pay, it shall be based on the same criteria for both men and women and so drawn up as to exclude any discrimination on grounds of sex. The principle of equal pay applies to equal work and work of equal value and also, a fortiori, to work of higher value. The ECJ adopted this view stating that otherwise the employer would easily be able to circumvent the principle of equal pay by assigning additional or more onerous duties to workers of a particular sex, who could then be paid a lower wage. The prohibition on direct and indirect sex discrimination explicitly applies to pay in the private and public sectors, including public bodies.

However, there still is a pay gap between men and women. Female workers tend to earn 15 % less than their male colleagues and this gap is decreasing at a much slower pace than the gender employment gap<sup>17</sup>.

### **Equal Treatment to Employment and in Social Security**

Equal pay was only one battle won in the war against discrimination against women, which was based on historical and cultural causes and was reinforced in practice by the education system, inadequate vocational guidance and the demanding role imposed on women as wives and mothers.

The New Equal Treatment Directive ensures equal access to employment by prohibiting both direct and indirect sex discrimination in the public and private sector.

However, some exceptions to equal treatment are permitted, providing that the principle of proportionality is respected, that the aim is legitimate and that the exceptions are justified by reasons of a particular nature, or that the context of the work is such that the work can be carried out by one sex only (i.e. in the army).

Women are generally not in an equal position with men: they have worse access to employment because they are socially obliged to perform duties not related to their jobs. Therefore, a woman trying to access employment should not be compared to a man. The attempt of the Court to compare men and women as individuals is therefore not adequate<sup>18</sup>. From this perspective, it seems that the best solution is to treat gender equality

17 Communication, *A Roadmap for equality between women and men*, (2006) 92.

18 A. Brzezinska, *Gender Equality in the case law of the European Court of Justice*, Working Paper IES (Institute for European Studies), 2009.

as a collective right that protects women as a disadvantaged group in the substantive equality meaning. This would give more leeway for Member States' pro-female regulation, including more decisive positive action. As we wrote above, positive action has been framed in EU law as an exception to the principle of equal treatment, instead of as an integral part thereof.

So, if only the ECJ relaxed its case law, the Member States could start introducing measures such as quotas in employment. It is for the ECJ to adapt its' reasoning to social needs and to fully follow the substantive model of equality, otherwise equality between men and women in the procedure of selecting employees remains a fiction<sup>19</sup>.

Looking at equal treatment in social security, the EU social security coordination law<sup>20</sup> links distinctive national social security systems. It is a mechanism designed to abolish the obstacles for EU citizens when they are moving to another Member State. They should not lose their social security entitlements only due to the movement between the Member States. In this case the Member States are still free to shape the substance of their social security law, including the eligibility conditions for various benefits, the scope (level and duration) of benefits, which might be distinctive for women and men. Therefore, from the gender equality perspective, the EU legal instruments obliging the Member States to progressively implement the principle of equal treatment of women and men in social protection are even more important. They provide a standard harmonisation of national social security systems (where deviations for the better or worse are as a rule not allowed). There is no migration criterion: people do not have to move between the Member States in order to be entitled to equal treatment in social protection. European legislation ensures respect for the principle of equal treatment for men and women in matters of social security. The New Equal Treatment Directive applies to: statutory social security schemes which provide protection against sickness, invalidity, accidents at work and occupational diseases, unemployment and risks related to old age; social assistance which supplements or replaces the basic schemes. It does not apply to survivors' benefits and family benefits schemes.

The principle of equal opportunity means, among other things, that there should be no discrimination based on sex especially as regards: the scope and the conditions governing the right to any work regime; the calculation of contributions; the calculation of benefits and the conditions governing the duration and preservation of pension rights. According to the ECJ, the provisions concerning social security do not apply to women who have never been employed, those who do not look for a job and those who have voluntarily stopped working.

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20 The EU social security coordination law is shaped by Regulation 883/2004 on the coordination of social security systems, and by its implementing Regulation 987/2009.



## **The Pregnant Workers Directive and the Parental Leave**

The pregnant workers directive was adopted in 1992 and is closely linked to the principle of equal treatment between men and women in employment. Article 8 of this Directive stipulates, for example, that Member States have to ensure that women enjoy a period of at least 14 weeks' maternity leave. During this period their employment rights must be ensured; in particular, they have the right to return to the same or an equivalent job, with no less favourable working conditions, and to benefit from any improvement in working conditions to which they would be entitled during their absence. They are also entitled to the payment of and/or the entitlement to an adequate allowance being maintained.

Furthermore, pregnant women enjoy health and safety protection; they cannot be obliged to carry out night work, and they are protected against dismissal from the beginning of their pregnancy until the end of the maternity leave. The latter protection also covers dismissal because of absences due to incapacity to work caused by an illness resulting from pregnancy. The provisions of this Directive have often been interpreted jointly with the provisions of Directive 76/207 on equal treatment between men and women in employment. According to the ECJ, discrimination on grounds of pregnancy amounts to direct discrimination.

As far as parental leave, the reconciliation of family/private life with work is, according to the ECJ, "a natural corollary to gender equality" and a means for achieving gender equality not only in law but also in the reality of everyday life. Therefore, although not adopted as a specific gender equality directive, the Parental Leave Directive plays an important role in the gender equality discourse. The Parental Leave Directive 2010/18 implements the revised Framework Agreement on parental leave agreed by the European social partners in June 2009. The Framework Agreement lays down minimum requirements designed to facilitate the reconciliation of parental and professional responsibilities for working parents. Member States are free to adopt more favourable measures.

Workers who take parental leave have the right to return to the same or equivalent job at the end of the parental leave and they must be protected against less favourable treatment and dismissal. Matters regarding social security are for consideration and determination by Member States and/or social partners. The same is true regarding income in relation to parental leave. In practice, parental leave is still taken much more often by mothers than by fathers. However, Member States are not obliged to introduce (partially) paid parental leave, which would provide a strong incentive for both parents to take such leave.

In conclusion, **the gender balance of sexes in labour market is affected by structural economic change, in particular the growing role of services, the new technologies and the new flexibilities of work contracts that public and private enterprises are**

seeking. This is especially relevant to homeworking and teleworking, which offer significant opportunities for women, but under certain conditions. Positive and sustained action is still needed to maximise the opportunities and reduce the dangers. For example, a Resolution of the Council Resolution<sup>21</sup> and of the representatives of the Member States on equal participation by women in an employment-intensive economic growth strategy aims at improving the flexibility of working hours, promoting a high level of skills among women and encouraging self-employment and the creation of businesses by women; a Council Recommendation<sup>22</sup> aims to promote the balanced participation of women and men at all levels of the decision-making process in the political, economic, social and cultural life; an EU programme coordinates, supports and finances the implementation of horizontal activities in the fields covered by the European framework strategy on gender equality, whilst also complementing the EU action programme on combating discrimination in general<sup>23</sup>; another action programme assists organisations working to promote equality between men and women, notably the European women's lobby<sup>24</sup>.

## How to Improve EU Gender Equality Policy?

There are at least four actions driven by institutional actors, who can play a role in enforcing EU gender equality policy:

### *a) Enforcing gender equality standards in the Member States by EU institutions (EU Commission and Court of Justice)*

The brief overview presented above illustrates that a great deal of progress has been made in the area of EU gender equality policy since 1957. Both the EU legislator and the ECJ have greatly contributed, often in a delicate interplay, to this process. Tribute should also be paid to individuals who have brought cases before their national courts, cases that ended up in the ECJ in Luxembourg. This has enabled the ECJ to deliver its judgments. The case law of the ECJ especially has, from time to time, been the driving force for EU gender equality standards, in particular in the area of introducing new concepts or other revolutionary novelties, especially in the enforcement of EU equality law. It has played a crucial role in the effective enforcement of gender equality standards in the Member States.

The progressive implementation of the equal treatment of women and men is certainly not only an achievement of the EU. Other international instruments, for instance, have no

21 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:41994X1223:EN:HTML>

22 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31996H0694:EN:HTML>

23 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32001D0051:EN:HTML>

24 [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004D0848R\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004D0848R(01):EN:HTML)

doubt also contributed to the adoption of equality legislation at the national level and the reduction of gender discrimination. It is, however, the mandatory character of EU law and the mechanisms of judicial protection in the EU that have provided a crucial impetus to gender equality law in the Member States and the EEA countries. It is generally believed that Article 157 TFEU and the gender equality directives, as interpreted by the ECJ, have been vital to the effective application of gender equality in the Member States. It is often because of the compelling obligation of EU law that the national legislator has introduced a number of national measures aimed at the effective implementation of the principle of gender equality.

The European Commission has an important task in the enforcement of EU gender equality law as well. The Commission monitors and analyses whether the Member States generally fulfill their obligations regarding the implementation of treaty provisions and directives. More specific inquiries are also initiated by the Commission into the activities of a particular Member State. Sometimes, these inquiries derive from complaints by individuals or organisations to the Commission. These complaints can be submitted to the services of the Commission rather easily.

The European Commission can start an infringement procedure if it considers that a Member State has failed to fulfill a certain obligation. The Commission first sends a reasoned opinion on the matter after giving the State in question the opportunity to submit its observations. If the Member State does not comply with the opinion within the period laid down by the Commission, the Commission may bring the matter before the ECJ. If the ECJ considers that the Member State has failed to fulfill an obligation and the Member State does not take the necessary measures to comply with the judgment of the ECJ in good time, it might even be subjected to penalties.

#### *b) Empowering gender equality by the national courts*

As we have seen above, complying with equal pay was apparently not easy for the Member States in the early stages. Similarly, the transposition of directives is sometimes too late or is otherwise not in accordance with EU law. However, due to the supremacy of EU law, equal pay provisions of the treaties and directives prevail in the case of a conflict between national and EU law. Furthermore, quite a few provisions have direct effect, which means that they can be relied upon in litigation before national courts and applied by these national courts in any proceedings. Furthermore, the ECJ has also decided that the national courts have the duty to interpret their national law in conformity with the directive at issue, i.e. doing everything possible to achieve, through the interpretation of national law, the result which the directive aims at. Under certain conditions, a Member State may also be held liable for damage suffered by individuals due to the fact that a directive has not been transposed in time or has been done so incorrectly into national law.

*c) Improving access to justice by equality bodies*

The directives on equal treatment between men and women adopted since 2002 oblige the Member States to designate equality bodies. The tasks of these bodies are the promotion, analysis, monitoring and support of equal treatment. They may form part of agencies with responsibilities at the national level for defending human rights or safeguarding individual rights. These bodies have the competence to provide independent assistance to victims of discrimination, to conduct independent surveys concerning discrimination and to publish independent reports and make recommendations.

In addition, a number of extra-judicial or alternative dispute settlement mechanisms (ADR) are available in the EU Member States and in the EFTA/EEA countries<sup>25</sup>. These include the typical methods falling short of litigation, such as negotiation, mediation, conciliation and arbitration, which could provide complainants with the advantages of a swifter and cheaper access to justice. ADR schemes aim to settle disputes in an amicable way, and are more flexible than ordinary court procedures. Ombudsmen and equality bodies may also provide an alternative to the general courts. Associations, organisations or other legal entities can also play a significant role in the defence of rights on behalf of or in support of the complainant. Whilst in some countries equality bodies have legal standing and can bring a case to court, in others, they can only provide assistance to the claimant, or provide observations to the court.

*d) Fostering social dialogue*

Member States also have the obligation to promote social dialogue between the social partners and dialogue with non-governmental organisations or dialogue with stakeholders with a view to fostering equal treatment.

The promotion of social dialogue might include the monitoring of practices at the workplace, access to employment, vocational training and promotion, as well as the monitoring of collective agreements, codes of conduct, research or exchange of experience and good practice.

The New Equal Treatment Directive further stipulates:

“Where consistent with national traditions and practice, Member States shall encourage the social partners, without prejudice to their autonomy, to promote equality between men and women, and flexible working arrangements, with the aim of facilitating the reconciliation of work and private life, (...) and to conclude, at the appropriate level, agreements laying down anti-discrimination rules (...)”.

Some directives also require Member States to encourage employers to promote equal treatment in a planned and systematic way and to provide, at appropriate regular

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25 N. Carboni, *From Quality to Access to Justice: Improving the Functioning of European Judicial Systems.*, [in: ] *Journal of Civil & Legal Sciences*, 2014, 3:4.

intervals, employees and/or their representatives with information on equal treatment. Such information may include an overview of the proportion of men and women at different levels of the organisation, their pay and pay differentials, and possible measures to improve the situation in cooperation with employees' representatives.

To conclude, **the principle of gender equality has successfully become a part of the top agenda of the European Union. Unfortunately, the developments have not reached a full implementation yet.** There are still not enough incentives nor favourable interpretations to achieve a formal equality approach. Discrimination of women takes place in all parts of life. **For this reason, the European law on gender equality cannot be restricted to the labour market, only. The legislator must make the most out of the potential of directives and regulations, and broaden the scope of gender equality law to other policy fields. The most recent tool – gender mainstreaming – has considerably improved the situation, but it needs to take a step further.**

While EU law promotes gender equality in many ways, there are also certain limitations, mainly as a consequence of the principles of “conferred powers”, “subsidiarity” and “proportionality” along with different cultural approaches to gender across Europe. Yet, the intention of this paper was to provide an overview of the EU gender equality judicial framework and protection, by sketching out some potential directions for improving the women living standards in our more and more complex society.

**The European law on gender equality cannot be restricted to the labour market, only. The legislator must make the most out of the potential of directives and regulations, and broaden the scope of gender equality law to other policy fields.**

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Ruy TEIXEIRA & John HALPIN

# **Inequality, the Role of Government and the Challenge of Winning the White Working Class in the United States**





**Keywords:**

**2014 Elections – President Obama – Progressives – Inequality - White Working Class**

**Abstract:**

The 2014 national legislative elections in the United States highlight the dire need of Democrats to attract more support from white working class voters. Even with strong and growing support at the presidential level - fueled by President Obama's coalition of young people, people of color, unmarried women, and professionals - the Democrats face historic deficits among white non-college voters that provide significant advantages for Republicans in Congress and at the state level. The challenge for Democrats is to find a viable path for mobilizing their strongest supporters while also attracting a larger segment of the white working class. This requires policies and political messages that show how robust government action can benefit working class people across racial and ethnic lines by strengthening employment and wages, rebuilding economic security for families, and addressing inequality and the disproportionate power of the wealthy.

Despite clear national electoral advantages for the center-left Democratic Party in the United States, the shift to sustained progressive economic policy change has been frustratingly slow. Social policy advances on issues ranging from women's rights to gay marriage have been historically swift as the culturally liberal values of the burgeoning coalition of young people, communities of color, women, and the white professional class take hold in the U.S. On economic matters, the story is less clear-cut. Outside of President Barack Obama's early efforts on economic recovery and financial regulation, and his much-maligned yet increasingly vindicated plan for near-universal health care, progressive goals on the economy remain stymied and incomplete.

There are several reasons for this economic status quo in America involving institutional design, structural barriers to change, and political realities in the electorate. Institutionally, the ideological alignment of the two political parties coupled with the constitutional system of separation of powers, federalism, and anti-democratic legislative rules virtually ensures that far-reaching economic changes will not occur outside of supermajority control by one of the parties backed by a supportive Supreme Court. For Democrats, this has meant almost no movement during the Obama years on strong policies to create jobs, rebuild infrastructure, raise the minimum wage, increase taxation on the wealthy, expand early childhood education, end "too big to fail" banking policies, and fight climate change.

Rising economic inequality and the unchecked power of the rich over American politics has in turn solidified these institutional blockages. **The Supreme Court's recent decisions to enable nearly unlimited political spending by individuals and corporations has opened the door for the wealthy to turn their growing income gains into further dominance of national politics and policy making through ideologically-driven lobbying, political donations, partisan media, and subsidized grassroots actions. These trends undoubtedly favor Republicans and conservatives over Democrats and progressives.** Although Democrats have their own wealthy contributors they are not economically populist and are generally averse to using their money to advance economically progressive policies on trade, taxes, and spending. Similarly, organized labor in the private and public sector – the historical counterweight to organized money and primary leader of progressive change in the United States – faces serious declining membership and aggressive challenges from anti-union forces in both parties. Structurally, these trends have produced a national government that is overwhelmingly more responsive to the desires of the wealthy and big business than to those of working Americans.

Politically, there are three primary challenges for progressives in turning rising electoral advantages into economic policy change.

First, progressive voters tend to be younger, more diverse, and less wealthy making it quite difficult and expensive to mobilize them on a sustained basis to win elections and force legislation action to defend their interests. This is independent of organized conservative efforts to suppress the voting rights of young people, the poor, and racial/ethnic minorities across a majority of U.S. states. The low turnout of base Democrats in both 2010 and 2014 highlights this challenge.

Second, the diverse coalition of voters that came together to elect President Obama is not yet strong enough to produce ongoing majorities nationally and especially at the state level. Republicans maintain residual strength primarily through the party's growing dominance among white working class voters, the culmination of decades' long realignment of white ethnic voters away from FDR's New Deal coalition and towards the racially reactionary politics of the modern Republican Party.

With the results of the 2014 midterms, it should be clear to Democrats that the powerful Obama coalition amassed for 2008 and 2012 needs maintenance. Base-voter enthusiasm from people of color, young people, and unmarried women will not automatically remain at the high levels of recent presidential elections. Consequently, diminished numbers of core voters and pre-Obama-level vote preferences make the white vote that much more of a challenge for Democrats. President Obama was able to win re-election with a historically low share of the white vote - 39 per cent—due the steady rise of black, Latino, and Asian voters, but the next Democratic candidate for president cannot count on these patterns holding in 2016. The challenge is even more acute in down-ballot races given the geographic concentration of base Democratic voters in more urbanized areas.

Third, overall public scepticism of government remains quite high due to doubts about the effectiveness of government spending and its perceived bias toward wealthy and well-connected interests. Distrust of government suppresses public demands for ambitious progressive efforts on jobs and new social welfare spending while aggravating on-going disdain for politicians, elites, and big institutions.

Unfortunately, constitutional change in the United States is quite rare and institutional reform agonizingly slow making it difficult to reverse public doubts about government quickly. Accordingly, if progressives want to make steps in the near-to-mid term to overcome these barriers to economic change they must embark on a new political project that recognizes the necessity of gaining wider support for their agenda from segments of the white working class while increasing commitment to progressive economic values and ideas among core constituencies.

The remainder of this paper will explore how this political project might be successfully constructed by connecting rising white working class concerns about

**inequality with a robust defence of government and the social welfare system.**

The paper will first examine the 2014 elections and recent trends among white working class voters in the U.S. then offer ideas on the values and policies that might unite these disparate groups into a coherent whole.

## **The Electoral Rout of 2014**

The 2014-midterm elections exemplify the challenges facing the progressive movement in the United States. This year marked the third consecutive midterm election in which voters turned against the incumbent party to flip partisan control of one branch of Congress. The Republican Party successfully mobilized discontent with President Barack Obama and the state of the economy to pick up at least 8 seats for a minimum 53-seat majority.<sup>1</sup> Democratic-held seats that went to Republicans include Alaska, Arkansas, Colorado, Iowa, Montana, North Carolina, South Dakota, and West Virginia, with Louisiana going to a runoff. The GOP solidified its hold on the U.S. House of Representatives, picking up at least 14 more seats for a commanding 243-seat majority so far. It also added three more governorships to its ranks, for a total of 31 states with Republican governors.

The loss of Senate control was largely expected given the difficult task Democrats faced in 2014. In order to keep their majority in the Senate, they needed to hold seats in Republican-leaning states whose voting bases were more conservative, older, and less diverse. But the GOP's hold on the Senate remains tenuous, with the party facing the prospect of defending 24 Senate seats versus 10 for the Democrats in the 2016 presidential election year. American politics has entered a long phase of electoral volatility and divided government, with Republicans holding distinct advantages in mobilizing their coalition in many state-wide and local contests and Democrats having a seemingly firm grip on presidential politics. **The longer-term demographic and geographic shifts that are rapidly changing American society have yet to coalesce into clear partisan majorities across multiple levels of government. Given the seemingly intractable economic difficulties facing American families, as well as voters' distrust of the government's ability to address these problems, this lack of strong partisan control of American politics means we should expect more wild shifts between election cycles and more divided government and gridlock.**

A combination of factors contributed to the GOP's victories. First, incumbent parties in the U.S. nearly always lose seats in midterm elections, especially in the middle of a president's second term. Second, the electoral map in 2014 manifestly favoured the

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<sup>1</sup> The run-off election for the current U.S. Senate seat held by Mary Landrieu (D-LA) had yet to be determined at the time this article was finalized. Should Republicans pick up this seat they will hold a 54-seat majority in the U.S. Senate.

GOP from the start. Six of the eight GOP gains came from states that voted for former Massachusetts Gov. Mitt Romney (R) in 2012; Colorado and Iowa were the exceptions. Third, the Democrats suffered from poor turnout of their key supporters. Indeed, this drop-off has reached historic levels.

Finally, the 2014 national exit poll highlights the extent to which voter pessimism, fear, and anxieties about the economic future benefited Republicans despite the party's abysmal ratings in Congress.<sup>2</sup> Keeping in mind that no one exit poll explains voting trends that develop over time, it is notable that 65 per cent of 2014 voters said the country was "seriously off on the wrong track," and 69 per cent of this bloc voted Republican. Seventy per cent of voters rated the national economy as "not so good" or "poor," and 64 per cent of them voted Republican. Fifty-nine per cent of 2014 voters believe economic conditions are "poor and staying the same" or "getting worse," and more than 6 in 10 of these voters chose Republicans.

**Despite clear signs of economic recovery in the aggregate, many American voters heading into the polls this year were not feeling improvements in terms of their own jobs, wages, and benefits and subsequently took it out in force against the president's party. Absent any clear or far-reaching national agenda and message to address people's real economic concerns about jobs, wages, and opportunity, the Democrats essentially ceded control of the national campaign, opting to try their luck with a series of localized and targeted campaigns.** The GOP similarly lacked a unifying national economic agenda, but given the level of anxiety and anger among voters, it did not appear to play a determining factor in their victories.

## **Recent Trends among the White Working Class in America**

White voters once again came up big for the GOP in 2014. Their 22-point margin for the GOP - 60 per cent to 38 per cent - was very similar to the white vote of 60 per cent to 37 per cent in 2010 and an improvement over their already impressive 20-point margin in 2012. These are historic levels. These recent margins compare to an 8-point margin for congressional Republicans in 2008 and a 4-point margin in 2006. These margins are also higher than two other very good Republican congressional years in the pre-2010 period: 19 points in 2002 and 16 points in 1994. The GOP's 60 per cent share of the white congressional vote in 2014 and 2010 is higher than that attained in either 2002 or 1994 - or in any year prior to 2010 for which we have data.<sup>3</sup>

<sup>2</sup> The complete 2014 exit poll results can be found here: <http://www.foxnews.com/politics/elections/2014/exit-polls>.

<sup>3</sup> All figures referenced in this section are from the authors' analysis of exit poll data from 2008 to 2014.

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Perhaps the most significant shift against the Democrats occurred among the white, non-college educated (or working-class) voters. Congressional Democrats lost this group by a staggering 30 points in 2014 - 34 per cent to 64 per cent - essentially identical to their 2010 performance of 33 per cent to 63 per cent. However, the 30-point deficit for House Democrats in 2014 represents a significant slippage when measured against their 23-point deficit in 2012.

Democrats also did poorly among white college graduates, but not nearly as badly as they did among the white working class. House Democrats lost this group by 16 points in 2014 - 41 per cent to 57 per cent, slightly worse than their performance in 2012 and actually somewhat better than their 19-point deficit in 2010.

The national pattern in trend support by group held across most states, as Democrats saw their support among key groups compressed relative to 2012 and gaping deficits among white working-class voters. In Colorado, which President Obama won by 5 points in 2012, Democratic Sen. Mark Udall's deficit among white working-class voters grew to 27 points - 34 per cent to 61 per cent - compared with President Obama's more modest deficit of 10 points. In Iowa, which President Obama won by 6 points in 2012, Democratic Rep. Bruce Braley's deficit among white working-class voters was 14 points - 41 per cent to 55 per cent, compared with a positive margin for President Obama of 2 points - 50 per cent to 48 per cent. In North Carolina, which President Obama lost by 2 points in 2012, Democratic Sen. Kay Hagan exactly duplicated his abysmal support level of 25 per cent among white working-class voters in 2012.

These patterns continue trends among white voters we've seen in presidential elections but suggest that problems with white working class voters go beyond racial issues or opposition to President Obama.

Democrats typically do worst among white working class voters in the South (averaging 28 per cent in 2004 and 2008; no regional exit poll data available for 2012), followed by the West, Midwest and Northeast. However, the extent to which white working class support for Democrats lags white college graduate support actually tends to be higher outside the South. In 2004 and 2008, Democrats' deficits among white working class voters were 10 points worse than among white college graduates within the South, but 15 points worse outside the South.

Patterns of growth also differ sharply within the white population. White college-educated voters have been increasing modestly as a share of voters, even as the overall proportion of white voters has been declining. Based on historical patterns and projections of future educational attainment, we should continue to see increases in white college graduate voters for some time. By 2020, we expect white college graduate voters to be 38 per cent of all voters and 56 per cent of all white voters.

That means that **the ongoing decline of white voters is being driven entirely by the decline of white working class voters. This has been precipitous and quite steady,**

**amounting to about 3 percentage points every 4 years.** We expect white working class voters to dip to just 30 per cent of all voters by 2020 and 44 per cent of white voters. This is a dramatic decline from 1988, when white working class voters were 54 per cent of all voters and almost two-thirds (64 per cent) of white voters.

**Some argue that since the white working class is declining, progressives should simply rely on their rising “Obama coalition” of minorities, unmarried and working women, seculars, Millennial generation voters, and educated whites living in more urbanized states. These trends, it is assumed, will neutralize the deficits Democrats suffer among working class whites. Such an assumption would be a mistake. To be truly successful, mobilization of the rising coalition needs to be supplemented by efforts to *expand* it. This means, above all, efforts to reach a larger proportion of the white working class, despite the challenges these voters present to Democrats.**

The white working class was the key force behind the Republican landslides in 2010 and 2014. And they were a glaring weakness for Obama in 2012, when he lost them by only a slightly more modest 26 points.<sup>4</sup> These voters, despite their declining numbers, will be an ever-present threat to progressives in elections and to progressive governance as long as they remain so hostile to progressive principles and policies.

The solution is to bring a significant segment of these voters over to the progressive side. It does not have to be a majority of these voters. An expanded Obama coalition can be dominant with a strong minority of the white working class, but one that is committed to progressive policies and large enough to derail the supermajorities among these voters that conservatives rely on.

Such a coalition would make the task of progressive governance far easier by breaking up the mass base for conservative counter-mobilization. And it should greatly reduce the threat white working class voters pose to progressive fortunes when rising constituencies falter or fail to turn out at high levels.

Moreover - and this is critical - **by depriving the GOP of their uncontested supermajorities among white working class voters, Democrats would finally force today’s intransigent Republican party toward the centre.** It is only those supermajorities that allow Republicans to thumb their noses at the rising coalition and dig in their heels at the smallest progressive change. Take that crutch away and the electoral arithmetic becomes so dire that GOP strategy will have to change simply to remain competitive. This would likely diminish the electoral advantages Democrats are currently enjoying from changing demographics, particularly in Presidential elections, but overall it would be a plus for progressive governance by improving the climate for legislation that actually addresses social problems.

<sup>4</sup> Full analysis of the 2012 presidential election is available here: <https://www.americanprogress.org/issues/progressive-movement/report/2012/12/04/46664/the-obama-coalition-in-the-2012-election-and-beyond/>.

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Is there reasonable hope that such an expanded coalition, joining the Obama coalition with a larger share of the white working class, can be formed? Yes, if handled correctly.

Start with the evolution of the white working class itself. **Over time, we expect that a key demographic trend should make the white working class more liberal than it is today and more open to progressive appeals and issues. This trend is the powerful force of generational replacement: over time, Millennial generation white working class voters will increasingly displace voters from older, more conservative cohorts of this group.**

Democrats generally receive greater support among Millennial white working class voters than among older cohorts. This gap peaked in 2008 when Obama's margin was 30 points better among 18-29 year old white working class Millennial voters than among their older counterparts. In terms of attitudes, white working class Millennials are substantially more liberal on social issues. For example, in the 2012 National Election Study, 54 per cent of white working class Millennials thought gay and lesbian couples should be allowed to legally marry, compared to just 34 per cent of older white working class cohorts. They are also more likely than older cohorts to be secular in religious orientation, another indicator of liberalism. In the 2012 Democracy Corps post-election survey, 33 per cent of white working class Millennials reported no religious affiliation compared to 14 per cent of their older counterparts.

And perhaps most important, they are notably more liberal on issues concerning the role of government, which have been an especially strong factor in moving the white working class to the right over time (most academic analyses agree that these issues were far more important in moving the white working class away from the Democrats than social/cultural issues). For example, in a 2010 Hart Research/CAP survey 61 per cent of Millennial non-college-educated whites favoured a strong government to deal with today's complex economic problems, compared to just 38 per cent of older working class whites.<sup>5</sup> White working class Millennials are very close to white college educated Millennials in their views on this issue, in contrast to older white working class individuals who are more conservative than older white college-educated cohorts. This pattern generalized across the data in the survey; the Millennial white working class is quite a bit more liberal than older white working class cohorts on government's role and quite similar to white college graduate Millennials in its relative liberalism on the role of government. This diminution of the class gap on government's role is potentially of great significance to the future political leanings of the white working class.

But if generational replacement is likely to move the white working class to the left, is it possible that fear of another demographic change - rising diversity - will negate this

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<sup>5</sup> G. Molyneux, R. Teixeira & J. Whaley, *The Generation Gap on Government.*, Center for American Progress, July 2010.



liberalizing factor? This is possible but data from a 2013 CAP/PolicyLink/Latino Decisions poll on reactions to rising diversity suggest that the white working class is far less resistant to rising diversity than generally supposed.<sup>6</sup>

The poll found that, by and large, positive sentiments about opportunities from rising diversity tended to outweigh negative concerns about rising diversity - even among working class whites. Americans overall expressed majority agreement with six of eight statements about these opportunities, though there was considerable demographic variation in level of agreement. But despite this variation, it is nevertheless striking that white working class (non-college) respondents also agreed with every one of those six statements.

Start with whether “Americans will learn more from one another and be enriched by exposure to many different cultures.” Almost two-thirds (64 per cent) of the white working class agreed with this statement. The same number agreed that “A bigger, more diverse workforce will lead to more economic growth.” Sixty-two per cent agreed that “diverse workplaces and schools will help make American businesses more innovative and competitive.” Fifty-eight per cent agreed that “people will become more accepting of their differences and more willing to find common ground.” 57 per cent agreed that “with more diverse people working and living together, discrimination will decrease.” Finally, 52 per cent agreed that “the entry of new people into the American workforce will increase our tax base and help support our retiree population”.

Further, as we would expect, **white working class Millennials are significantly more open to rising diversity than the white working class as a whole, so generational replacement will simply enhance these positive sentiments.** For example, 75 percent of white working class Millennials think Americans will be enriched by exposure to many cultures and 73 percent believe a bigger, more diverse workforce will lead to more economic growth.

All this suggests that **the white working class is likely to change over time in ways that should make it more receptive to progressive appeals.** But which appeals? It is not enough to gain a somewhat more receptive audience; the sale must still be made. What, if anything, do progressives have in their portfolio that might particularly appeal to the white working class, while also appealing to the base groups of their rising coalition?

## Connecting Inequality with Government Action

There is a burgeoning progressive narrative and policy focus might be able to fulfil this role. This new narrative is based on the idea that rising inequality actually undermines rather than fuels growth. This “equitable growth” or “middle out economics” school of thought

<sup>6</sup> R. Teixeira, J. Halpin, M. Barreto & A. Pantoja, *Building an All-In Nation: A View from the American Public*, Center for American Progress, October 22, 2013.

points to a growing body of evidence that reducing inequality is not merely compatible with growth, but can be a significant contributor to both the quantity and quality of growth. **The broad argument is that the economy grows from the “middle-out,” and that the true heroes in our economic drama are not corporations and the wealthy but rather a robust and growing middle class. With such an approach, the economy can work for everyone, not just the wealthy few, as it does today.**<sup>7</sup>

Data from a 2013 CAP/Hart Research poll show that this argument has strong support from the American public. Start with the idea that the economy should work for everyone, not just the wealthy few. In the poll, Americans identified this as the single most important goal for the nation's economic future. While voters also rated many other goals as priorities – job creation, a strong future for the next generation, a stronger middle class – none resonated nearly as strongly as having an economy that works for all Americans. And note that this is more than a call for a larger economic pie. The final clause - *not just the wealthy few* - is what makes this phrase so resonant. It speaks to Americans' growing conviction that our economic system now benefits only the wealthy and corporations, while inequality runs rampant and the deck is stacked against everyone else.

This approach offers a compelling contrast to the discredited conservative agenda of plying the rich with tax cuts and other goodies on the trickle-down theory that the wealthy will create jobs for the rest of us. Instead, it posits that a relentless focus on the economic health of the middle class, together with expanding opportunities for the poor and working class to move into the middle class, is the best way to grow the economy. This in turn points to a policy agenda heavy on investment in the middle class - its living conditions and sense of security, its skills, its entrepreneurial capabilities - and in the conditions that allow the middle class to succeed - modern infrastructure, cutting edge scientific research and dynamic new industries that can provide middle class jobs. And it leads away from a policy agenda focused on deficit reduction, which has been a loser for progressives and simply reinforces already-existing anti-government tendencies.

**For Americans, this is a *moral* as well as an economic story. The public believes that virtuous behavior (especially hard work) is not being properly rewarded today because of barriers erected by the wealthy and powerful.** In the CAP/Hart poll, three quarters agreed that “the rules in America have changed—hard work and sacrifice are not rewarded anymore.” And 63 per cent say a very high priority is providing more opportunity to those who work hard and struggle to provide for their families.

This approach draws strong support from the various elements of Obama's “coalition of the ascendant” – minorities, unmarried and working women, Millennial generation and

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<sup>7</sup> This analysis in this section is adapted from: R. Teixeira & J. Halpin, *Beyond Identity Politics.*, *Washington Monthly*, June/July/August 2014.

more secular voters, and educated whites living in more urbanized states. But crucially this “middle-out” approach also draws solid support from white working class voters.

For example, two thirds of the white working class characterizes “an economy that works for everyone, not just the richest 1 per cent” as exactly what America needs today (9-10 on a 10 point scale). And 82 per cent of these voters agree that “the middle class is being squeezed and we are increasingly becoming a nation divided between the rich and everyone else”. In addition, by a 2:1 margin (67-33) white working class voters agree more that “Government is too concerned with what big corporations and the wealthy want, instead of helping the middle class” than that “Government is doing too many things better left to businesses and individuals”.

These data suggest that **the middle-out approach is the most feasible way to fend off continued anti-progressive surges among white working class voters**, who are inclined to indict the government for their shaky purchase on a middle class life style or inability to get there at all. Provide these voters with room in an expanding and dynamic middle class and progressives will be able to capture more of their votes - not a majority, but a strong enough minority to stabilize the new progressive coalition and insulate it from right wing backlash, as well as force the GOP to move toward the centre. Conversely, leaving these voters in their current frustrated condition (Obama approval rating: 29 per cent) is guaranteed to produce periodic meltdowns that will play havoc with progressives' ability to win elections and govern, while allowing extremists to continue to dominate the Republican Party.

How should this all-in economic model be presented to white working class voters? For starters, **it's imperative that progressives begin framing their economic and social agenda in class-based terms that allow white voters to feel that they too are part of our efforts to use government action to support working people**. The toxic racially-focused discourse about the social welfare state that underlies many contemporary and historical debates about the role of government serves no one's' interests, particularly progressive proponents of an activist state. There's simply no reason for us not to broaden our appeals based on class lines.

The survey evidence is clear that white working class voters are as supportive as others for large-scale public action to address chronic joblessness, income disparities, and unequal education and social opportunities. A massive study on the 50<sup>th</sup> anniversary of President Lyndon Johnson's “War on Poverty” conducted by the Half in Ten Campaign and the Center for American Progress found that more than two-thirds of white non-college voters supported 11 out of 11 policies to fight poverty from

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an increase in the minimum wage and subsidized child care to an expanded Earned Income Tax Credit and even a national jobs program to combat unemployment.<sup>8</sup> Support among these voters topped 80 per cent for universal pre-k, expanded Pell grants for low-income families, and affordable childcare. White non-college support slightly outpaced white college graduate support in many cases and was basically on par with the views of African Americans and Latinos.

This vision of an activist and supportive government that checks inequality and serves the interests of all working people across racial and ethnic lines is vital to the long term success of progressive governance. In short, the only thing more challenging than attempting to reach the white working class is keeping the country moving in a progressive direction without doing so. **The path for progressives is clear even if it is not an easy one. In order to maximize support among core constituencies and reach further into the Republican hold on white voters, they must develop and promote a sharp vision of economic equality and greater opportunity for those left out of the recovery.** An agenda of job creation and investment; higher wages for workers; greater equality for women; college affordability and student-debt reduction; and strong family policies through paid leave, expanded child care support, and universal pre-K can attract a sizable chunk of the white working class, particularly among women and Millennials, and appeal to base voters who are economically pressed. A secondary but no less important focus on social equality and opportunity for all people will continue to appeal to more college-educated whites.<sup>9</sup>

**Democrats and progressives must move forward with a confident vision of how government, despite people's misgivings about it, can serve as a powerful force to lift people up and produce national prosperity by renewing the broad middle class and reducing the ranks of the working poor.**

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8 J. Halpin & K. Agne, *50 Years After LBJ's War on Poverty: A Study of American Attitudes About Work, Economic Opportunity, and the Social Safety Net.*, Center for American Progress, January 7, 2014.

9 Analysis here is adapted from: R. Teixeira & J. Halpin, *The Political Consequences of the Great Recession.*, Center for American Progress, November 6, 2014.

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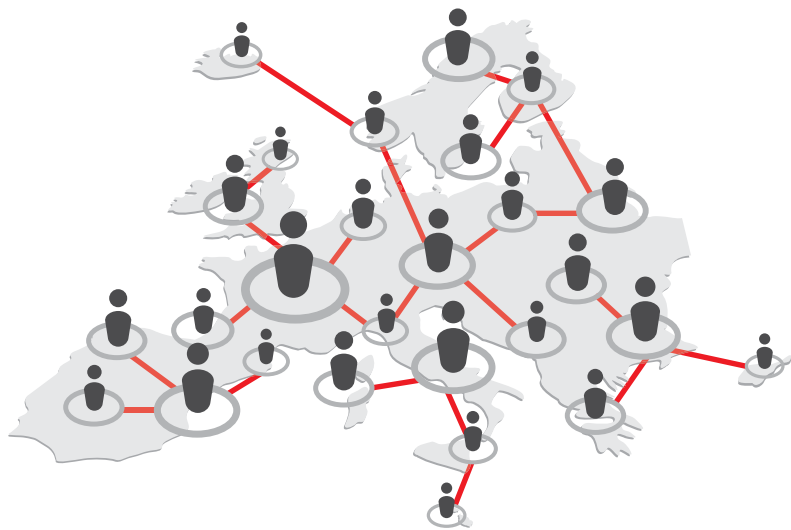
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Dimitris TSAROUHAS

## **Rethinking the European Social Model**





**Keywords:**

**European Social Model – Globalization - Minimum Wage – Inequality - Investment.**

**Abstract:**

The concept of the European Social Model (ESM) has been used by academics and practitioners alike for quite some time. Though its precise conceptualization often remained elusive, its use was welcomed across much of the mainstream party political spectrum in Europe. The banking, sovereign debt, financial and economic crisis, however, has contributed not only to a drop in economic output and higher unemployment across much of the European Union (EU). It is also leading to a new soul-searching mission as to what the ESM really is, not least in light of the conscious political choice to adopt austerity politics as a mechanism of economic “catharsis”, and to impose the costs of “adjustment” mostly on those least in a position to defend themselves from freely floating market forces. Given the heterogeneity of EU member states and their very diverse institutional and organizational features, does a European Social Model still exist today, even at a normative level of common aspiration? Is the policy of socio-economic convergence between the localities, regions and states of Europe still part of a grand EU contract to which the citizens of Europe can have faith? Or does the crisis underline and aggravate EU heterogeneity, leading to internal competition on economic performance, thus relegating further any concerns the Union aspires to in terms of social protection and cohesion? In other words, is ECB President Mario Draghi right when claiming that the “European Social Model is already gone”? (Draghi cited in Hermann 2013).

This contribution will attempt to shed some light to those difficult, structural questions for the future of Europe’s socio-economic standing and integration objectives. Given how difficult it is to pin down the concept, the paper begins with a brief discussion of the ESM concept and seeks to create a suitable typology to better understand its use in the literature. It then moves on to discuss the current state of (social and employment) affairs in the EU, before providing tangible policy suggestions as to how to resuscitate the ESM.

In 2004, Jeremy Rifkin wrote “The European Dream”, extolling the virtues of the EU way of managing global and regional challenges. Environmental protection, economic sustainability and a commitment to social justice appeared closely connected to the type of arrangements that the Union had chosen for its citizens, and was willing to export abroad. EU statements and declarations stood in sharp contrast to the US administration’s disregard for international law and climate change, leading many to assume that the American Dream was on its way out – to be replaced by Europe’s more attractive equivalent<sup>1</sup>.

Fast forward ten years and although the rhetoric of the Union has hardly changed, its record in practice reveals a much gloomier picture. **Marred in an economic crisis for an ever increasing period of time and with many of its member states stigmatized by unacceptably high levels of unemployment, the EU appears to have lost its political direction. In search of renewal but uncertain as to the way forward, the EU is faced with ever increasing levels of skepticism by its own citizens.** The issue is complex and the rise of Euroscepticism the result of multiple forces. Yet what is undoubtedly true, and has been revealed time and time again in recent EU history, is that citizens feel increasingly disconnected from a European Union that does not live up to its earlier promise of a “Social Europe”. As the Single Market project became embedded in integration, with financial liberalization following suit, EU citizens felt that the necessary compensatory mechanisms in the field of social welfare and the labour market were left aside. When the economic crisis hit, this feeling was particularly pronounced amongst those citizens whose countries felt the worse effects of the crisis. Nonetheless, it would be wrong to assume that the question of ‘Social Europe’ or the ‘European Social Model’ is only of concern to the poorest member states.

In what follows, this paper aims to describe the current situation in Europe, analyze its underlying dynamics and provide tangible suggestion for a future-oriented policy reform agenda. Given the new Commission team and the fact that the EP elections are now behind us, the time is ripe to think bold and big about one of Europe’s most precious assets, its social market economy. The next section provides a typology of the ESM and traces it back to the formation of the Single Market project, whilst highlighting its pluralism and rich diversity. The second part takes stock of the “currently existing” ESM, that is, the socio-economic conditions that EU citizens are faced with as the crisis refuses to give

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1 J. Rifkin, *The European Dream.*, 2004.

way to a sustainable recovery. The third section entails practical policy suggestions based on the previous parts, and the conclusion underlines their necessity in a volatile context marred by high levels of unemployment and social deprivation.

### **ESM: One or Many? Definition Clusters and Approaches**

The starting point for an evaluation of the European Social Model (ESM) should be its definition. However, this is not a risk-free exercise and problems abound. On the one hand, different typologies linking up to different clusters of member-states suggest different meanings for the ESM. On the other hand, even if this clustering has its merits by revealing pluralism within the EU as to the content of the ESM, it appears to suggest that the ESM is a static phenomenon. Alas, the crisis has revealed the high degree of fluidity in national welfare arrangements that often result from external pressure. This can take a direct form (e.g. programme countries needing to cut back on public expenditure and/or amend their labour laws) or be more indirect (e.g. Council deliberations following Commission reports in the context of peer reviewing/the Open Method of Coordination, highlighting existing weaknesses in some member states' socio-economic arrangements.)

Even if one accepts the dynamic nature of the ESM across the Union, it is still important to create analytical distinctions between different sorts of definitions. This is necessary so as to present the diversity of socio-economic arrangements in the Union and adopt one particular definition on the basis of which the EU's recent record can be subsequently assessed. One of the first definitions of the ESM appears in the 'White Paper on Social Policy'<sup>2</sup>. There it is defined as a set of common values, namely

*the commitment to democracy, personal freedom, social dialogue, equal opportunities for all, adequate social security and solidarity towards the weaker individuals in society.*

How does such a declaration translate in practice, and how do its individual components sit together in a coherent whole? **Jacques Delors was one of the first to popularize the term 'European Social Model' in the mid-1980s. At that time, the Commission designated it as an alternative to the US form of pure-market capitalism. This was meant to be a socio-economic arrangement that would distinguish Europe (in fact, western Europe) from alternative arrangements prevalent in the Mecca of turbo capitalism, the United States.** The ESM as a 'non-American' arrangement would strike one as rather odd in the aftermath of the economic crisis and the attempt by the US administration to handle the credit crunch by employing a plethora of progressive policy

<sup>2</sup> European Commission, *Stellungnahme der Kommission zu einem angemessenen.*, 1994.

tools. This stands in sharp contrast to the dominant EU approach. Moreover, **the 1980s attempts to forge a European Social Model based on the diverse experiences of member states was also an attempt to appease Europe's workers as to the ultimate destination of European integration and allay their fears related to the dominance of economic and financial integration at the expense of 'Social Europe'.**

Be that as it may, the attempt to forge an ESM as opposed to the US has roots in the EU. In a 2001 Commission Communication on employment and social policies, the ESM is framed with reference to social spending; public social spending in Europe whereas the US relies more heavily on private expenditure. Moreover, the same Communication differentiates between public and private healthcare expenditure, stressing that 40% or so of the US population lacks access to primary healthcare despite the fact that in the US healthcare expenditure per capita is higher than in the EU<sup>3</sup>.

**Definitions can be grouped into the three categories listed below<sup>4</sup>.** It is important to note that the categories are not mutually exclusive; hence a definition given under one heading may well also be applicable under another.

- 1) In the first cluster of definitions **the ESM is considered as the model that incorporates certain common features** (institutions, values, and so on) that are inherent in the status quo of the European Union member states. Moreover, they are perceived as enabling a distinctive mode of regulation as well as a distinctive competition regime.
- 2) The second cluster of definitions establishes the ESM as being enshrined in a variety of different national models, some of which are put forward as good examples; **the ESM thus becomes an ideal model in the Weberian sense.**
- 3) The third way of identifying the ESM is as a European project and a tool for modernization/ adaptation to changing economic conditions as well as an instrument for cohesiveness. Under this cluster of definitions, **the ESM is an emerging transnational phenomenon.**

## **The ESM as an Entity (Common Institutions, Values or Forms of Regulation)**

The most commonly encountered definition is that which refers to the common features shared by the European Union member states. Under this heading, definitions range from quite vague to rather detailed and they tend, by and large, to suggest a normative approach. The ESM is thus described as a specific common European aim geared to the

<sup>3</sup> European Commission, Employment and social policies: A framework for investing in quality, 2001.

<sup>4</sup> based on those developed in M. Jepsen & A. S. Pascual, *The European Social Model: an exercise in deconstruction.*, [in: ] *Journal of European Social Policy*, 15(3), 2005, pp. 231-45.

achievement of full employment, adequate social protection and equality. Another way of defining it is via the institutions of the welfare state and in terms of an alleged capacity inherent in the ESM to regulate the market economy to achieve wider socio-economic goals and political objectives.

Vaughan-Whitehead<sup>5</sup> proposes a lengthy enumeration of components constituting the ESM. These factors encompass labour law on workers' rights, employment, equal opportunities, anti-discrimination, and so forth. They stress that the ESM is not only a set of European Community and member-state regulations but also a range of practices aimed at promoting voluntaristic and comprehensive social policy in the European Union.

Scharpf<sup>6</sup>, following a similar line of reasoning, sees the 'identity marks' of the ESM as generous welfare-state transfers and services together with a social regulation of the economy. He goes on to touch one of the thorniest issues surrounding the ESM, namely the extent to which member states and governments supportive of generous socio-economic arrangements benefiting the population can rely on the EU to defend and promote such arrangements:

*countries and interest groups that had come to rely on social regulation of the economy and generous welfare state transfers and services are now expecting the European Union to protect the "European Social Model"*<sup>7</sup>

Finally, in Hay et al.<sup>8</sup> the ESM is defined as a group of welfare regimes characterized by extensive social protection, fully comprehensive and legally sanctioned labour-market institutions, as well as the resolution of social conflict by consensual and democratic means.

## **The ESM as an Ideal(ized) Model**

In the second strand of the literature, specific national models are identified. The UK, Sweden and Germany are often put forward as paradigmatic cases and certain countries are pinpointed as showing the way towards an ESM that successfully combines economic efficiency with social justice. Esping-Andersen<sup>9</sup> endorses this approach. Ferrera

5 D. Vaughan-Whitehead, *EU Enlargement Versus Social Europe: The Uncertain Future of the European Social Model*, Edward Elgar Pub, 2003.

6 F. W. Scharpf, *The European Social Model: Coping with the Challenges of diversity.*, [in: ] *Journal of Common Market Studies*, 40(4), 2002, pp. 645–70.

7 *Ibidem*, p.649.

8 C. Hay, *Common Trajectories, Variable Paces, Divergent Outcomes? Models of European Capitalism under Conditions of Complex Economic Interdependence.*, paper presented at the Biannual Conference of Europeanists (Mar.), Chicago 2002.

9 G. Esping-Andersen, *Social foundations of postindustrial economies.*, Oxford New York: Oxford University Press, 1999.

et al.<sup>10</sup> describe – and implicitly define – the key features of the model as being extensive basic social-security protection for all citizens, a high degree of interest organization and coordinated bargaining, and a more equal wage and income distribution than in most other parts of the world.

*The basket of requisite policies for sustaining the European social model and ensuring an equitable trade-off between growth and social justice ought also to include, not only a minimum guarantee and health protection guarantee, but also a universal human capital guarantee, providing access to high quality education and training*<sup>11</sup>.

They argue that these features are institutionalized to various degrees in the European Union and that the UK and Ireland are definite outliers. The Netherlands, Denmark and Austria are put forward by these authors as good examples of how generous welfare policy can accommodate economic progress.

Ebbinghaus<sup>12</sup> identifies four groups of welfare state which together form what he calls the 'European social landscape'. He defines a model as a 'specific combination of institutions and social practices that govern market–society relations in a particular nation-specific combination'<sup>13</sup>. This classification is based on the type of governance of market macro-economic policy, labour-market policy and social policy. Ebbinghaus argues that Europe is far from possessing any single best institutional design; there are four distinct types of social models in Europe, and they roughly correspond to the Nordic, Anglo-Saxon, Continental and Southern European models. Sapir<sup>14</sup> expanded on the same notion, identified the same 4 groups of welfare 'families' and set out a powerful argument on the tradeoff between efficiency and justice that each of them corresponds to.

A highly normative approach to the ESM, even when based on well-defined cases with a particular institutional tradition and political culture that incorporates some or all of the essential ESM features, is problematic. To start with, such typologies neglect the dynamic nature of the policy nexus encompassing welfare, labour and taxation and social security policies. Over the last two decades, member states have embarked on various policy reforms to fulfill various policy objectives. Some of them have gone far in rearticulating their welfare and employment systems, commonly in the direction of more flexibility in the labour market, some form of means-tested welfare and cost containment. They have also experimented with forms of labour market deregulation, have integrated private sector providers firmly into the delivery of public services and have endorsed

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10 M. Ferrera et al., *The Future of Social Europe*, Lisbon: Celta Editora 2001.

11 Ibidem, p. 18.

12 B. Ebbinghaus, , *Does a European Social Model Exist and Can it Survive.*, [in: ] *The Role of Employer Associations and Labour Unions in the EU*, G. Huemer, M. Mesch, & F. Traxler (eds.), Aldershot: Ashgate 1999.

13 B. Ebbinghaus, Op. Cit.,p. 3.

14 A. Sapir, *Globalization and the Reform of European Social Models.*, [in: ] *Journal of Common Market Studies*, 44(2), 2006, pp. 369-390.

welfare retrenchment in policy areas such as public pension schemes<sup>15</sup>. These changes speak to the need of adopting a more dynamic approach when assessing the ESM and refute a strict path-dependent approach in examining the transformation of welfare and employment systems.

### **The ESM as a European Project**

Here the literature is in agreement that the ESM is a dynamic and evolving model, which is affected by both national and European forces and processes. However, rather than emphasizing the similarities between national systems, the focus here is on the development of a distinctive transnational model. In some respects, this cluster of definitions speaks more directly to the need of developing pan-European solutions, acknowledging the diversity of national or regional social policy arrangements yet seeking to go beyond mere clustering and embrace practical policy solutions that can work across the board.

Vaughan-Whitehead may be seen as a proponent of this trend which is also endorsed by Wilding<sup>16</sup>, who argues that it is simply not viable any more for countries to conduct their social policies independently from another. Hence, in the light of enlargement to Central and Eastern Europe, the ESM takes on the role of assuring a certain degree of cohesion.

Black<sup>17</sup> seeks to demonstrate that the core of the ESM lies in industrial relations and labour-market standards and policies. Its essence, in his view, is a multi-level system of regulation stemming from national as well as European systems of regulation/deregulation and taking as its basis the common European values and rights set out and formally agreed in the charter of Fundamental Social Rights. He argues that Europe has made a considerable impact on cross-national convergence within the ESM. Lönnroth<sup>18</sup> also states that the charter of fundamental human rights codifies the key principles of the ESM and thereby establishes the challenges that are to be met by the ESM in the future.

*. . . There are some values, which we Europeans share, and which make our life different from what you find elsewhere in the world. These values cover the quest for economic prosperity which should be linked with democracy and participation,*

15 G. Bonoli, *The Politics of the new social policies: providing coverage against new social risks in mature welfare states.*, [in: ] *Policy & Politics*, 33 (3), 2005, pp. 431-49; as also G. Bonoli & D. Natali, *The Politics of the "New" Welfare States: Analysing Reforms in Western Europe.*, [in: ] *The Politics of the New Welfare State*, G. Bonoli & D. Natali (eds.) Oxford: oxford University Press 2012, pp. 3.

16 P. Wilding, *Globalisation, Regionalisation and Social Policy.*, [in: ] *Social Policy and Administration*, 31 (4), 1997, pp. 410-28.

17 B. Black, *What is European in the European Social Model?.*, mimeo. Belfast: Queen's University 2002.

18 J. Lönnroth, *The European Social Model of the Future.*, speech at the EU Conference organized by the Ecumenical EU – Office of Sweden (Nov.), Brussels 2002.

*search for consensus, solidarity with weakest members, equal opportunities for all, respect for human and labour rights, and the conviction that earning one's living through work is the basis upon which social welfare should be built*<sup>19</sup>.

What is then, the ESM? Clearly, the very attempt to use the term in singular can be objected to; many authors rightly talk of models in plural, and point out not only the internal divergence of socio-economic arrangements across member states, but also the highly unequal nature of the EU's distribution of income and employment opportunities<sup>20</sup>. Nonetheless, the point of departure for this paper is that some form of an encompassing socio-economic arrangement that will actively seek to reverse the current trend of growing inequality among and between member states is a sine qua non for the survival of the European project.

In 2000, the European Council defined the ESM as a set of "systems" that are characterized by "high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion"<sup>21</sup>. Moreover, the Treaty on the Functioning of the European Union (TFEU) could not be clearer. Articles 8 and 9 specify that the Union shall "aim to eliminate inequalities and to promote equality between men and women" (Article 8). The next article goes further in declaring that when the Union formulates its policies and/or comes up with proposals, it "shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health". Finally, the Europe2020 Strategy states that the Union is premised on the values of human dignity and solidarity, and that combating social exclusion, promoting social justice and fundamental rights have long been core objectives of the Union. It is for that reason after all that the European platform Against Poverty and Social Exclusion constitutes one of the seven Europe2020 flagship initiatives.

From the above, and without going into further details as to other Treaty provisions, it is clear that **the European Social Model has a strong mandate: to make sure that EU citizens enjoy access to employment through adequate education and training**. They do so as voluntary members of trade unions and other forms of employ representation, participating in a vibrant and active social dialogue geared towards consensus-based labour market policies. Moreover, **they deserve access to a minimum of social services to avoid social exclusion and deprivation**. Finally, **the ESM is about addressing the question of inequality**. Although its specific type is not articulated, the following section's discussion on various inequality types becomes relevant.

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19 Ibidem, p. 3.

20 J. Alber, *The European Social Model and the United States*, [in: ] *European Union Politics*, 7(3), 2006, pp. 393-419.

21 European Council 2000 quoted after: J. Alber, *Op.Cit.*, 2006, p. 394.



## Why Change? ESM, New Social Risks and Globalization

Before assessing the extent to which the ESM lives up to its promise, it is worth embarking on one more exercise. It is salient to outline the changes in technology, society and economy that have led to a rethink of national and European welfare and employment arrangements. It is these changes that underpin a large part of the literature on “new” welfare, and thus invite us to think about the ESM in terms radically different from the past. The extent to which the new approach practically corresponds to the socio-economic reality of the EU in 2014 will be the subject matter of the next section.

Globalization produces a variety of common pressures which, in turn expose the different parts of the world (including the USA and Europe) to the same imperatives of competitiveness and internal economic integration. In the face of technological, economic and social change, which are presented as inevitably and obviously ‘given’, the ‘need’ for social and institutional modernization (structural reform, more training for new technologies, etc.) is considered equally obvious. As mentioned earlier, such reforms have already been introduced in a number of member states – and such change is expected to continue in the years to come, as low growth rates and persistently high unemployment becomes a feature of ever more EU states.

Such modernisation is becoming urgent in the light of the European population, with consequences in terms of financing social protection systems and responding to the needs of an older population in terms of working conditions, health or quality of life.<sup>22</sup> This modernization appears, accordingly, as the ‘natural’ response to economic change and globalization. Many authors and policymakers at the European level use the term ‘Knowledge-based Society’ to illustrate the essence of these changes. Underlying this term are the notions that, due to a variety of causes, the conditions of the European production model have changed and that the ESM is geared to the framing of a response to the new economic/ societal challenges.

### What are These Causes?

1) A first set of reasons relates to the strengthening of economic integration and macroeconomic surveillance, in conjunction with the process of EU enlargement. In the wake of Economic and Monetary Union (EMU), a significant asymmetry between market efficiency (economic policies have been Europeanized) and policies promoting social

<sup>22</sup> European Commission, *Improving Quality in Work: a Review of Recent Progress.*, COM (2003) 728 final. Luxembourg: EUR-OP, 2003, pp. 5.

protection (these remain at national level) has come into being. The most telling example of this asymmetry being the manner in which the European Employment Strategy is intended as a counterweight to the European Economic and Monetary Union. Furthermore, economic integration has reduced the capacity of member states to use traditional national economic policy instruments (exchange rates, deficit spending, monetary policy, increasing labour costs) for the achievement of self-defined social-policy goals<sup>23</sup>. The balance of power between fiscal and monetary authorities has shifted<sup>24</sup>. Last but not least, there is the risk of wage and social dumping<sup>25</sup>. The ability of firms to move production from one location to another might be expected to create downward pressure on the taxes, wages and social-security system.

These are some of the reasons why authors argue that there is a risk of downward adjustment of social standards and of an attack on collective bargaining and labour-market regulation<sup>26</sup>, and hence a need for a further reinforcement of the social dimension of European integration.

2) A second type of reason is based more on demographic and societal changes, instances of which include the increasing participation of women in the labour market, the ageing of the population, changing patterns of consumption, and the transformation of institutions such as the family. The population ageing will have substantial effects, not only on pension spending but also on health and especially long-term care spending. Dependency ratios will rise in all developed countries, and this effect is compounded by the life expectancy gains at advanced ages.

These demographic changes will have three main effects:

2a) A larger population at a very advanced age who will probably require both substantial health care and long-term care

2b) The current three-generational model (children, parents, grandparents) will become, or is already becoming, a four-generational model (children, parents, grandparents and great-grandparents)

2c) A decline in the share of the population aged between 15 and 64, raising questions as to the financing of the expenditures linked to the ageing population.

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23 F. W. Scharpf, *The European Social Model: Coping with the Challenges of diversity.*, [in: ] *Journal of Common Market Studies*, 40(4), , 2002, pp. 645–70.

24 I. Begg, *EMU and Employment Social Models in the EMU: Convergence? Co-existence? The Role of Economic and Social Actors.*, Working paper 42/02, ESRC 'One Europe or Several' programme 2002, p. 6.

25 K. Jacobsson & H. Schmid, *Real Integration or just Formal Adaptation? On the Implementation of the National Action Plans for Employment.*, [in: ] *A New Approach to Building Social Europe: the Open Method of Coordination*, C. de la Porte & P. Pochet (eds.), Brussels: PIE Peter Lang 2002; B. Kittel, *EMU, EU Enlargement and the European Social Model: Trend, Challenges and Questions.*, MPIFG Working Paper 02/1 [<http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp02-1.html>]. 2002.

26 M. Ferrera et al., *The Future of Social Europe.*, Lisbon: Celta Editora 2000; B. Kittel, *Op. Cit.* 2002.

3) Finally, the third set of reasons (socioeconomic) is social dumping<sup>27</sup>. In contrast to the principle of stability, on which industrialized societies were traditionally based, the basic characteristic of the current model is constant change and instability. In the past, in order to achieve the requisite stability, it was necessary to eliminate uncertainty by means of strict labour regulation, removal of risks and control of future events.

Economic and social stability was a key requirement for this model of production. In contrast with this past situation, it is currently considered impossible to regulate events before they happen and risk is seen as inevitable. This makes it 'necessary' to promote flexibility, so that people are able to accommodate uncertainty and adapt to rapid changes in production demands. This model of labour regulation is accompanied by the emergence of a model of social-welfare regulation, which sees insecurity as inevitable.

According to this ideal model, rather than protecting against risk, the welfare state should concentrate on promoting the management of risk thereby consolidating the laws of the market. Citizenship is held to be, rather than a right, something which the individual is required to earn. As such, citizenship is described in fundamentally individualistic rather than social terms.

### **The Socio-Economic Reality of the Crisis-Stricken EU**

The current crisis was not always treated as a systemic failure of spendthrift governments that let their public finances wreak havoc on their economic output. To start with, most member states reverted to deficit spending to face off the crisis and social protection mechanisms were activated to mitigate the crisis' worst effects. Households were able to cushion off a large part of the shock in the period 2007 to 2009, according to the European Commission's own admission<sup>28</sup>. The role of automatic stabilizers kicked in, and aggregate demand could be sustained to address the growing problem of rising poverty. Although there was no uniform response by member states, the first phase of the crisis saw those stabilizers having a real, positive income on citizens' ability to protect themselves from the crisis<sup>29</sup>.

After 2010, however, and following the successive bailouts of member states in Southern Europe plus Ireland, deficit spending gave way to 'fiscal adjustment' and 'structural reform'. These remain until today the building blocks of Europe's economic recovery, despite their

27 K. Jacobsson & H. Schmid, *Real Integration or just Formal Adaptation? On the Implementation of the National Action Plans for Employment.*, [in: ] *A New Approach to Building Social Europe: the Open Method of Coordination*, C. de la Porte & P. Pochet (eds.), Brussels: PIE Peter Lang 2002.

28 European Commission, *Employment and social developments in Europe 2012.*, Luxembourg: OPOCE 2012, p. 15.

29 F. Vandenbroucke & B. Vanhercke, *A European Social Union: Ten tough nuts to crack.*, Background Report for the Friends of Europe High-Level Group on 'Social Union', Brussels 2014, p.9.

miserable economic and social results and despite the recent talk on the need for a more balanced approach following Renzi's election in Italy. What is more, the austerity approach acquired over the last few years a pan-European approach: whilst it was initially confined to isolated states and was usually practiced by the EU and the IMF outside Eurozone states, after 2010 it became both part of the bailout conditionality imposed by the ECB, the Commission and the IMF, and was also practiced in countries that did not have to carry the burden of external economic control. In other words, austerity became the only game in town and the consequences have been dramatic.

Vandenbroucke and Vanhercke provide a useful summary of developments from 2008 (the onslaught of the crisis) to 2012 (when 'green shoots' could be seen, to quote Ben Bernanke, but have yet to lead to a sustained economic recovery).<sup>30</sup>

## Labour Market

Employment rates in the EU-15 in 2012 were lower than in 2004 for all states except for Germany. Youth unemployment in the EU was on average 23% (up from 15% four years earlier), and talk of a lost generation is by now commonplace. Moreover, progress that had been made in reducing the number of jobless households was undone during the crisis, climbing back to approximately 11% by 2013<sup>31</sup>. Overall unemployment went up from 7% to 10.8% by 2013, and long-term unemployment rose from 2.6% to 5.1% of the active population<sup>32</sup>. The economically inactive population has risen sharply in the last few years. According to the Eurofound Jobs Monitor, 137 million people were economically inactive at the end of 2013, an unsustainable situation in the long term given fiscal constraints on welfare expenditure. What is more, job polarization has gone up in recent years, with the distinction between well- and bad-paying jobs rising sharply and the wage premium following a similar direction.

One positive side-effect of the crisis has been the position of women in the labour market. As female employees tend to be employed in highly demanded occupations such

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30 The data reveals the damage to the European Social Model during the crisis. One should not assume, however, that all was well with Europe's socio-economic arrangements, particularly in the countries comprising the Anglo-Saxon and Mediterranean/Southern European Model *prior* to the crisis. Levels of inequality, risk of poverty and divergent economic performance from the 'core' were already evident in the early 2000s; southern Europe in particular has long suffered from an inability to revamp its social protection systems to care for those genuinely in need - instead of those groups that have shouted the loudest and benefited from deals with political authorities and governing parties.

31 European Commission *Evidence on Demographic and Social Trends Social Policies*. Contribution to Inclusion, Employment and the Economy, Commission Staff Working Document SWD(2013) 38 final, Brussels: European Commission. Available at: <http://ec.europa.eu/social/BlobServlet?docId=9765&langId=en>. Accessed: 13 October 2014.

32 H. Frazer et al., *Putting the fight against poverty and social exclusion at the heart of the EU agenda.*, OSE Research Paper No. 15, October. Brussels 2014.

as the health sector and are under-represented in sectors heavily hit by the crisis (e.g. construction), female employment numbers have gone up, not least because they tend to now occupy higher positions in the employment structure<sup>33</sup>.

## Poverty and Social Exclusion

The increasing tendency towards higher and more extreme forms of deprivation is best illustrated in the figure below.<sup>34</sup> What the graphs illustrate is not merely worsening conditions for programme countries: they point **a)** first to the dramatic consequences of austerity within most M-S and **b)** highlight the growing divergence in performance by member states. The contrast between the Netherlands and Bulgaria in Figure 1 is revealing – and worrying.

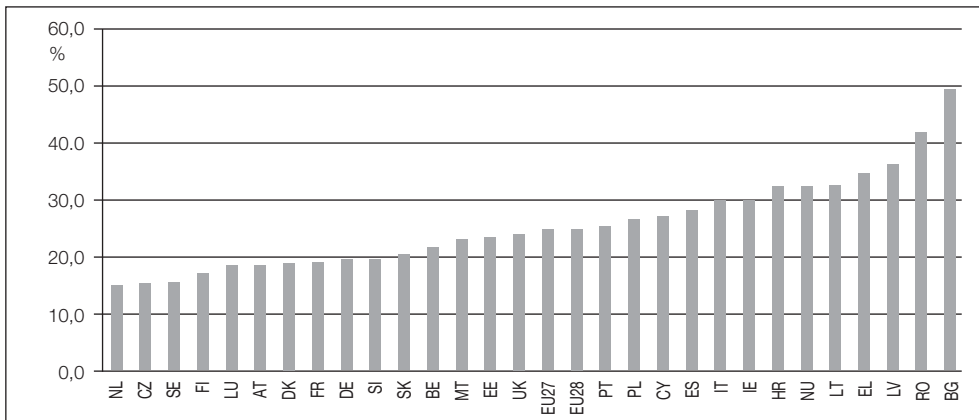


Figure 1: Proportion of citizens at risk of poverty or social exclusion, EU 28, 2012, % of total population

## Inequality

One of the major driving forces behind the high rates of poverty and social exclusion risk (AROPE) is joblessness. The proportion of those in the EU that were either unemployed or inactive rose from 44.1% in 2008 to 47.6% in 2012. Moreover, in-work poverty continued to increase, from 8% before the crisis to 9% by 2012<sup>35</sup>.

33 Eurofound, *Employment polarization and job quality in the crisis: European Jobs Monitor 2013.*, Dublin: Eurofound, p. 2.

34 Unless otherwise, indicated these are data from EU-SILC Eurostat database from July 2014 quoted in several pages from the OSE Report of October 2014 H. Frazer et al., Op. Cit.

35 Ibidem.

When it comes to income inequality, the silver lining is that little appears to have changed from 2008, given that the Gini coefficient of available disposable income in 2008 was 30.9 in 2008 and 30.6 in 2012. Yet this masks important differences within member states, particularly programme countries. Moreover, the income quintile ratio (S80/S20) in the EU-27 increased from 5.0 to 5.1 between 2008 and 2012, while the median income of the richest 20% in Bulgaria, Latvia, Romania, Greece, Spain, and Portugal was 6 times (or more) higher than the median income of the poorest 20%.<sup>36</sup>

## Where to go from Here? Proposals for a New ESM

The debate on Europe's social condition has become very lively as of late, and this reflects growing awareness of the need to act before social cohesion is undermined further. Both the Juncker Commission<sup>37</sup> and member states are in the process of formulating concrete policy proposals to halt the slide towards ever growing disparities of income and opportunity. Below I outline a few suggestions as to the policy content that new initiatives could take.

## A European Social Investment Pact

Macroeconomic convergence and adequate social standards go hand in hand in a future-oriented EU. Fiscal consolidation has proved how ineffective it is, widening differences between member states and leading to rising inequalities.

**One of the fundamental problems of the EU is a massive lack in investment. Public investment has gone down by 15% in the EU between 2008-12, and was inadequate before the onset of the crisis<sup>38</sup>.** It is correct to argue, however, that public investment that leads to no productive uses will be a massive waste and have no positive effects.

It is important to concentrate efforts to invest in ways that will prove beneficial in the medium and long-term, rather than merely create short-term jobs with short-term prospects. A large part of the package can revitalize Social Europe to the extent it aims at tackling youth unemployment, but this in itself would be inadequate. Two key areas stand out: first, investment in early childcare<sup>39</sup>. This is a form of public investment (rather than expenditure) with positive side effects on female employment, a pathway to reconcile

<sup>36</sup> Ibidem, p. 21.

<sup>37</sup> J. C. Juncker, *Kernbotschaften von Jean-Claude Juncker, Spitzenkandidat der Europäischen Volkspartei (EVP) für das Amt des Präsidenten der EU-Kommission bei der Europawahl am 25. Mai 2014*. Available at: <http://juncker.epp.eu/news/kernbotschaften-von-jean-claude-juncker-spitzenkandidat-der-europaischen-volkspartei-eva-fur>, 2014.

<sup>38</sup> F. Vandenbroucke & B. Vanhercke, *A European Social Union: Ten tough nuts to crack.*, Background Report for the Friends of Europe High-Level Group on 'Social Union', Brussels 2014.

<sup>39</sup> F. Vandenbroucke et al., *The EU needs a Social Investment Pact.*, OSE Paper Series, Opinion Paper No.5, May 2011.

work and family life and a solid policy proposal to prepare the ground for a high-quality, high-value economy for the future. Secondly, public investment can and ought to take the form of a re-launched push for an active labour market policy across member states. The data is clear on the high returns of such investment: active labour market policies enhance occupational mobility, reduce the long-term unemployment rate and thus offer powerful disincentives from the unemployment trap, from which tens of millions of EU citizens suffer. **An active labour market policy is particularly important in the face of new data showing growing job polarization. The consequence for income inequality will be dire unless steps are taken early to prevent such discrepancies from rising.**

## A European Minimum Wage Policy

*“Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity”<sup>40</sup>*

The debate on a minimum wage at EU level has taken off about a decade ago, but practical work towards its realization has been limited. Major EU member states had been reluctant to follow that path, let alone have an EU-wide policy on the subject. When the crisis hit, however, the debate intensified and the need for some form of EU-wide arrangement is becoming increasingly pressing.

Currently, differences between member states are large and significant regarding their minimum wage policy arrangements, both practical and institutional. Figure 2 shows that 21 M-S have a binding, national minimum wage policy whereas seven (six from 2015, as Germany has revised its stance recently) do not. The group of states that adopts a sectoral minimum wage policy regime, with countries such as Austria and Denmark being part of it, is also the group of states that tends to use robust collective agreement systems with powerful trade unions at sectoral level. It is for this reason that unions in those states tend to be skeptical vis-à-vis a minimum wage regime<sup>41</sup>. There are countries with such a system where collective agreement coverage is much lower – and a switch to a national minimum wage regime is desirable. The German switch to a nation-wide minimum wage can be explained in this light. Finally, Figure 3 displays the large discrepancy in minimum wage arrangements in the EU, with some countries (particularly in Central and Eastern Europe) using it as an anchor for the wage structure, and others such as France where the minimum wage strongly influences wage development in the low-pay employment sectors. The large discrepancy is valid both in absolute terms and when we consider differences in purchasing power (Figure 4).

But is a European minimum wage necessary? Figure 5 shows the percentage of employees that would be affected if the wage was set (as suggested, see ETUC 2012) at 60% of national

40 The UN Declaration of Human Rights, 1948, Article 23, paragraph 3.

41 T. Schuiten, *Contours of a European Minimum Wage Policy.*, Berlin, Friedrich Ebert Stiftung 2014.

median wage. It would affect the livelihoods of millions of workers, approximately 30 million or 16% of the workforce. Note also that the data referred to is from 2010, and the percentage in countries such as Greece and Spain should be much higher today.

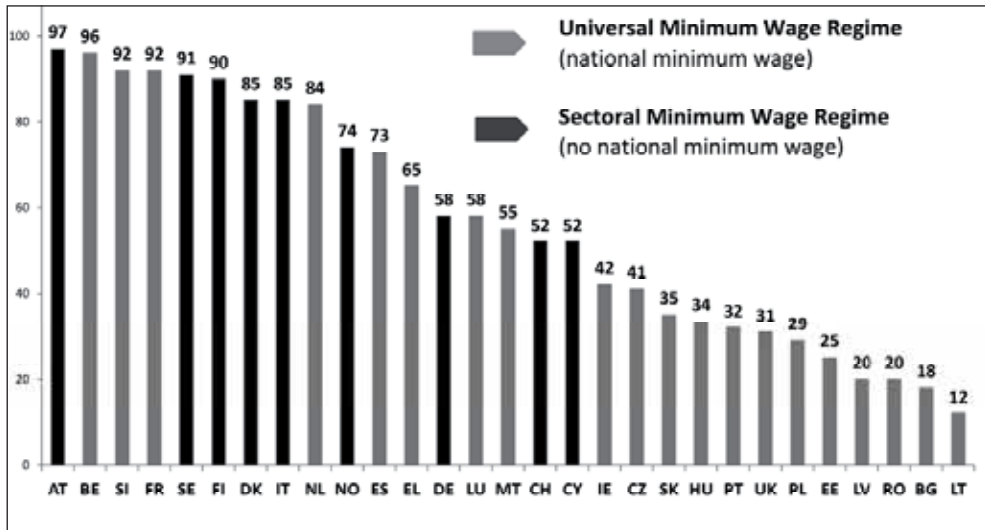


Figure 2: Minimum Wage Regimes and Collective Agreement Coverage, 2009-2011

Source: ICTWSS Database (Version 4.0), national sources<sup>42</sup>.

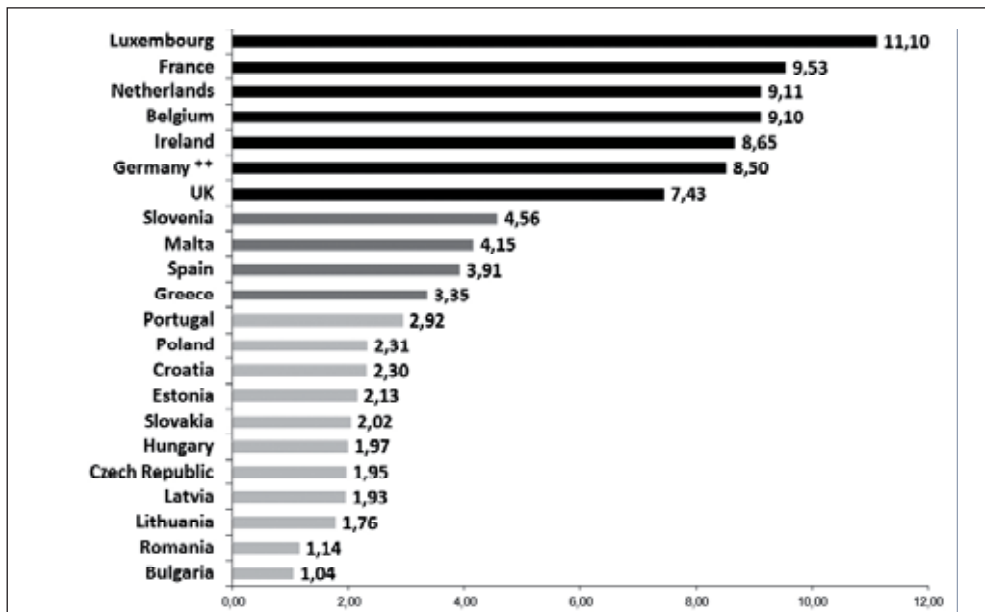


Figure 3: Minimum Wages in Europe, per Hour, 2014

Source: ICTWSS Database (Version 4.0), national sources<sup>43</sup>

42 T. Schulten, Op. Cit., p.6.

43 cited in: T. Schulten, Op. Cit. , p.7.



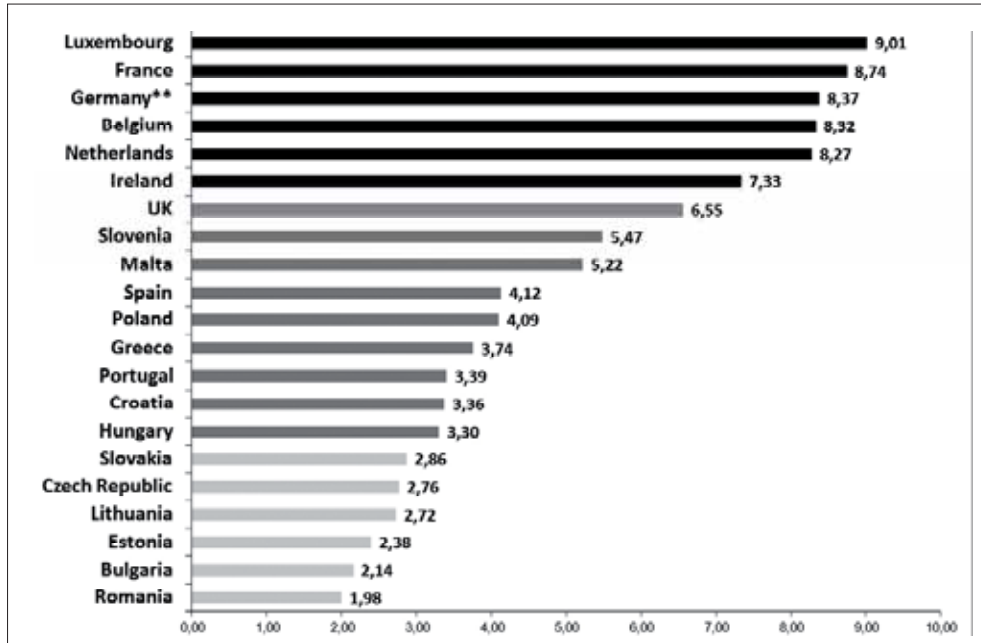


Figure 4: Minimum Wages in PPS, 2013

Source: Source: WSI Minimum Wage Database 2014.

## Why a European Minimum Wage?

A European Minimum Wage policy would entail important advantages: first, it would create a viable minimum floor for wage earners across Europe and have a substantial impact on the earnings of the low paid. Second, it would display in practice that a form of ‘Social Europe’ echoes citizens’ concerns. Third, it would be fully in line with an employment-oriented policy which requires the active participation of citizens in the labour market, and offers them a minimum of wage protection in return. Fourthly, it is a realistic policy scenario that can materialize in the near future, provided the policy is implemented sensibly.

**A European Minimum Wage would display in practice Social Europe that echoes citizens’ concerns**

## How a European Minimum Wage?

Suggestions to how to organize a minimum wage at EU level differ, and this is only natural given the heterogeneity of the current system implemented at national level. A very

concrete and realistic one entails a principled agreement at Council level and following the Commission's and Parliament's (given support) for all M-S to commit themselves to offer a minimum wage equal to 60% of median wage. A timetable for implementation can be agreed, and extra incentives offered to those states, which are far from the target. Moreover, the implementation method should be down to member states but non-implementation of the policy following the deadline should be subject to hard sanctions authorized by the Commission.

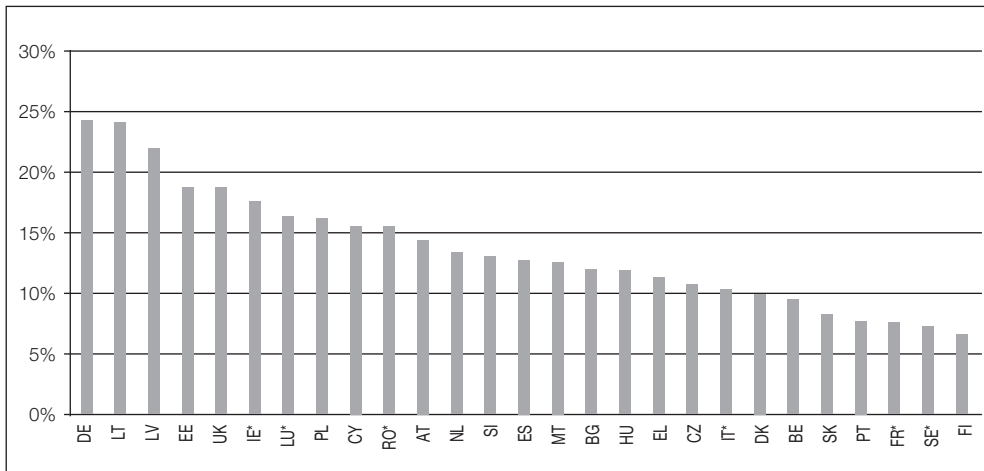


Figure 5: Proportion of workers below the EMW, 2010

Source: 2010 EU-SILC, except\* (average between EU-SILC2010 and SES 2010 figures, because of inconsistency between the two sources)

## Conclusion

The European Social Model has always been a rather subjective term, susceptible to flexible interpretation and little concrete output. The heterogeneity of the EU has compounded the problem, and the economic crisis has magnified the problem of incoherence in building a Social Europe.

Yet the task is as urgent today as it ever was. Although not solely down to the lack of 'Social Europe', the Union's legitimacy deficit stems in large part from the EU inability to have a positive impact on citizens' socio-economic problems. Too often the rhetoric has been ambitious and the targets generous (see Europe 2020 as the latest example), whilst delivery has suffered and economic governance policies have monopolized the public debate.

Deteriorating indicators on the labour market, inequality and social exclusion necessitate a new approach. **A true European Social Model that binds all member states cannot go beyond the limits of feasibility, but has to keep an eye on future possibilities. Adopting a Social Investment strategy is a way forward in that it delivers both on**

the economic and social policy front, multiplying the rewards for member states and citizens alike. Further, a European Minimum Wage gives concrete substance to 'Social Europe' by lifting the earnings of millions of Europeans to an acceptable level, fulfilling the Union's obligations to its working people and allowing it to claim the high ground on employment protection. Such measures do not tell the full story, nor do they provide an exhaustive list of possibilities. But they offer a concrete way forward – and may be the last opportunity for the EU to maintain its legitimacy in the eyes of a very skeptical public.

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**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Steven Van HECKE,  
Johan LIEVENS  
& Gilles PITTOORS

## **A Social Compact for a Social Union: A Political and Legal Window of Opportunity?**



**Key words:**

**European Union - Differentiated Integration - Fiscal Compact - Member States - Social Union**

**Abstract:**

The social crisis within the euro zone has showed more than the need for more integration in social areas. It was more than to consolidate the EMU and the way the welfare states within the EU have been developed. It has also triggered new thinking about how a Social Union might look like. This article explores from both a political science and a legal point of view how to overcome the problem that in the social area not all member states are willing to take further steps to strengthen the integration process of the European Union. It particularly examines whether the Fiscal Compact can serve as model for the challenge of differentiated integration. The central question is therefore whether such a model - developed outside the existing political and legal framework - is applicable to the social area, or, in other words, whether a Social Compact is possible, *feasible and desirable* and under what circumstances.

This article aims to explore the design of a Social Union, both from a political science and a legal point of view.<sup>1</sup> By Social Union it means a Union that “*would support national welfare states on a systemic level in some of their key functions and guide the substantive development of national welfare states - via general social standards and objectives, leaving ways and means of social policy to member states*”.<sup>2</sup> It tries to examine how such a Social Union might look like, thinking ‘out of the box’. This means that authors develop a model outside the existing political and legal framework of the European Union (EU), i.e. the Lisbon Treaty.

Developing a design of such a Social Union does not only have to take into account the substance of this particular policy area. In fact this will be left aside. By contrast, most attention will be paid to a political and legal problem that is typical for European integration in the social area: the fact that not all member states (MS) are willing to take further steps to strengthen the social dimension of the EU. How to overcome this problem of asymmetric integration is central to our article.

First the authors will briefly review the political science literature on asymmetric integration as well as have a look of what it means in reality. Then, from a political as well as legal point of view, they will examine how and to what extent lessons can be learned from the Fiscal Compact.

**The Fiscal Compact is a Treaty concluded in the spring of 2012 between all EU MS minus the UK and the Czech Republic. It aims to tackle the structural shortcomings of economic and monetary integration by introducing, among other things, an enforceable balanced budget rule. Because the Fiscal Compact is a relatively recent example of how to solve the problem of asymmetric integration in one particular policy area the article will examine whether this model is applicable to the social area. In other words, whether a ‘Social Compact’ would bring a European Social Union any further.** In our conclusion the authors will discuss the legal and political caveats, whether a Social Compact is *possible*, *feasible* and *desirable* and under what circumstances.

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1 A first version has been presented in Leuven on 16 September 2014 at the Euroforum conference *Which Social Dimension for the European Union? Normative, Political, Legal and Economic Perspectives* and published as: J. Lievens, S. Van Hecke, S. Sottiaux & W. Wolfs, *A Social Compact for a Social Union?*, KU Leuven: Euroforum Paper, September 2014, 16p.

2 F. Vandenbroucke, *The Case for a European Social Union: From Muddling Through to a Sense of Common Purpose.*, KU Leuven: Euroforum Paper, September 2014, p. 3.



## Lessons to be Learned from What We Know about Differentiated Integration

The debate about differentiated integration suffers from so-called semantic indigestion: an excess of concepts, terminology, definitions and models. In his categorisation of differentiated integration, Stubb identifies no less than 66 different terms in three languages used for differentiation – ‘differentiation’ itself included.<sup>3</sup> This proliferation of terminology does not only stem from academic quarrelling but also from the various ways in which policy makers themselves have tried to capture the nature and practice of the EU. Differentiated integration has become an umbrella term that covers a diversity of concepts and models, yet “*so different are these models that in fact it is increasingly common for one of them – multi-speed integration – to be accepted as an inevitability, while another – the à la carte model – is almost universally derided*”.<sup>4</sup> That diversity unsurprisingly leads to increasing misinterpretation, misunderstanding and overlap. This article therefore aims first of all to provide a brief and comprehensible overview of the various concepts and models of differentiation.

For most of European integration history, the process has been underbuilt by a unitary principle, i.e. that all Member States (MS) have the same rights and obligations at the same time. With the increased heterogeneity of the Union in light of growing membership and Union competences, however, this unitary principle became impossible to sustain. Indeed, although the principle of flexibility has only been formally endorsed by the Union in the 1990s, the practice of differentiation was already present decades before. The steady increase in “*debate about, and resort to use of, differentiated integration is a response to the collective action problems thrown up by a series of complex and difficult challenges*”.<sup>5</sup> The challenges include, among others, divergence in political ambition to further integration, disparities in cultural identities and economic realities, different geo-strategic interests and political preferences, and free-riding and institutional capacities. In short, the more diverging the general interest, the more difficult to uphold the unitary principle.

Differentiation comes in when this divergence becomes unmanageable and threatens to cause a deadlock in integration. When integration is not possible in a unitary fashion, MS time and again decided to progress nonetheless using a differentiated model. In this sense, differentiation can thus be seen as a “*political tool for managing integration in the presence of diversity of interests, of institutional capacities and of identities*”.<sup>6</sup> For example, when it became clear that not all MS could or wanted to become a part of the monetary

3 See: A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] *Journal of Common Market Studies*, Vol. 34, Nr. 2, 1996.

4 A. Warleigh, *Flexible Integration: Which Model for European Integration?*, Sheffield Academic Press 2002, p. 9.

5 K. Dyson and A. Sepos, *Which Europe? The Politics of Differentiated Integration*, Palgrave Macmillan 2010, p. 8.

6 *Ibid.*, p. 9.

union, it was decided that those willing and able should be allowed to progress on their own. Differentiation was used as a tool to manage and overcome the peril of political deadlock that threatened the creation of the Economic and Monetary Union (EMU).

In general, differentiation is thus a solution to the problem that “*not all member states are equally eager to participate in all aspects of integration*”.<sup>7</sup> With the prospect of the eastern enlargement, the principle of differentiation was accordingly introduced in the Treaty of Amsterdam in 1997, “*allowing for flexibility in participating in the activities of the EU on a more systematic basis than ever before*”.<sup>8</sup>

Still, despite this rather straightforward purpose of differentiation, its definition posed quite a challenge. Stubb looked particularly at differentiation as a tool used to advance integration and defined it as “*the general mode of integration strategies which try to reconcile heterogeneity within the European Union*”.<sup>9</sup> In the same vein, Dyson and Sepos<sup>10</sup> say that differentiated integration “*is the process whereby European states, or sub-state units, opt to move at different speeds and/or towards different objectives with regard to common policies*”. An albeit different view on differentiation is taken by Leuffen, Rittberger and Schimmelfennig<sup>11</sup>, who consider differentiation more as an institutional reality of the Union rather than a strategy or tool. They focus on differentiated integration as “*one Europe with an organisational and member state core but with a level of centralisation and territorial extension that vary by function*”. Similarly, Kölliker defines differentiation as “*the general term for the possibility of member states to have different rights and obligations with respect to certain common policy areas*”.<sup>12</sup>

Most of the scholarly and political attention, however, went to designing models of differentiated integration that either try to capture the Union as it is or propose models for future integration. Although the debate about differentiation did not really start until the 1990s, the idea was first introduced in the 1975 Tindemans Report on European Union. In his chapter on *A New Approach for Europe*, then Belgian Prime Minister Leo Tindemans argued that “*it is impossible at the present to submit a credible programme of action if it is deemed absolutely necessary that in every case all stages should be reached by all States at the same time*” and consequently that “*those States which are able to progress have*

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7 S. Andersen and N. Sitter, *Differentiated Integration: How Much Can the EU Accommodate?*, Paper presented at the World Congress of the International Institute of Sociology, Stockholm, Sweden, 2005, p.1.

8 J. de Neve, *The European Union: How Differentiated Integration is Reshaping the EU*, [in: ] *Journal of European Integration*, Vol. 29, Nr. 4, 2007, p.505.

9 A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] *Journal of Common Market Studies*, Vol. 34, Nr. 2, 1996, p.283.

10 K. Dyson and A. Sepos, *Which Europe? The Politics of Differentiated Integration*, Palgrave Macmillan 2010, p.4.

11 B. Rittberger, D. Leuffen, and F. Schimmelfennig, *Differentiated Integration: Explaining Variation in the European Union*, Palgrave Macmillan 2013, p.10.

12 A. Kölliker, *Brining Together or Driving Apart the Union? Towards a Theory of Differentiated Integration*, [in: ] *West European Politics*, Vol. 24, Nr. 4, 2001, p.127.

*a duty to forge ahead*".<sup>13</sup> These ideas were not pursued at the time, but re-emerged in the 1990s in an overabundance of terminology during the debate on monetary union and eastern enlargement.

The ball was set rolling by Wolfgang Schäuble and Karl Lamers, whose 1994 paper on a *Kerneuropa* or core Europe "foresaw the creation of a more tightly integrated 'hard core' of member states"<sup>14</sup> centred around the Franco-German tandem.<sup>15</sup> Soon others followed to invent new terms to capture the differentiated nature of integration. Edouard Balladur had his 'concentric circles'<sup>16</sup>, Joschka Fisher talked of a 'centre of gravity'<sup>17</sup>, Jacques Chirac preferred a 'pioneer group'<sup>18</sup>, Jacques Delors referred to the 'avant-garde' of European integration<sup>19</sup>, and Jean Pisani-Ferry highlighted the 'variable geometry'<sup>20</sup> of the Union.<sup>21</sup>

Scholars added to this plethora with a set of concepts of their own: Frey and Eichenberger developed the idea of functional, overlapping and competing jurisdictions, Schmitter described the condominium of many Europes, Marks and Hooghe distinguished two types of multi-level governance, Rittberger et al. consider Europe as a system of differentiated integration, while Zielonka describes the EU as a neo-medieval empire.<sup>22</sup> The list goes on and is too long to fully explicate here.

13 See: L. Tindemans, *European Union: Report by Mr Leo Tindemans, Prime Minister of Belgium, to the European Council*, 1975.

14 D. Webber, *Successful and Genuine Failures: France, Germany and the Others in the History of 'Multi-Speed' European Political Integration*, Paper presented at the 4th pan-European Conference on EU Politics, Riga, Latvia, 2008, p.3.

15 See: W. Schäuble and K. Lamers, *Überlegungen zur europäischen Politik*, [in: ] CDU/CSU Papers, 1994.

16 See: E. Balladur, *Trois Cercles Concentriques*, [in: ] Le Figaro, 30 august, 1994.

17 A speech by: J. Fischer, *From Confederacy to Federation - Thoughts on the Finality of European Integration*, Humboldt University, Berlin, 2000.

18 A speech by: J. Chirac, *Notre Europe*, German Bundestag, 27 June, 2000.

19 A speech by: J. Delors, *Die europäische Avantgarde - Für Eine neue dynamik im integrationsprozess*, Paris, 29 June, 2000.

20 A speech by: J. Pisani-Ferry, *L'Europe à géométrie variable: une analyse économique*, CEPII, Paris, 1996.

21 See: F. de la Serre and H. Wallace, *Flexibility and Enhanced Cooperation in the European Union: Placebo rather than Panacea?*, [in: ] Notre Europe Research and Policy Papers, Nr. 2, 1997; K. Holzinger and F. Schimmelfennig, *Differentiated Integration in the European Union: Many Concepts, Sparse Theory, Few Data*, [in: ] Journal of European Public Policy, Vol. 19, Nr. 2, 2012; J.C. Piris, *The Future of Europe. Towards a Two-Speed EU?*, Cambridge University Press, 2011; A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] Journal of Common Market Studies, Vol. 34, Nr. 2, 1996; D. Webber, *Successful and Genuine Failures: France, Germany and the Others in the History of 'Multi-Speed' European Political Integration*, Paper presented at the 4th pan-European Conference on EU Politics, Riga, Latvia, 2008.

22 See: B.S. Frey and R. Eichenberger, *FOCJ: Competitive Governments for Europe*, [in: ] International Review of Law and Economics, Vol. 16, 1996; P. Schmitter, *Imagining the Future of the Euro-Polity With the Help of New Concepts*, [in: ] Governance in the European Union, (ed.) G. Marks, F. Scharpf, P. Schmitter and W. Streeck, Sage Publishing 1996; G. Marks and L. Hooghe, *Unravelling the Central State, but How? Types of Multi-Level Governance*, [in: ] American Political Science Review, Vol. 97, Nr. 2, 2003; B. Rittberger, D. Leuffen, and F. Schimmelfennig, *Differentiated Integration: Explaining Variation in the European Union*, Palgrave Macmillan 2013; J. Zielonka, *Europe as Empire: the Nature of the Enlarged European Union*, Oxford University Press 2006.

Yet despite all the different concepts, the many models of differentiated integration can be sorted in three main categories divided along time, territory and function.<sup>23</sup> The temporal dimension is captured mainly by those concepts relating to a two-speed, multi-speed, or ‘vanguard’ Europe. The principle idea underlying temporal differentiation is that not all MS have the capacity to submit themselves to the same rules at the same time. Hence, as a way to meet the limitations of these MS, a temporary exception is given to them, on the condition that they will in time live up to the same rules as the others. Policy that is temporally differentiated will thus be implemented “only by those member states immediately capable of so doing, and the subsequent implementation of the relevant policies by member states without the initial capacity as soon as they have it”.<sup>24</sup> Critical about temporal differentiation is that essentially the unitary principle of integration is not abandoned. All MS are still, in due time, obliged to submit themselves to the same right and obligations, and differentiation is considered “a temporary and unfortunate necessity”.<sup>25</sup>

Table 1: Three Dimensions of Differentiated Integration

Dimension	Temporal Differentiation	Territorial Differentiation	Functional Differentiation
Definition	Differentiation that maintains common overall objectives, which MS are allowed to achieve in their own time according to their own capabilities. Differentiation is temporary as MS are subject to the same rights and obligations in due time.	Differentiation that separates between a hard core of MS and a periphery of lesser integrated states. Differentiation is permanent and takes place through various tiers of integration.	Differentiation that allows MS to pick and choose each policy area separately, with a minimum of common long-term objectives.
Main concepts	multi-speed, two-speed, vanguard	variable geometry, core Europe, Kerneuropa, directoire	Europe à la carte, pick-and-choose, opt-out
Examples	OMC, accession transition, transposition periods, EMU	Schengen Area, enhanced cooperation, WEU, Fiscal Compact, EMU	derogations, opt-outs, Fiscal Compact, EMU

Source: based on Stubb 1996; own update

23 See: K. Dyson and A. Sepos, *Which Europe? The Politics of Differentiated Integration*, Palgrave Macmillan 2010; A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] *Journal of Common Market Studies*, Vol. 34, Nr. 2, 1996; A. Warleigh, *Flexible Integration: Which Model for European Integration?*, Sheffield Academic Press 2002.

24 A. Warleigh, *Flexible Integration: Which Model for European Integration?*, Sheffield Academic Press 2002, p.10.

25 Ibid.

Yet the principle of temporal differentiation is standard practice and a “*fundamental condition of the project of European integration*”.<sup>26</sup> Temporal differentiation is by definition only possible when new MS accede or when new policy is agreed upon. The best examples of temporal differentiation are the transition periods granted to new MS after accession. They are granted some time to implement the *acquis communautaire*, but it is by definition limited in time. Temporary derogations also exist in the more common day-to-day policy-making of the Union, e.g. with regards to the transposition of and compliance with new directives or the application of the Open Method of Coordination (OMC). The Union also has specific policy aimed at limiting these temporary derogations as much as possible, e.g. cohesion funds aimed at lesser developed economies to catch up.

However, as Přibáň argues, “*the indefinite design and persistence of some clauses, such as the Irish and UK opt-out from the Schengen Zone or the UK opt-outs from the Union’s protection of social rights, have gradually weakened the original idea of flexibility as a transitional measure and made it an intrinsic feature of European legal integration*”.<sup>27</sup> This brings us to the other two dimensions of differentiation, territorial and functional, which, unlike the temporal dimension, accept the permanent nature of differentiation within the Union.

**The territorial dimension of differentiation is captured best by the concentric circles approach, variable geometry, core Europe or *directoire*.** The dimension is aptly described by Stubb, who defines it as “*the mode of differentiated integration which admits to unattainable differences within the main integrative structure by allowing permanent or irreversible separation between a core of countries and lesser developed integrative units*”.<sup>28</sup> This thus creates a layered or concentric model of integration with a hard core of MS pursuing deeper integration, often built around the Franco-German axis. De Neve explained this through his metaphor of the ‘European Onion’, with an inner core that drives deeper integration and keeps the whole together.<sup>29</sup> This idea was put into the treaties by way of the procedure for enhanced cooperation.<sup>30</sup> This procedure allows a small group of MS to cooperate more closely “*under the auspices of the Union, through its institutions and procedures, without having to abandon the legal framework of the EU or to restrict the scope of application of primary law*”.<sup>31</sup>

26 K. Goetz, *The Temporal Dimension*, [in: ] *Which Europe? The Politics of Differentiated Integration*, (eds.) K. Dyson and A Sepos, Palgrave Macmillan 2010, p.79.

27 J. Přibáň, *Legal Flexibility, Governance and Differentiated Integration: On Functional Differentiation of EU Law and Politics*, [in: ] *Which Europe? The Politics of Differentiated Integration*, (eds.) K. Dyson and A Sepos, Palgrave Macmillan 2010, p.28.

28 A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] *Journal of Common Market Studies*, Vol. 34, Nr. 2, 1996, p.287.

29 See: J. de Neve, *The European Onion: How Differentiated Integration is Reshaping the EU*, [in: ] *Journal of European Integration*, Vol. 29, Nr. 4, 2007.

30 See: art. 20 TEU and arts. 326-334 TFEU.

31 M. Lamping, *Enhanced Cooperation: A Proper Approach to Market Integration in the Field of Unitary Patent*

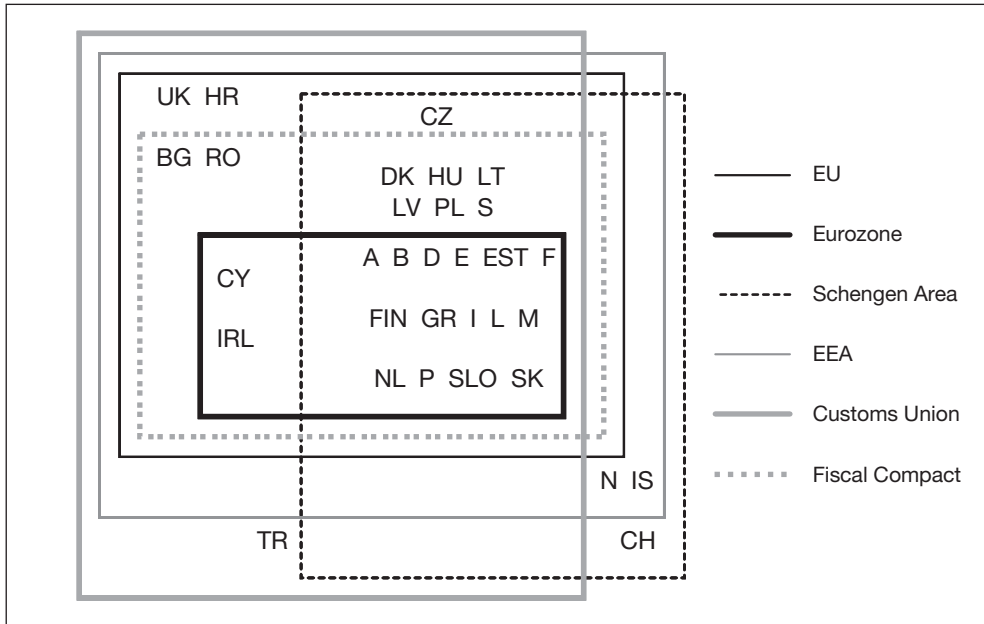


Figure 1 – Differentiated Membership in the EU

Source: Rittberger, Leuffen and Schimmelfennig 2013, own update

However, **the territorial dimension of differentiation cannot be put simply in terms of ‘the core and the rest’**. The participation of states in policy areas is highly differentiated both within and without the Union. As figure 1 shows, in some policy areas not all EU MS participate, while in others non-EU states do participate. Territorial differentiation thus has an internal as well as an external dimension, rendering to territorial borders of the EU rather “fuzzy” and making the identification of the “*political territory*” where EU rules apply a highly complex issue.<sup>32</sup> For example, in the area of the free movement of goods many non-EU states of the European Economic Area (EEA) have nonetheless enacted EU legislation, thereby effectively externally differentiating EU rules. Contrarily, on the area of defence, for example, EU MS highly internally differentiated through varied participation in the West-European Union (WEU). The varied participation to the EMU and the Fiscal Compact further complicates the internal territorial differentiation of the Union. The neat distinction between the various concentric circles of European integration is thus more theory than practice.

**While temporal differentiation more or less maintains the unitary principle of integration ‘in due time’ and territorial differentiation essentially provides unity within**

Protection?, [in: ] Max Planck Institute Online Papers, 2011, p.3

32 B. Rittberger, D. Leuffen, and F. Schimmelfennig, *Differentiated Integration: Explaining Variation in the European Union*, Palgrave Macmillan 2013, p.15.

different circles, the functional dimension of differentiation entirely abandons this unitary idea. Functional differentiation is best captured by the concepts of *Europe à la carte*, pick-and-choose and opt-outs. *Europe à la carte* basically means that MS can simply pick and choose for which policy area they wish to participate in integration. If MS do not want to participate, they can negotiate an opt-out from that policy area. For example, Denmark and the UK have obtained opt-outs from the EMU, and the UK and the Czech Republic have one with regard to the Fiscal Compact. Although these opt-outs are permanent in nature, nothing prevents non-participating states from opting back in at any later stage.

Functional differentiation varies significantly from the temporal differentiation in the sense that functional differentiation does not assume any long-term overarching goals to be achieved, as “*common objectives are sacrificed on the altar of national interests*”.<sup>33</sup> It is similar to territorial differentiation in that it also accepts the permanence of such differentiation and even advocates a core-periphery vision of the Union. However, unlike a Europe of concentric circles, an *à la carte* Europe differentiates between the core and the periphery “*according to the policy issue, and not a formal separation of the EU into different and essentially permanent tiers of membership*”.<sup>34</sup>

Of course, these three types and according models of differentiation cannot be entirely separated from each other. The EMU, for example, is differentiated along all three dimensions. It is territorially differentiated in that the EMU forms the ‘hard core’ of European integration. It is functionally differentiated in that some MS obtained opt-outs for some of the arrangements. And it is temporally differentiated in that all new MS are expected to introduce the euro when they are capable of doing so.

The differentiation of Europe is thus a highly complex phenomenon that is not easily captured and will only increase in importance in the years to come. Indeed, “*differentiated integration was gradually transformed from familiar political practice within EU institutions into a rule in intergovernmental negotiations and a guiding European treaty principle*”.<sup>35</sup> The history of differentiation shows that it is no longer a “*transitional phenomenon*” but a permanent and important feature of European integration.<sup>36</sup>

33 A. Stubb, *A Categorisation of Differentiated Integration*, [in: ] *Journal of Common Market Studies*, Vol. 34, Nr. 2, 1996, p.288.

34 A. Warleigh, *Flexible Integration: Which Model for European Integration?*, Sheffield Academic Press 2002, p.11.

35 J. Přibáň, *Legal Flexibility, Governance and Differentiated Integration: On Functional Differentiation of EU Law and Politics*, [in: ] *Which Europe? The Politics of Differentiated Integration*, K. Dyson and A Sepos(eds.), Palgrave Macmillan 2010, p. 26.

36 K. Goetz, *The Temporal Dimension*, [in: ] *Which Europe? The Politics of Differentiated Integration*, K. Dyson and A Sepos (eds.), Palgrave Macmillan 2010, p.68.

## Lessons to be learned from the Fiscal Compact

Although this article has the intention of thinking outside of the institutional box, it is instructive to take into account the specific debate surrounding the actual Fiscal Compact.<sup>37</sup> If a Social Compact modelled after the Fiscal Compact would be concluded, some important lessons might be learned from discussions surrounding the latter.

## Political differences between the Fiscal Compact and a Social Compact

It is important to first consider the political differences between the conclusion of the Fiscal Compact and the potential adoption of a Social Compact. First, **whereas the Fiscal Compact is merely a symbolic confirmation or a tightening version of**

**Whereas the Fiscal Compact is merely a symbolic confirmation or a tightening version of existing EU law measures, a Social Compact would substantively change the European constitutional order.**

**existing EU law measures,<sup>38</sup> a Social Compact would substantively change the European constitutional order. By adding social policy objectives, it would add a whole new layer to the EU that is up to now rather economically focussed.** A second difference might lie in the support of non-participating MS. Although the UK and the Czech Republic decided not to sign the Fiscal Compact Treaty, both countries were very much in favour of its conclusion, as they wanted the Euro area countries to tackle the structural problems underlying the EMU. By stabilizing the Eurozone, the Fiscal Compact was to the advantage of all MS, including the non-participating ones. This might be different with regard to a Social Compact, which is less of direct concern to non-participating MS. Furthermore it does not seem to be an unrealistic prophecy that non-participating MS would feel uncomfortable with the idea of being partly excluded from

the decision-making table,<sup>39</sup> a problem to which we will come back later on. A last difference might be found in the events leading towards the conclusion of the Fiscal

37 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, [http://european-council.europa.eu/media/639235/st00tscg26\\_en12.pdf](http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf) (12.02.2014) (hereafter: Fiscal Compact).

38 The Fiscal Compact does not seem to advance matters very much from what is determined in the Stability and Growth Pact, in art. 126(1) TFEU, in the so called six-pack and two-pack of EU legislation enacted in November 2011 and May 2013 (P. Craig, *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, [in: ] *European Law Review*, Vol. 37, Nr. 3, 2012, p.234; I. Pernice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, p.101).

39 J.C. Pirus, *The Future of Europe: Towards a Two-Speed EU?*, Cambridge University Press 2012, p. 63.



Compact. Without the heightening pressure from the markets and from “*principal paymaster*” Germany, the EU might have limited itself to the existing measures or to secondary EU law.<sup>40</sup>

## Legal lessons learned from the Fiscal Compact

### 1: Respect for the Union’s Competences

An international treaty concluded between some of the MS must respect the competences of the EU.<sup>41</sup> This means that in fields where the Union enjoys exclusive competences according to art. 3 TFEU, a ‘compact’ would be in violation of art. 2(1) TFEU. Due to the exclusive Union competence over monetary policy, the provisions of the Fiscal Compact could not and did not touch upon that field.

As regards a Social Compact, art. 4(2)(b) TFEU provides “*social policy, for the aspects defined in this Treaty*” to be a shared competence. To the extent that a Social Compact would touch upon aspects *not* defined in the TFEU, no specific limitation seems to be provided for in the TFEU.<sup>42</sup> Where the measures taken in a Social Compact would touch upon aspects of social policy defined in the TFEU, the MS can only “*exercise their competence to the extent that the Union has not exercised its competence.*”<sup>43</sup> Since the inability or unwillingness of the EU to develop a real social (security) policy is exactly why MS would opt for a Compact, these provisions will not likely hinder its adoption.

### 2: The Use of EU Institutions

With a Social Compact aiming to add a new layer of integration to the existing EU structure, it seems desirable to use the existing institutional structure of the Union for the operationalization of the social measures. The alternative would be to create a Social Union apart from the EU, with its own Court, Commission and other bodies.

In the doctrinal debate about the Fiscal Compact, specific attention was paid to the delegation of tasks by an international treaty concluded outside of the EU framework to the EU institutions. In this respect, a distinction should be made between the delegation of tasks to the Court of Justice on the one hand, and the European Commission on the other hand. Although delegation of tasks to the European Parliament was limited, if not non-existent, under the Fiscal Compact, it is interesting to also explore the possibilities

40 P. Craig, *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, [in: ] *European Law Review*, Vol. 37, Nr. 3, 2012, p.332.

41 S. Peers, *Towards a New Form of EU Law? The Use of EU Institutions outside the EU Legal Framework*, [in: ] *European Constitutional Law Review*, vol. 9, 2013, p.48.

42 See: art. 4(1) TEU.

43 See: art. 2(2) TFEU.

of delegation to this third European institution in the light of democratic legitimacy of the measures taken under the new Compact.<sup>44</sup>

### *Delegation of tasks to the Court of Justice of the European Union?*

It is not easy to formulate a conclusion about the possibility of the delegation of tasks to the Court of Justice of the European Union (CJEU), as much would depend on the precise content of a potential Social Compact. It is nevertheless clear that art. 273 TFEU, the article that allows for MS to confer jurisdiction to the CJEU in matters outside the scope of EU law in the strict sense,<sup>45</sup> poses a number of legal obstacles for CJEU jurisdiction. This article not only requires an agreement between the participating MS listing every potential dispute they want to refer to the CJEU, those disputes also have to be relatable to the subject matter of the existing EU Treaties. Furthermore, CJEU jurisdiction would be limited to disputes between MS, excluding the possibility for the Commission to bring MS before the Court in case they would not live up to obligations agreed upon in the Social Compact.

Three clear alternatives seem possible. The first alternative is the establishment of a separate Social Union Court. Second, the Social Compact could rely on national court jurisdiction. This is also part of the Fiscal Compact system, in so far as it obliges MS to introduce a constitutional balanced budget rule into their domestic legal system.<sup>46</sup> This of course could never completely replace the harmonising role of a European court. A last alternative would be to simply change the European treaties in order to allow for CJEU jurisdiction over Social Compact matters.

The question remains if there is no alternative to art. 273 TFEU to confer jurisdiction to the CJEU over a treaty concluded outside of the EU system. This question seems to be part of the broader issue of whether delegation of tasks to EU institutions is possible in general. In what follows the potential delegation of tasks on the Commission will be considered. The same reasoning can be applied to a delegation to the CJEU.

### *Delegation of tasks to the European Commission?*

In *Pringle*, the CJEU's judgment on the ESM Treaty, the Luxembourg Court confirmed the possibility to delegate tasks to the EU institutions in a treaty concluded outside of the EU legislative framework.<sup>47</sup> However, this ESM Treaty cannot be placed on the same

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44 See for a more extensive discussion: J. Lievens, S. Van Hecke, S. Sottiaux & W. Wolfs, *A Social Compact for a Social Union?*, KU Leuven: Euroforum Paper, September 2014, pp. 8-11.

45 See: written evidence provided by Steve Peers in House of Lords, Select Committee on the European Union, *The Euro Area Crisis. Oral and written evidence*, 2012, p.83, §18.

46 Art. 3 Fiscal Compact.

47 CJEU 27 November 2012, *Pringle*, C-370/12.

footing with the Fiscal Compact or a potential Social Compact, since delegation of tasks within the framework of the former was based on collective action of representatives of all MS.<sup>48</sup> **The problem of a Social Compact lies exactly in the lack of unanimous support.**

Piris points out that if MS wish to rely on EU institutions in a process of differentiated integration, they need the support of all MS, since EU institutions can be considered “*common property*” of the MS.<sup>49</sup> In a similar vein, Craig signals some serious concerns about the use of EU institutions without the proper consent of all the MS.<sup>50</sup> He nevertheless suggests that the use of EU institutions in the case of the Fiscal Compact might pass without problems since no explicit objection was formulated by the UK Prime Minister on the use of EU institutions.<sup>51</sup> Although in theory unanimity might be required to confer extra powers upon EU institutions, in practice an abstention, or a lack of objection, would not preclude the use of EU institutions.<sup>52</sup>

Ironically, where the conclusion of a Compact is meant to circumvent the unanimity requirement necessary for treaty change, unanimity seems still required within the Compact option. Although the lack of clear objections by the UK and the Czech Republic has allowed the Fiscal Compact to rely on EU institutions, it remains to be seen whether non-participating states will take a similar stance with respect to a Social Compact. It is not unthinkable that the non-participating MS would protest against the use of EU institutions, for instance because they might fear to be marginalised within the EU.<sup>53</sup> They might fear that in a multispeed Europe, only nationals from the ‘core group’, participating in all forms of integration, are eligible to be appointed as president of the European Parliament, the European Commission, the European Council and the

48 Opinion by: A.G. Kokott, 6 October 2012 in Case C-370/12, *Pringle*, pp. 172-175.

49 See: J.C. Piris, *The Future of Europe: Towards a Two-Speed EU?*, Cambridge University Press 2012, p.65. *Contra* S. Peers, *Towards a New Form of EU Law? The Use of EU Institutions outside the EU Legal Framework*, [in: ] *European Constitutional Law Review*, vol. 9, 2013, p.54; who derives from the Opinion of the Advocate-General in *Pringle* that possibly only the approval of the *participating* member states’ representatives would be necessary.

50 P. Craig, *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, [in: ] *European Law Review*, Vol. 37, Nr. 3, 2012, pp.237-245. See in the same sense the British point of view expressed in House of Lords, European Union Committee, *The Euro Area Crisis*, 2012, p. 89.

51 P. Craig, *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, [in: ] *European Law Review*, Vol. 37, Nr. 3, 2012, p.238. See: footnote 27, with referral to House of Lords, European Union Committee, *The Euro Area Crisis*, 2012, p. 89.

52 Compare with arts. 235(1) and 238(4) TFEU about the unanimity requirement within the European Council and the Council respectively.

53 Although Steve Peers agrees that already in the case of the Fiscal Compact the UK could have legally challenged the delegation of tasks to EU institutions, he does not agree that the approval of all member states is required. (See: S. Peers, *Towards a New Form of EU Law? The Use of EU Institutions outside the EU Legal Framework*, [in: ] *European Constitutional Law Review*, vol. 9, 2013, p. 54.

Eurozone. It seems essential to take the wishes of non-participating MS into account so as to keep them involved<sup>54</sup> in developing paths of differentiated integration.<sup>55</sup>

### *Delegation to the European Parliament?*

The same problem arises with respect to the involvement of the European Parliament. Roughly three options for parliamentary involvement within a context of differentiated integration appear to be available.<sup>56</sup> A first option is to rely on the European Parliament as a whole, including MEP's from non-participating MS. A second option would be to organise a special session of the European Parliament, involving only MEP's from participating MS. Not only is it unclear whether parliamentary involvement could be limited to the participating MS, since also nationals from non-participating MS are part of the European Parliament,<sup>57</sup> it also seems unlikely that non-participating MS would support the creation of a parliamentary session, excluding their MEP's.<sup>58</sup> Hence, the first two options clearly reflect the 'we are in this together'-lesson drawn above. Only the third option, i.e. the creation of a new parliamentary institution outside the existing EU framework, allows for excluding the involvement of non-participating MS.

In the Fiscal Compact, parliamentary involvement was limited to the attendance by three Members of the European Parliament of the final round of negotiations, and the involvement of national parliaments in the (national) ratification procedure.<sup>59</sup> Although article 13 of the Fiscal Compact refers to both the European Parliament and national parliaments, it does only rephrase the ambition of Title II of Protocol (No 1) on the role of national Parliaments in the European Union, to organise effective and regular interparliamentary cooperation with regard to budgetary policies. It limits the role of parliaments to 'discussing' the issues covered by the Fiscal Compact. This limitation should not, however, be automatically transposed to a potential Social Compact. As critical legal doctrine suggests, more parliamentary involvement is possible within the current framework.<sup>60</sup>

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54 This is the case within the procedure of enhanced cooperation, which allows all members of the Council to participate in deliberations about enhanced cooperation policy (arts. 20(4) TEU and 330 TFEU).

55 See: J.C. Piris, *The Future of Europe: Towards a Two-Speed EU?*, Cambridge University Press 2012, pp.140-142; B. Fox, 'Reform or We Leave EU,' *Wams British Chancellor*, [in: ] EUobserver, January 2014, <http://euobserver.com/news/122734>.

56 See: I. Pemice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, pp.122-123.

57 A. Kocharov (ed.), *Another Legal Monster? An EUJ Debate on the Fiscal Compact Treaty*, [in: ] European University Institute Working Papers, Vol. 9, 2012, p.14.

58 See: reaction of British conservatives to proposals of creating an economic and monetary union subcommittee within the European Parliament: *UK Conservatives Balk at Plans for Eurozone Parliament*, [in: ] EurActiv, January 2014, <http://www.euractiv.com/uk-europe/uk-conservatives-balk-plans-euro-news-533273>.

59 I. Pemice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, pp.100-101.

60 I. Pemice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, p.119.

### 3: The Disadvantages of Internationalization

In addition to the abovementioned lessons that can be learned from the Fiscal Compact saga, the Fiscal Compact also proves exemplary of the disadvantages of an intergovernmental approach. Internationalisation (as opposed to supranationalisation) can both adversely affect the efficacy of the legal framework and lead to an enforced de-democratisation.

#### *Internationalisation = weakened efficacy?*

Paul Craig notes that in terms of efficacy, the Fiscal Compact offers “*an object lesson as to how tough talk at the outset can be watered down through successive changes to its wording.*”<sup>61</sup> Although it might be too pessimistic to conclude from the experience with the Fiscal Compact that the intergovernmental bargaining process of detailed measures automatically results in the watering down of the content, it does offer an example of how this can be the case if the MS appropriate the rule making process, excluding both the European Parliament and the European Commission.<sup>62</sup> Fabbrini goes even further, stating that intergovernmentalism decreases the rule of law.<sup>63</sup> To underpin this claim he refers to the lack of compliance with the Stability and Growth Pact.

However, things might be more nuanced. Steve Peers for example suggests that under certain conditions intergovernmentalism might be the best way to achieve supranational cooperation.<sup>64</sup> If MS are able to use the institutions of the European Union those can function as “*ready-made ‘motors of integration’*”. The MS will then be saved from having to build up parallel mechanisms “*from scratch*”.

#### *Internationalisation = de-democratisation?*

The process of international bargaining might not only water down the content of the measures concerned, it also suffers from a lack of democratic legitimacy, excluding parliamentary involvement and dialogue with civil society.<sup>65</sup> International bargaining leads

61 P. Craig, *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, [in:] *European Law Review*, Vol. 37, Nr. 3, 2012, p.235.

62 See: I. Pernice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, p.98, p.129.

63 A. Kocharov (ed.), *Another Legal Monster? An EU Debate on the Fiscal Compact Treaty*, [in:] *European University Institute Working Papers*, Vol. 9, 2012, p.17.

64 S. Peers, *Towards a New Form of EU Law? The Use of EU Institutions outside the EU Legal Framework*, [in:] *European Constitutional Law Review*, vol. 9, 2013, p.40.

65 See: S. Peers, *Towards a New Form of EU Law? The Use of EU Institutions outside the EU Legal Framework*, [in:] *European Constitutional Law Review*, vol. 9, 2013, p.40; Editorial Comments, *Some thoughts concerning the Draft Treaty on a Reinforced Economic Union*, [in:] *Common Market Law Review*, vol. 49, Nr. 1, 2012 (49), p.9; I. Pernice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, p.101, p.131, p.135; J. Habermas, *Zur Verfassung Europas – Ein Essay*, 2011, p.8.

to decisions determined by political imperatives, leaving no room for political discussion at the parliamentary level.

The lack of democratic legitimacy is all the more striking if one realises that the alternative options would have allowed for more democratic support. In this regard, Fabbrini points out that the measures taken in the Fiscal Compact could also have been adopted through the enhanced cooperation procedure, which would have provided for a higher degree of democratic legitimacy.<sup>66</sup> Also a reform of the treaties by way of art. 48 TEU would imply a higher degree of parliamentary involvement, both by the European Parliament and the national parliaments.<sup>67</sup>

As the foregoing shows, the option of a Treaty amendment, affecting only certain MS might be preferable from the point of view of efficiency and democratic legitimacy. Nevertheless, when this scenario would appear to be impossible, as was the case with the Fiscal Compact, a separate treaty may be concluded outside of the EU framework. The main advantage of this option seems to be of a symbolic nature. Although the support of the MS is still needed to rely on the EU institutions, this support can be given more subtly by abstaining from objecting, whereas a treaty change would require express consent. Nevertheless, it seems important to allow non-participating MS to remain involved in developments of differentiated integration.

## Conclusion

The previous section has explored whether the Fiscal Compact might be a model for our Social Union, therefore the reference in the title of the article to 'A Social Compact', but not without a number of serious legal considerations. Also **at the political level, one should raise the question whether a Social Compact is feasible, whether it poses a window of opportunity that should not be missed. Among other things, as with EMU a difficult decision to make is establishing the criteria for participation (also in terms of the basic levels of convergence), which MS will be able to join and how many will be willing. One might end up with a Social Union of two or three MS. For obvious reasons, this is not what we have in mind, nor how social policies in the EU will easily and rapidly advance.** Another issue to tackle is the question whether MS that do not wish to join have political reasons (policy preferences) or strategic reasons (non-participation avoids the costs without being totally excluded from the benefits) to do so. These problems will need to be explored further as well as the substance of such a Social Union.

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66 F. Fabbrini, *The Euro-Crisis and the Courts: Judicial Review and the Political Process in Comparative Perspective*, [in: ] *Berkeley Journal of International Law*, Vol. 32, Nr.1, 2014, p.1, p.65.

67 I. Pernice, M. Wendel, L.S. Otto et al., *A Democratic Solution to the Crisis. Reform Steps towards a Democratically Based Economic and Financial Constitution for Europe*, Baden-Baden, Nomos, 2012, p.103, p.135.

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David J. BAILEY

## **Socio-economic Policy Making and the Contemporary Prospects for a 'Social Europe' Alternative**





**Key words:**

**Social Europe - European Union – Contestation – Consensus - Social Democracy**

**Abstract:**

This chapter assesses the prospect for a 'Social Europe' agenda within the institutions of the European Union, and especially at the EU-level. It explores the continued social democratic ambition of a Social Europe, whilst at the same time noting the ongoing presence of significant obstacles to the realisation of such an agenda. It sets out and adopts a 'contestation/control approach' to EU-level policymaking, arguing that in order for 'Social Europe' to be a realistic possibility there would need to be a coincidence of both high levels of social contestation and a consensus amongst sections of the European political elite in support of a concessions-oriented response to that contestation. It compares the experience of the UK, Germany and Italy since the onset of the global economic crisis and the Eurozone crisis, and argues that as yet there are insufficient signs of the necessary conditions appearing. As such, it is sceptical about the prospects for Social Europe emerging at the EU-level within the foreseeable future.

Many on the social democratic left aspire to the construction of a ‘Social Europe’ that is marked by substantive redistributive, regulatory or social investment-oriented policymaking at the EU-level<sup>1</sup>. Thus, the call by the German SPD’s Labour and Social Affairs Minister, Andrea Nahles, for ‘more stimuli for growth and employment’, ‘more social progress in Europe’, ‘more coherence and balance in European policy’, and especially the encouragement and monitoring of national attempts to ‘introduce minimum social protection systems or labour market reforms’ reflects many of the ambitions of the European social democratic left. Indeed, other centre-left commentators continue to argue for the importance of developing a ‘Social Europe’ agenda at the EU-level. For instance, the *Social Europe Journal* recently published a series of pieces written by key social democratic and centre-left commentators (one of which was Andrea Nahles’ piece, cited above), and which form part of the Social Europe 2019 project, with contributions also made by former social democratic commissioner, Anna Diamantopoulou, SPD Minister of State for Europe, Michael Roth, and DGB Chairman, Reiner Hoffmann<sup>2</sup>. The promotion of a ‘Social Europe’ agenda has perhaps been most clearly articulated by the EU-level *Party of European Socialists* and by the *Socialists and Democrats group in the European Parliament*. For instance, in its 2014, *Europe Back to Work plan*, the Socialists and Democrats group called for a macroeconomic plan that would ‘build a more secure, more inclusive, more sustainable future’, especially through a ‘significant increase in public and private investment over many years’, and for EU coordination that would be aimed ‘more strongly on promoting social and economic convergence’<sup>3</sup>. National social democratic parties have expressed similar views – with Matteo Renzi perhaps being most associated with calls for a more substantive EU-level investment programme<sup>4</sup>.

One of the most noteworthy features of the ongoing social democratic goal of ‘Social

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1 L. Tsoukalis, *The Unhappy State of the Union.*, London: Policy Network 2014; D. J. Bailey, *Palliating terminal Social Democratic decline at the EU-level?*, [in: ] D.J. Bailey, J. M. De Waele, F. Escalona & M. Vieira (eds.), *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester: Manchester University Press 2014.

2 See <http://www.social-europe.eu/hot-topics/social-europe-2019/>

3 Socialists and Democrats, *Europe back to work: A 10-point plan for change.*, Available here: [http://www.socialistsanddemocrats.eu/sites/default/files/SD\\_EUROPE%20BACK%20TO%20OR%20BROCHURE\\_SMALL\\_PAGES\\_EN\\_140403\\_0.pdf](http://www.socialistsanddemocrats.eu/sites/default/files/SD_EUROPE%20BACK%20TO%20OR%20BROCHURE_SMALL_PAGES_EN_140403_0.pdf) 2014, pp. 8-9.

4 See, for instance, ANSA, 25 November 2014, *Renzi calls for European New Deal.*, available here: [http://www.ansa.it/english/news/politics/2014/11/25/juncker-investment-plan-for-whole-eu\\_80fd9394-31b0-4055-a9c8-cf4471ad2d83.html](http://www.ansa.it/english/news/politics/2014/11/25/juncker-investment-plan-for-whole-eu_80fd9394-31b0-4055-a9c8-cf4471ad2d83.html)

Europe', however, is the existence of a range of significant and serious obstacles to achieving that goal. These have been routinely and widely noted<sup>5</sup>. **In the light of this apparent disjuncture – between, on the one hand, the proclaimed 'Social Europe' ambitions of social democrats in Europe, and, on the other hand, the scale of the obstacles in the way of realising those goals – this paper seeks to assess the prospects for (elements of) a 'Social Europe' agenda to be realised, as an alternative to what many commentators have argued has thus far been an excessively austerity-focused response across Europe to the global economic crisis and Eurozone crisis, and despite the existence of significant obstacles to realising those goals.** The paper proceeds by first setting out an approach that seeks to identify the prospects for realising a 'Social Europe' agenda, focusing especially on patterns of social contestation and the elite-level responses that have emerged as a result. It then proceeds to consider developments in each of the larger EU member states, in an attempt to evaluate the prospect for the realisation of a 'Social Europe' agenda. Finally, the chapter looks at the recent development of two initiatives – the Financial Transaction Tax, and labour market regulation – to consider the extent to which the argument developed here is confirmed by recent developments in EU-level policymaking.

### **A Framework for Studying Policymaking: Assessing the Prospects for Social Europe**

Most approaches to studying policymaking focus on one of three key factors: (i) *partisan actors*, and especially the balance of power between partisan actors in the legislature and executive; (ii) *institutions*, and especially the policy traditions and established institutional competences that exist within any particular institution of political authority; and (iii) *socio-economic context*, and especially the extent to which economic pressures necessitate market liberalisation, and/or growth-oriented stimulus, and the extent to which patterns of social mobilisation and contestation necessitate an elite-level response. Whilst each of these factors are clearly important in enabling us to understand the process of policymaking, what is perhaps more important still is the ability to understand how the three spheres interact, and how that interaction produces a tendency towards particular types of policymaking.

In seeking to develop a framework for studying EU-level policymaking, this chapter draws on what it terms a '*contestation/control approach*'. According to this approach, policymaking is understood as an outcome of the interaction between, on the one hand,

<sup>5</sup> D. J. Bailey, *Explaining the underdevelopment of 'Social Europe': A critical realization.*, [in: ] *Journal of European Social Policy*, Vol. 18(3), 2008, pp. 232-45.; F. Scharpf, *The asymmetry of European integration, or why the EU cannot be a 'social market economy.*, [in: ] *Socio-Economic Review*, vol. 8 (2), 2010, pp. 211-50.

forms of contestation that mark contemporary European society, and on the other hand, the strategies of control adopted by members of the political elite and pursued through the institutions of the European Union. From this perspective, we anticipate that redistributive/regulatory/social investment-oriented socio-economic policymaking (i.e. that which tends to fall under the broad goals of 'Social Europe') is determined by the extent to which 'sub-altern' groups are mobilised in such a way that threatens to disrupt the functioning of existing European socio-economic hierarchies and processes, and therefore also threaten those European political and socio-economic elites who benefit from those hierarchies/processes, *and* that the political elite can agree on a strategy of co-optation/concessions as a means by which to seek to contain that disruption and therefore enable the reproduction of those (somewhat modified) social hierarchies.

The key question underpinning the present chapter is whether a 'Social Europe' agenda is likely to be adopted. The approach set out above therefore identifies three key conditions that must be met in order that a Social Europe agenda becomes realisable:

- Levels of social mobilisation and contestation are such that the elites that populate established social, economic and/or political hierarchies are sufficiently threatened or destabilised, such that they would consider the adoption of institutional concessions as a necessary response to seek to return to a more stable reproduction of those hierarchies;
- That a coalition of decision-making elites are able to form a consensus that concessions are to be favoured over acts of repression as the response to be adopted to current levels of social mobilisation; and
- That coordinated activity through the institutions of the European Union is considered part of the means through which institutionalised concessions will be implemented.

In adopting this approach, therefore, we are seeking to assess the extent to which sub-altern groups within European society are acting in a disruptive or contentious manner, the response of those elites who are unsettled by those acts of disruption/contestation, and the extent to which that response both comes in the form of institutionalised concessions and is oriented towards (or at the least includes a commitment to the development of) European integration. In keeping with the commonly accepted notion that European Union polity is characterised by 'politics without policy' at the national level, and 'policy without politics' at the EU-level<sup>6</sup>, the focus of the analysis will be on national-level politics (forms of contestation and elite-responses) and EU-level policy positions and outcomes.

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6 V. A. Schmidt, *Democracy in Europe: The EU and National Politics.*, Oxford, Oxford University Press 2006.

## Contestation/Control in EU Member States

What follows is an overview of key instances of social contestation in a number of the larger EU member states. This seeks to explore (a) the extent to which disruptive social mobilisations exist, and the degree of disruption they have caused (if any) within the European Union; and (b) the dominant strategies of containment amongst the contemporary political elite. A charting of these two dynamics, the paper argues, presents an indication of the likely (and therefore feasible range of) socio-economic policy outcomes resulting from EU policymaking.

The chapter will highlight, through an overview of newspaper reports and secondary literature, the dominant forms of disruption witnessed in a sample of countries since the onset of global economic crisis in 2008. The countries selected are the UK, Germany, and Italy – chosen on the grounds that each are relatively large countries from a selection of European varieties of capitalism and which have been affected in differing ways as a result of the post-2008 crises. Consistent disruption in these countries can therefore be considered to represent a challenge to governing practices across the European Union.

It will also use a discussion of a number of key EU-level socio-economic policy developments in recent years to explore the containment strategies of key members of the political elite in each country, assessing the extent to which this varies by nationality and party family.

It is anticipated that the findings will provide an indication of the likely (and therefore feasible range of) socio-economic policy outcomes resulting from the EU socio-economic policymaking process, therefore contributing to the debate initiated by many social democratic advocates of greater European-level integration (and, in turn, the EU as a site of redistributive and regulatory policy outcomes).

## Contestation/Control in the UK

### Contestation

Since the onset of the global economic crisis in 2008 the UK has witnessed a number of significant episodes of heightened social contestation<sup>7</sup>. This has witnessed a general increase in extra-parliamentary activity since the final quarter of 2008 – with key episodes of contestation including the Lindsey Oil Refinery dispute (and associated unofficial strike actions) of 2009, the Visteon and Vestas workplace occupations of 2009, the 11-week strike action undertaken by the Leeds refuse collectors in 2009, the series of UK Uncut disruptive actions targeting Vodafone shops (alleging tax evasion) during the latter months of 2010, the series of University protests, demonstrations and occupations that met the

7 D. J. Bailey, *Contending the crisis: What role for extra-parliamentary British politics?*, [in:] *British Politics* 9(1), 2014, pp. 68-92.

steep rise in tuition fees in 2010, the Occupy movement which saw most major cities in the UK experience occupation camps for several weeks or months, the riots of 2011 that were sparked by the police shooting of Mark Duggan, and a series of short (normally one-day) public sector strikes in support of public sector pay claims or in opposition to reductions in public pensions. Second, we witness a rise in the number of events conducted by 'materialist' actors (especially workers) and a corresponding decline in the number of events conducted by 'postmaterialist' actors (especially environmentalists, animal rights activists and peace protesters) – thereby suggesting that we are witnessing a move towards a new type of materialist protest politics in response to the global economic crisis<sup>8</sup>. Thus, public concerns – as vocalised through extra-parliamentary forms of direct action, protest and demonstrations – have increasingly focused on material issues relating to pay, pensions, employment conditions, public spending and austerity cuts – each of which suggests that there is an increased appetite for policy measures that will seek to improve the wellbeing of individuals in each of these areas.

### Containment

Three main patterns of containment have been witnessed on the part of the incumbent Conservative-led coalition government in response to the forms of contestation outlined above. First, we witness the adoption of the 'household metaphor' and the discourse of financial responsibility. This refers to the way in which austerity measures – which have been the focus of many of the new forms of contestation that have been witnessed over the past five years – have been partly legitimated through reference to what Stanley<sup>9</sup> describes as the way in which everyday experiences within the household are used as metaphors through which to understand the necessary contraction of state expenditure. This creates a context in which 'public money is deemed to have been wasted', sentiments which are internalised by members of the public and 'used to excuse and justify the potentially harmful consequences – whatever they may be – of reluctantly accepting spending cuts'<sup>10</sup>.

Second, in addition to such patterns of discourse, the UK coalition government has overseen a repressive response to patterns of contestation, witnessing for instance heightened use of 'kettling' during the student protests, heavy handed sentencing as a response to the 2011 riots, and the controversial conviction of the Fortnum and Mason UK Uncut protesters. We have also witnessed a growing commitment by the government to the use of tightened trade union legislation as a means by which to make it more difficult for industrial action to take place.

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8 Ibid.

9 L. Stanley, *We're reaping what we sowed': Everyday crisis narratives and acquiescence to the age of austerity.*, [in: ]173  
*New Political Economy* 19(6), 2014, pp. 895-917.

10 Ibid.

Third, we have witnessed a move towards a rising strategy of nationalist blame-shifting, whereby both the European Union and immigration are increasingly identified as key problems affecting British society and public spending. For instance, on 1 January 2014 the government introduced new criteria for unemployment benefits that would, in its words, ensure that “all EU jobseekers will have to wait for 3 months before they can apply to claim income-based Jobseeker’s Allowance (JSA). This will make sure that only people who have a legal right to be in the UK and plan to contribute to the economy have access to our welfare system.”<sup>11</sup> This is in addition to the demands for a renegotiation of the UK’s terms of membership of the EU, and its hostility to the nomination of Juncker as Commission president. It is also a position that was consolidated by David Cameron when he announced in November 2014 that his government planned for a four-year qualifying period before EU migrants are eligible for in-work support, including tax credits and social housing<sup>12</sup>.

In contrast, there has been very little attempt to reverse public spending cuts or benefits cuts, and indeed the government remains fully committed to a programme of reducing the public debt and public spending.

In terms of the likelihood of an alternative programme being adopted by the main opposition Labour Party, this also seems unlikely. For instance, the Labour Party has ruled out a return to largescale increases in spending, positioning itself rather as the party of responsible cuts. This was perhaps most evident in the September 2014 conference speech by Ed Balls, at which he promised to cap child benefit payments, ensure fiscal responsibility, and that the Labour Party had “*learned from our past and our mistakes ... We are tough enough to make the difficult decisions.*”<sup>13</sup> Similarly, the Labour Party has conceded that many of the spending cuts introduced by the Conservative-led coalition are necessary – including its ‘capitulation to coalition policies such as the benefits cap’ and despite an attempt to rhetorically position itself as the party of social justice (albeit one that also acknowledges personal responsibilities)<sup>14</sup>. Further, Labour Party leader Ed Milliband has argued in a similar vein for the reasonableness of austerity measures that seek to reduce entitlements to welfare benefits. For instance, in setting out planned welfare reform measures, he states, “*We would put a limit on how long anyone who can work, can stay unemployed, without getting and taking a job.*”<sup>15</sup>

Equally, on each of the other core strategies of containment adopted by the Conservative Party and outlined above, we see similar trends. Thus, the Labour Party has

11 <https://www.gov.uk/government/news/tough-new-migrant-benefit-rules-come-into-force-tomorrow>

12 <http://www.ft.com/cms/s/0/adaf9342-763e-11e4-a777-00144feabdc0.html>

13 <http://uk.reuters.com/article/2014/09/22/uk-britain-politics-labour-balls-idUKKBN0HG0VG20140922>

14 J. Atkins, *Narrating One Nation: The Ideology and Rhetoric of the Milliband Labour Party.*, [in: ] *Politics* 35(1), 2015, pp. 19-31.

15 <http://archive.labour.org.uk/one-nation-social-security-reform-miliband-speech>

clearly positioned itself as anti-EU immigration, for instance declaring in November 2014 that it would seek to ensure that EU nationals in Britain were only entitled to out-of-work benefits after working in the UK for two years beforehand<sup>16</sup>. Similarly, the Labour Party failed to offer consistent support for those protesting government policy that experienced heavy-handed responses from the government<sup>17</sup>.

### Implications for EU policymaking

In terms of the implications for EU policymaking, the tension between contestation and containment in the UK case suggests the unlikelihood of a return to a feasible politics of Social Europe. In particular, whilst we have witnessed a return to more disruptive patterns of contestation, none of the main responses to these new patterns suggests that a politics of EU-level concessions is emerging within the UK context. Rather, the Conservative-Liberal Democrat coalition has adopted a combination of responses that seek to (a) deny the merit of the claims being made by those undertaking acts of contestation, (b) adopt a more repressive police and judicial response, and (c) move towards a nationalist response that includes within it a strongly Euroskeptic angle. Of course, there is the possibility that this might change with the election of the Labour opposition, although existing research suggests that this is unlikely to be the case<sup>18</sup> and the more Euroskeptic position adopted on EU migration also suggests that this is unlikely. Further, in setting out the Labour Party's opposition to any notion of an exit from the EU (i.e. a 'Brexit'), Ed Miliband has made it clear that the Labour Party is opposed to this; however, in making the case for the UK's continued membership there is also a clear move towards the espousal of a sceptical edge to EU membership, in which greater moves towards greater degrees of intervention (which would be necessary if a more substantive 'Social Europe' agenda were to be realised) are not part of the Labour Party's agenda. For instance, in making the case for UK's continued membership of the EU in November 2014, Miliband stated that,

*If I am Prime Minister I will never risk British businesses, British jobs, British prosperity by playing political games with our membership of the European Union. We have seen it again with the controversy over the EU budget: banging the table one day, then paying up the next. I have a different approach. And we will build alliances with others, not burn them,*

<sup>16</sup> <http://euobserver.com/political/126581>

<sup>17</sup> D. J. Bailey, *Responding to new patterns of social contestation: the politics of protest management during the global economic crisis.*, working paper for FEPS Next Left Working Group, presented Vienna, Austria, 15-16 December 2013.

<sup>18</sup> D. J. Bailey, *The Transition to 'New' Social Democracy: the role of capitalism, representation, and (hindered) contestation*, [in: ] *British Journal of Politics and International Relations*, Vol. 11(4), 2009, pp. 593-612.; D. J. Bailey et al., *Palliating terminal Social Democratic decline at the EU-level?*, [in: ] D.J. Bailey, J. M. De Waele, F. Escalona & M. Vieira (eds.), *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester: Manchester University Press 2014.



*to help bring the necessary change in the way the European Union works. And there does need to be change. Completing the single market. Longer transitional controls when new countries enter the EU. Protecting the integrity of our benefits system. And getting on with the long overdue reform of the EU budget. And as a guarantee to the British people, we have said that under a Labour government, there will be no further transfer of powers to the European Union without the explicit consent of the British people in an in/out referendum.*

Thus, none of the measures adopted either fall within the categories of deepening integration or being in advance of a 'Social Europe' agenda: 'Completing the single market' (pro-market), 'Longer transitional controls' (Eurosceptic), and commitment to a referendum ahead of any further integration (Eurosceptic).

## Contestation/Control in Germany

### Contestation

In terms of episodes of contestation, the post-2008 period has witnessed relatively low levels of protest activity in Germany<sup>19</sup>. Perhaps the most visible of the anti-austerity movements that have emerged in Germany during the crisis period has been that of the blockupy movement. These took the form of occupations of public squares in Frankfurt in May 2012 in an attempt to blockade the European Central Bank, which was held responsible for the austerity measures that were being imposed upon Europe (and especially the southern periphery countries). Other forms of protest included the Occupy Frankfurt occupation<sup>20</sup>. Germany also witnessed a series of calls for wage increases – some voiced through disruptive strike actions (for instance, in the case of the Amazon workers strike in April 2014<sup>21</sup>), and others voiced through a more insider-oriented strategy (for instance, through lobbying by the DGB, Germany's confederation of trade unions<sup>22</sup>). However, given that Germany recovered relatively quickly and more successfully than many other member states of the European Union, it is perhaps unsurprising that the level of dissent and social contestation witnessed in the country was relatively low.

### Implications for EU policymaking

In terms of the implications for EU policymaking, what is perhaps most important to be observed in the case of Germany is the extent to which the government has taken the

19 S. Schmalz & N. Weinmann, *Two Crises, Two Cycles of Contestation. Workers' Protests in Western Europe in Comparison.*, Paper presented at the 18<sup>th</sup> ISA World Congress of Sociology: *Facing an unequal world: challenges for global sociology* 2014.

20 Global Voices, *Germany: #Blockupy Protests Against Pan-European Austerity.*, [in:] *Global Voices, Europe in Crisis: Citizen Media Coverage.*, Global Voices Books 2012.

21 <http://www.ft.com/cms/s/0/89e71aa2-c608-11e3-ba0e-00144feabdc0.html#axzz3KeQ66zKl>

22 <http://www.ft.com/cms/s/0/656ff1f6-10ec-11e4-94f3-00144feabdc0.html>

lead in promoting a pro-market and pro-austerity agenda as a result of its commitment to fiscal rectitude. Thus, under Angela Merkel's chancellorship, Germany has consistently advocated fiscal rectitude and austerity measures to be implemented in those periphery member states requiring emergency loans. In terms of the input of the SPD, the adoption of a coalition deal at the end of 2013 saw hopes rise that the SPD might temper the pro-austerity drive of the German government. In the words of Carsten Schneider, the SPD's budget spokesman in the Bundestag, *'The FDP took a very strong national economic approach that starts from the view that economic affairs are to be ordered largely within Germany's borders ... We have a different policy. We support a fiscal union in the long run. Not only in banking but also in tax and spending policies'*<sup>23</sup>. Similar speculation has been made following the decision of SPD deputy chancellor and economy minister, Sigmar Gabriel, to support calls for a more flexible interpretation of the budget rules and 3% fiscal deficit ceiling. In that case, Gabriel stated that, *'One idea could be not to count the costs of reform policies in some countries in deficits ... it would be a kind of swap: reforms versus deficit criteria. The reforms must be binding, but also the chance to finance them'*. There does appear, therefore, to be some movement towards a preference for softening the pro-austerity position adopted by the SPD, although scepticism remains regarding the extent to which this will develop into more wholehearted support for a stronger 'Social Europe' position – not least due to the compromises that the SPD needs to make in order to remain within the Grand Coalition, and because of the strong pro-austerity, EU-level public investment-averse position that the German government has adopted for reasons that are not entirely partisan but rather related to the position of the German economy within the European Union and global economy<sup>24</sup>. Moreover, given that the SPD is not being pushed in this direction by large amounts of social contestation suggests, in addition, that there will not be sufficient pressure to ensure that a more 'Social Europe' resolution is adopted. Historical precedent also suggests that a new reflationary model is about to be adopted by the German Social Democrats. As Julian Germann puts it, *'the chances that Germany today might emerge as the new driver of demand-led growth are virtually nil if we recall that German policymakers in the 1970s turned down similar propositions under conditions that were far more favorable to a progressive reorganization of the global political economy'*<sup>25</sup>.

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23 quoted in: S. Wagstyl, *Germany's SPD hints at greater solidarity with troubled EU states.*, *Financial Times*, 12 December 2013. Available here: <http://www.ft.com/cms/s/0/96cbbf8e-6343-11e3-a87d-00144feabdc0.html> 2013.

24 See: *Ibid.*; and for instance, T. Fazi, *Matteo Renzi: Should you believe the hype?*, [in: ] *Social Europe journal.*, Available here: <http://www.social-europe.eu/2014/07/matteo-renzi/> 2014.

25 J. Germann, *German "Grand Strategy" and the Rise of Neoliberalism.*, [in: ] *International Studies Quarterly.*, 58(4), 2014, p. 713.

## Italy Case

### Contestation

Perhaps unsurprisingly, given both that it has been considerably hard-hit by the Eurozone crisis and that it has a historical tradition of militant forms of protest, Italy has witnessed a considerable amount of social contestation during the post-2008 crisis context<sup>26</sup>. This has, however, for much of the time been less than might perhaps have been expected. Thus, since 2010, 'students have protested frequently and intensively against what they consider as attacks on public education, including budget cuts and fees increases. On several occasions, especially during innovative 'lessons on the street' they were joined by concerned parents and teachers as well as by the population at large'<sup>27</sup>. Nevertheless, in terms of the most prominent forms of protest across the rest of the advanced industrial democracies, in Italy episodes of contestation in the mould of the 'Occupy' movement or the 'Indignados' movement in Southern Europe were relatively weak<sup>28</sup>. Other episodes of contestation, however, have occurred, especially witnessing increasingly militant forms of trade union protest. Events include the Global Day of Action on October 15 2011 which saw hundreds of thousands of demonstrators in Rome and ended in violent outbursts<sup>29</sup>, disruptive anti-austerity strikes targeting public transport in October 2013<sup>30</sup>, a series of increasingly disruptive 'pitchfork protests' that emerged throughout December 2013 in opposition to the prolonged experience of austerity measures being imposed by the government<sup>31</sup>, and ongoing opposition (throughout much of 2014) from the Italian trade union movement to Matteo Renzi's plans to reduce public spending<sup>32</sup> and to his proposals to deregulate the labour market in the form of the so-called 'Jobs Act'<sup>33</sup>.

### Renzi's response and the implications for EU policymaking

In the case of Italy, therefore, we have both instances of relatively high (or, at least, ongoing) levels of disruptive protest *and* an incumbent centre-left government, under the leadership of Mateo Renzi. The Italian case, therefore, provides us specifically with an opportunity to explore the extent to which we might expect social democratic

26 on Italy's tradition of protest, see: D.J. Bailey, *Resistance is futile? The impact of disruptive protest in the 'silver age of permanent austerity'*, [in: ] *Socio-Economic Review*, forthcoming.; P. Mudu, *Resisting and Challenging Neoliberalism: The Development of Italian Social Centers.*, [in: ] *Antipode*, 36, 2004, pp. 917-41.

27 D. Della Porta et al., *Same old stories? Trade unions and protest in Italy in 2011.*, *OpenDemocracy.*, Available here: <https://www.opendemocracy.net/donatella-della-porta-lorenzo-mosca-louisa-parks/same-old-stories-trade-unions-and-protest-in-italy-2012>.

28 Ibid.

29 Ibid.

30 <http://euobserver.com/tickers/121830>

31 <http://www.ft.com/cms/s/0/36825442-6278-11e3-bba5-00144feabdc0.html>

32 <http://euobserver.com/tickers/126045>

33 <http://revolting-europe.com/2014/10/29/after-saturdays-massive-show-of-force-where-now-for-italys-cgil-union/>

governments to adopt a concession-oriented, pro-Europe, approach. Renzi's response to the episodes and instances of disaffection that have met his reform programme can perhaps be characterised in terms of a somewhat contradictory double strategy of domestic neoliberalism and Eurosceptic anti-austerity.

In terms of the first pillar of Renzi's response – domestic neoliberalism – this is perhaps most clearly summed up in the example of the Jobs Act, which aims to make it easier for companies to make employees redundant during periods of economic downturn<sup>34</sup>. Moreover, in response to criticisms that these domestic neoliberal reforms might result in a worsening of the economic wellbeing of Italy's citizens, Renzi has tended to advocate instead an increase in the degree to which such measures are sought (i.e. to view the problem in terms of not enough, rather than too much, neoliberal reform). For instance, 'Labour Minister Giuliano Poletti said the Jobs Act changes will *'reduce precariousness for workers and give certainty to business' by eliminating the worst sort of temporary contracts that have fostered abuse*<sup>35</sup>.

In terms of the second pillar of Renzi's response – Eurosceptic anti-austerity – Renzi has at times been identified as the leading social democratic opponent to EU-level-imposed austerity. For instance, the Financial Times ran a story in 2014 titled, *Renzi leads centre-left drive to loosen eurozone fiscal rules*<sup>36</sup>, in which Renzi's attempts to challenge the tight imposition of fiscal rules (especially the 3% deficit ceiling) in an attempt to reduce the extent to which austerity measures are imposed from Brussels. Similarly, Renzi was engaged with a clash with Brussels when in October 2014 he publicised a confidential letter from the European Commission demanding an explanation for Italy's inability to achieve better control of its public deficit<sup>37</sup>. However, in adopting this 'Eurosceptic anti-austerity' position, Renzi arguably does not contribute towards the development of a 'Social Europe' agenda at the EU-level. For one thing, the 'Eurosceptic' element of this approach only seeks to commit the European Union to a less enthusiastic pro-austerity agenda; that is clearly different to actually adopting a pro-spending, pro-redistribution, 'Social Europe' agenda. In addition, as Thomas Fazi<sup>38</sup> highlights, Renzi's Eurosceptic anti-austerity is primarily focused on achieving 'flexibility' concessions from Brussels, which permit the Italian government to undertake economic policy reforms that will produce economic growth over a longer time span than the EU rules would otherwise allow. That is, that the growth-producing effects of domestic neoliberal reforms will be anticipated over a slightly longer time frame, thereby

34 <https://www.opendemocracy.net/can-europe-make-it/jamie-mackay/matteo-renzi%E2%80%99s-jobs-act-is-afront-to-italy%E2%80%99s-youth>

35 [http://www.ansa.it/english/news/politics/2014/10/08/renzis-jobs-act-faces-confidence-test\\_2eaaf80f-eff5-4bd1-a476-ba5a99375664.htm](http://www.ansa.it/english/news/politics/2014/10/08/renzis-jobs-act-faces-confidence-test_2eaaf80f-eff5-4bd1-a476-ba5a99375664.htm)

36 P. Spiegel et al., *Renzi leads centre-left drive to loosen eurozone fiscal rules.*, *Financial Times* 19 June 2014. Available here: <http://www.ft.com/cms/s/0/d2bb79a8-f7cc-11e3-baf5-00144feabdc0.htm> 2014.

37 <http://www.economist.com/blogs/charlemagne/2014/10/italy-v-brussels>

38 T. Fazi, Op. cit., 2014.

reducing the need to punish the Italian government for failing to achieve a 'structural balanced budget' by 2015, because the pro-growth effects of neoliberal reforms will negate the deficit over the medium term and thereby move Italy towards a balanced budget. In the words of Fazi, *'we are told that the solution to the crisis lies in a deepening of the neoliberal agenda that is at the root of the crisis'*<sup>39</sup>. This hardly, therefore, amounts to the promotion of a 'Social Europe' agenda at the EU-level.

## Summary

We can summarise the findings presented in the three brief country cases observed above as set out in table 1. As can be seen from the table, our three case studies suggest that prospects for realising a 'Social Europe' agenda are currently low. In order for this to change, moreover, it would appear that we would need to witness *both* a more consistent move *across the European Union* towards patterns of social contestation, i.e. to equal that which has been witnessed in those Southern European periphery countries where austerity measures have been imposed most harshly. Without such a development, it would seem, we will be left with a divided governance structure at the EU-level, and therefore a lack of consistent support for a 'Social Europe' agenda. Further, **regardless of whether we see consistent patterns of social contestation across the European Union, we nevertheless also see a failure by parties (including social democratic parties) to adopt a concessions-oriented approach to responding to social contestation. This would, therefore, most likely require a change in the ideas of social democratic actors, itself a long process likely to be sparked by the experience of crisis<sup>40</sup> – or their replacement by more left-leaning actors** (as seems possible in some of the Southern European countries, most obviously Spain and Greece). **We need, therefore, both a consistent move towards social contestation and the adoption of concessions-oriented responses, across the European Union, in order for a 'Social Europe' agenda to become anything near likely.** At present these conditions seem to exist only in the Southern peripheries, and for that reason the much-hoped-for 'Social Europe' outcome itself seems unlikely to materialise at the EU-level.

**We need, therefore, both a consistent move towards social contestation and the adoption of concessions-oriented responses, across the European Union, in order for a 'Social Europe' agenda to become anything near likely.**

39 Ibid.

40 M. Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century.*, Cambridge, Cambridge University Press, 2002.

Table 1: Country cases: prospects for Social Europe

Country	Contestation	Response to contestation (government)	Substantive social democratic alternative	Implications for 'Social Europe' prospects
UK	Sporadic	Rationalise austerity; repression; nationalism/ Euroscepticism	No	Neither party seem destined to promote a 'Social Europe' agenda
Germany	Relatively low	n/a	Inconsistently softer on pro-austerity line	Some chance of SPD adopting 'Social Europe' agenda, but seems hampered by structural position of Germany, and lack of necessity due to absence of substantive social contestation
Italy	Relatively disruptive	Domestic neoliberalism + Eurosceptic anti-austerity	n/a	Absence of pro-Social Europe advocates

## Conclusion and Discussion of EU Developments

This chapter has argued that the conditions necessary for the realisation of a Social Europe agenda are currently not present. As a result, we are unlikely to see such developments. By way of a conclusion, and also confirmation of the claims developed herein, we can look to two recent developments in EU-level policymaking: the Financial Transaction Tax, and labour market regulation.

In terms of the draft transactions tax, which has been on the agenda since it was first discussed by the Commission in 2010, we have seen a succession of false starts and the failure to reach an agreement on a substantive policy achievement. Thus, whilst agreement was reached between 11 member states to draft an EU financial transaction tax in January 2013, the failure to include all member states (with the UK, Sweden and the Netherlands being most opposed) already highlighted the difficulties that would be associated with implementing an FTT regime that would have a significant effect upon financial markets. This was compounded further in November 2014 when agreement was reached between the 'FTT-11' on implementing the FTT in 2016, despite ongoing differences between the member states in terms of objections and varying levels of support; although at the same time as reaching agreement the negotiators themselves recognised that the impact would be negligible, be largely symbolic, and that the revenue generated would be 'very modest'.

Similarly, in the sphere of employment regulation, a number of worker-friendly pieces of legislation have been either dropped or failed to gather sufficient support to be adopted. For instance, in July 2014 the European Commission marked six years since its draft

anti-discrimination directive was proposed. Yet despite being in the pipeline for six years it continues to remain far from being adopted. As the eight NGOs who marked the six year anniversary commented, the draft Directive has yet to be adopted 'due to strong resistance from a few countries and a general lack of enthusiasm by a majority of member states'. Similarly, in June 2014 the Commission was rumoured to have dropped its draft pregnant workers directive<sup>41</sup>, proposed in 2008, and which seeks to amend and improve upon the original 1992 Pregnant Workers Directive, but has thus far failed to gather sufficient support amongst member states and has been stalled in the Council of Ministers for four years<sup>42</sup>. In sum, the prospects for Social Europe look unlikely at present. What, then, are the alternatives? If social democratic outcomes rely upon a combination of social mobilisation and a commitment to concessions as the means by which to contain those concessions, then it would seem reasonable to suggest that a supportive, facilitating and encouraging attitude towards nascent forms of social mobilisation and contestation would make a good starting point.

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41 <http://euobserver.com/news/124660>

42 <http://www.employeebenefits.co.uk/benefits/childcare-and-carers/pregnant-workers-directive-proposals-to-be-withdrawn/105146.article>

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Amandine CRESPIY

## **Delivering Public Welfare Services in the Europe of Austerity. Responsibility vs Responsiveness ?**



**Key words:****Public Services – Austerity – Budget – Responsibility – Responsiveness****Abstract:**

This contribution investigates the idea that, in the era of European austerity, there is a dilemma for governments between financial responsibility linked to international economic interdependence, on one hand, and political responsiveness towards societies hit by the economic recession, on the other. Evidence looking at EU recommendations and effective expenditure in welfare policy (especially healthcare and education) in France, Germany and the UK, supports three interrelated arguments. First, the new governance framework for economic governance, the European Semester, acts reflects and exacerbates rather than alleviate this dilemma. Second, national governments have responded to high pressure of the EU by increased over-prioritisation of budget discipline over policy demands, which preclude any satisfactory response to today's economic and social challenges. Eventually, this prompt a critical approach to the notion of responsibility as blind fiscal discipline jeopardises the future of our societies and proves to be politically irresponsible.

The management of economic interdependence together with the requirements of democratic government has become the main political problem faced by policy makers in the European Union (EU). The tension between the two has become significantly more acute since the recent financial crisis in 2007-2008. That is the case, as the last failure of global financial capitalism led the interconnected banking system on the verge of collapse. This prompted skyrocketing levels of public debt in many countries as a result of the salvage of large banks by means of taxpayers money, on the one hand, and the stop of cheap credit flow to a number of excessively indebted countries, on the other hand. **After a stage of emergency politics and crisis management, Europe has entered an era of fiscal austerity in order to tackle high levels of debt and public deficits. Due to high economic interdependence across the continent (not least the European common currency), the choice for austerity has mainly been coordinated at the supranational level. Since 2010 the enforcement of policies aiming at deficit reduction have been imposed across all countries of the EU.**

With that, fiscal discipline across Europe is being steered through a cycle of macro-economic surveillance called the European Semester whereby the EU Commission monitors the economic and social situation in the Member States and formulates recommendations, which should be taken into consideration when drafting national budgets aiming to comply with EU rules. The new governance framework also involves potential sanction mechanism in the form of an “excessive deficit procedure” whereby the Commission, can propose to the Council to enforce financial sanctions in the case where Member States’ fail to take “corrective action” to tackle excessive deficits. **A main consequence of budget austerity has been that available public resources for funding the core tasks of the Welfare State have shrunk.** At the same time, rising levels of unemployment and poverty within European populations have implied a lesser ability for citizens to purchase these goods (or services) privately.

The tension between economic interdependence and democratic government has recently been conceptualized as a dilemma between financial *responsibility* involved with economic interdependence and political commitment in the EU, on the one hand, and political *responsiveness* towards constituencies, that is the need to address society’s demands through public policy, on the other. **It has been argued that post-crisis economic governance has strengthened responsibility at the expense of**

**responsiveness**<sup>1</sup>. These reflections have so far mainly been made at a normative level and they have strongly focused on the role of political parties. Thus, **the purpose of the paper is to investigate empirically the existence and form of a dilemma between responsibility and responsiveness by looking at the provision of public services, and especially these areas, which are crucial with regard to social investment such as healthcare and education.** These are two labour intensive sectors, which have been increasingly regarded as involving unsustainable costs. Cuts in public spending and endeavours towards welfare state modernization have been high on the political agenda across the EU.

Although it was not conferred strong competences in the treaties, the EU has been playing an increasingly important role with regard to both the regulatory and the distributive dimension of social policy and public services. In terms of Member States, the focus will be on France, Germany and the UK, three EU countries with contrasted traditions in the realm of welfare services. These countries also offer a contrasted picture in terms of institutional procedures. The UK is not member of the Eurozone, hence not submitted to the same regulations than France and Germany. Moreover, France and the UK contrast with Germany, which has a much lower level of deficit and debt. In effort to grasp the dynamics of multi-level politics and policy making, three hypotheses will be investigated:

- While scholars have so far considered that it was national governments, which are confronted with the dilemma between responsibility and responsiveness, it can be asked to what extent the EU institutions do exhibit a similarly *schizophrenic* attitude whereby they issue contradictory injunctions towards the Member States. The investigation of country specific recommendations made by the EU Commission (and endorsed by the Council) in the framework of the European Semester will shed light on how supranational governance reflect the existing dilemma between responsibility and responsiveness.
- Austerity policies have most dramatically impacted public services in countries under financial assistance from the EU and international institutions in Southern Europe thus leaving no margin for manoeuvre for responsiveness<sup>2</sup>. Yet, it is expected that, although enjoying greater political and economic autonomy, a similar preference for responsibility over responsiveness is at play in the three large Member States examined.
- A third hypothesis is that, while sometimes making different policy choices, a shift from provision of public goods by the State to provision by the market and services

1 P. Mair, *Representative versus Responsible Government.*, Cologne: Max Planck Institute for the Study of Societies Working Paper 09/8, 2009; L. Bardi, S. Bartolini & A. H. Trechsel, *Responsible and Responsible? The Role of Parties in Twenty-First Century Politics.*, Special issue of *West European Politics*, 37(2), 2014.

2 S. Ladi & D. Tsahouras, *The Politics of Austerity and Public Policy., Reform in the EU.*, [in: ] *Political Studies Review*, 12, 2014, pp.171-180.

tends to be a common response from governments, a response that seems to be encouraged by the EU institutions.

This paper is structured as follows. Section 1 enlarges on how the restructuring of public services provision can be analysed through the dichotomy responsibility vs. responsiveness. Section 2 brings evidence that the dilemma between responsibility vs. responsiveness reflected in the framework of the European Semester as the EU Commission urges the Member States with contradictory demands for responding to societal challenges with dramatically reduced resources. Section 3 shows how France, Germany and the UK have faced the acute demands for budgetary discipline combined with increased demands for public services. Section 3 shows how marketization has emerged as main response to the tension highlighted both in European discourse and on the ground at the national level.

## 1. Public Service Provision and the Tension Between Responsibility and Responsiveness<sup>3</sup>

European governments, municipalities and regional governments have taken out large loans during the 1990s' to finance public services related to infrastructure and welfare state development. In a context of fiscal competition within the European Single Market, financing public services through loans was used to compensate the lack of State revenue through taxes (on work and capital). In the wake of the financial crisis these credits dried out, leading to radical public sector retrenchment. *"The crisis of the Eurozone is a textbook example of political and economic interdependence; transnational economic pressures trumping the preferences of governing parties and national electorates for a continuing flow of cheap credit from abroad"*<sup>4</sup>. Thus, **the crisis of the Eurozone has brutally disclosed the close interdependence of European fiscal and budgetary policies, and the new Eurozone governance architecture crucially aims at reigning in public sector expenses and at redefining the balance between national and European policy making. Public services are a core element of these attempts and have been the main target of austerity policies.** As governments had to bail out their financial sectors, it is public services that largely have had to foot the bill. In this respect, governance mechanisms have been complex and indirect, displaying different patterns in different countries, whether they have received financial help from the so-called Troika, whether they are members of the Eurozone or not, etc.

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<sup>3</sup> This section is partly based on the description by A. Crespy & D. Bohle of Work package 3 of the European project ENLIGHTEN elected for EU Horizon 2020 funding.

<sup>4</sup> R. Rose, *Responsible Party Government in a World of Interdependence.*, [in: ] *West European Politics*, 37:2, 2014, pp. 253-269.

**Public sector retrenchment has major implications for the legitimacy of national democracies and the European multi-level polity as a whole.** Besides loans and public deficit, a strategy for alleviating the burden of public services funding has been the rampant liberalization and privatization of an increasing range of services such as utilities production and distribution, and increasingly, a number of welfare services in the realm of healthcare, education and training, social housing<sup>5</sup>. This has caused occasional mobilisation and resentment among not only trade unions, but also increasingly, citizens networks. **In the recent era of great recession, public services retrenchment has meant the loss of rights, the downgrading of service quality and rises in prices to a more or less dramatic extent in virtually all EU countries. This is important because the ability of public authorities to address societies' basic needs is crucial for a political regime's legitimacy.** In turn, when citizens feel that successive governments have no grip on the economy and fail to ensure everyday welfare, they will tend to either withdraw from the democratic electoral process or turn to more radical, anti-establishment political forces<sup>6</sup>. Today, this trend is clearly perceptible in national as well as European elections.

**Public sector retrenchment has major implications for the legitimacy of national democracies and the European multi-level polity as a whole.**

Recently, scholars of comparative politics have pinpointed a dilemma between the *responsibility* of governments stemming from international economic and political interdependence, on the one hand, and *responsiveness* towards voters and demands emanating from society<sup>7</sup>. In this context, responsibility refers mainly to deficit containment and compliance with common financial and budget rules, while responsiveness refers to politics and people support for public policy. They have argued that, after the 2008 financial and debt crisis, not only economic but also political interdependence has increased<sup>8</sup> as a result of tighter macro-economic coordination, which now covers not only monetary and economic policy but also budgetary, fiscal, labour market, and social policy.

Referring to the principal-agent theory, Peter Mair has argued that national governments are the agent of two principals: international institutions and domestic constituencies<sup>9</sup>. When put into historical perspective, this shift bears striking similarities to what happened in the 1930s' when the drying out of credit forced the German government of the Weimar Republic

5 Ch. Flecker & J. Hermann (eds.), *Privatization of Public Services. Impacts for Employment, Working Conditions, and Service Quality in Europe.*, Basingstoke: Routledge 2012.

6 A. Schäfer & W. Streeck (eds.), *Politics in the age of austerity.*, Cambridge: Polity 2013.

7 P. Mair & J. Thomassen, *Political representation and government in the European Union.*, [in: ] *Journal of European Public Policy*, 17:1, 2010, pp. 20-35.

8 R. Rose, op. cit., 2014.

9 P. Mair, *Smaghi vs. The Parties: Representative Government and Institutional Constraints.*, [in: ] W. Streeck & A. Schäfer, *Politics in the age of austerity.*, Oxford: Polity Press 2013, pp. 147-168.

into inescapable austerity<sup>10</sup>. Discontent with social conditions has played a key role in the rapid decline of the German parliamentary regime. Through this striking historical precedent, Bohle questions the notion of responsibility: is compliance towards international financial rules at any price necessarily more responsible from a long-term political point of view?

As the ramifications of austerity policies go deeper into the functioning of European societies, this question seems particularly relevant when looking at today's EU. **From a policy point of view, the exclusive focus on fiscal discipline threatens the cohesion of European societies and their functioning in the future.** This is blatantly illustrated by the fate of the social investment policy agenda.

Conceptualised as a valid paradigm for implementing a progressive modernisation of European Welfare States<sup>11</sup>, social investment has also been recently promoted by the European Commission in a recent initiative from 2013<sup>12</sup>. The key idea of modernisation through social investment is a necessary shift from social insurance and money transfer to the concept of an active Welfare State providing enabling services<sup>13</sup> to enable individuals to increase their human capital (education and training, healthcare, family policy and childcare, etc.). However, what we have witnessed over the past few years is the cut of social benefits combined with insufficient or absent investment in such services. Public investment has in fact decreased sensibly for example from 2.6 to 1.7% in the UK, from 4.5 to 1.4 % of GDP in Spain and from 2.9 to 2.1 % in the EU 27<sup>14</sup>. The mantra of deficit ban and debt reduction leaves governments with no leeway for investing in policies geared towards the future. The European Commission's initiative for Social Investment in urging the Member States to invest in education, training and healthcare is a policy agenda that is supported neither by legal instruments nor by financial resources (with the exception of some part of the European Social Fund). The fact that the Commission focuses on: children and young people, jobseekers, older, disabled and homeless people as the main addressees of its social investment strategy reflects the logic of residual welfare policies where public authorities concentrate on the most vulnerable groups.

**From a political point of view, narrowly defined financial responsibility might not be in tune with long term political responsibility. At the national level, a deep feeling**

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10 D. Bohle, *Responsible Government and Capitalism's Cycles.*, *West European Politics*, 37:2, 2014, pp. 288-308.

11 N. Morel, B. Palier & J. Palme, *Towards a social investment welfare state? Ideas, policies and challenges*, Bristol: Policy Press 2011; A. Hemerijk, *The social investment imperative beyond the financial crisis.*, [in: ] *Challenge Europe. Growth, well-being and social policy in Europe: trade off or synergy*, European Policy Center, May 2011. Available at [http://www.epc.eu/documents/uploads/pub\\_1281\\_challenge21.pdf](http://www.epc.eu/documents/uploads/pub_1281_challenge21.pdf) (12.08.2014). For more critical analysis see: L. Antonucci et al., *FEPS YAN Paper Work and Welfare*, [in: ] *Queries*, N°2, p. 66-75.

12 European Commission, *Social Investment for Growth and Cohesion – including implementing the European Social Funds 2014-2020*, COM(2013)83.

13 G. Esping-Andersen, *A welfare state for the 21<sup>st</sup> Century.*, *Nordic News Network* 2000, Available online at <http://www.nnn.se/seminar/pdf/report.pdf>

14 EPSU, *Austerity and the alternatives.*, October 2013, p. 13.



of injustice has taken roots among citizens who have seen taxes rise and social benefits and services deteriorate. The EU is increasingly described as the regime of “*austeritarianism*”<sup>15</sup>. Imperatives imposed upon by the markets seem to overlap with obligation stemming from European membership.

In the South, like in Greece, the radical left contesting the foundations of the economic order under the regime of the Euro has emerged as a dominant political force. A main claim is to extract the country from the financial responsibility (or burden) imposed upon for membership in the Eurozone. In the North, in the UK for instance, the EU is increasingly perceived as detrimental to the country's economy (and culture). In its desperate attempt to keep up with the rise of the UK Independence Party, the Prime Minister David Cameron has promised to hold a referendum on a possible exit of the EU. Recently, a new controversy about the amount of the British contribution to the EU budget has revealed the very weak willingness in Britain to continue to share the responsibility for the financial cost of common policies and institutions. If the “*Brexit*” were to come true, this would create a historical precedent for a possible disintegration of the EU. In the core of Europe, for instance in France, anti-EU *Front National* has become main political force in the political landscape and even in Germany, where Euroscepticism is historically weak, the anti-Euro and xenophobic *Alternative für Deutschland* has garnered significant support.

In brief, while exploring the forms and implications of the dilemma between responsibility and responsiveness, the first notion should be approached critically. **Compliance with short-term financial obligations in the framework of multi-level austerity does not necessarily imply a responsible strategy with regard to policy efficiency or democratic politics.** Hence, if we admit that there is a trade-off between financial responsibility and political responsiveness, the past and present experience in Europe also shows that a balance is necessary in order to alleviate acute social and political tensions.

## **2. ‘Do More with Less’: Contradictory Injunctions from the EU Commission under the New Macro-Economic Surveillance Regime**

When trying to understand welfare state policy and public expenditure policies in today's EU, the effects of supranational governance cannot be overlooked. A complex governance setting has emerged from the various reforms of EU rules and institutions aiming at ensuring that all EU members comply with budgetary discipline. **Although most Member States still enjoy considerable leeway to decide on their budget, EU governance is relevant to the provision of public welfare services insofar as EU**

<sup>15</sup> See for example the webpage of the Irish Labour MEP Phil Prendergast: <http://www.labour.ie/press/2011/11/17/eu-leaders-should-learn-lessons-from-ireland/>

**institutions attempt to shape not only the level of expenditures and cuts, but also they way in which public resources are set by identifying priorities and problematic issues, and suggesting more or less specific reforms.**

Since 2011, the European Semester has imposed itself as the main framework for macro-economic coordination and has, to a large extent, absorbed and encompassed previous mechanisms for soft coordination such as the Stability and Growth Pact, the Open Method of Coordination in various social policy areas, and the objectives set with Europe 2020. The European Semester is a 6-months cycle, which starts with the Annual Growth Survey whereby the EU Commission reports about the economic and social situation in Europe and sets priorities for reform. The Member States then draft their programmes for budgetary policy and plans of reform and send them to the EU Commission. On that basis, the Commission issues country specific recommendations, which are discussed and endorsed by the Council around June-July. Advice is provided before Member States finish drafting their national budgets for the following year. The complexity of the European Semester can be grasped in three points<sup>16</sup>.

1. First, it is a hybrid governance process, which combines hard and soft law. It associates soft coordination and not legally binding recommendations with the regulations enforcing a Macro-Economic Imbalance Procedure ("Six-Pack") and an Excessive Deficit Procedure ("Two Pack"), which make the Stability and Growth Pact more stringent and foresee possible sanctions against non-compliant Member States.
2. Second, new macro-economic governance has increasingly incorporated social policy by monitoring and issuing recommendations on labour market policies, levels of poverty, healthcare, etc. It has to a large extent absorbed former coordination mechanism for social policy such as the OMC.
3. Third, the European Semester is in flux. The actual practice – for example the formulation and amendment process of the country specific recommendations – has witnessed non-benign alterations since 2011. Scholars disagree as to whether the progressive incorporation of social policy into economic governance is more likely to reinforce the negative dependence of the latter on the former<sup>17</sup>, or whether it has resulted in the "socialisation of the European Semester"<sup>18</sup>.

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<sup>16</sup>For a more detailed account, see : S. Bekker, *EU Economic Governance in Action: Coordinating Employment and Social Policies in the Third European Semester.*, ReflecT Research Papers, 14/001, 2014, University of Tilburg, available at [http://papers.ssm.com/sol3/papers.cfm?abstract\\_id=2439254](http://papers.ssm.com/sol3/papers.cfm?abstract_id=2439254)

<sup>17</sup>P. Copeland & M. Daly, *Social Europe and EU governance after the crisis: From 'add-on' to 'dependence-upon' Economic Integration.*, [in: ] A. Crespy & G. Menz (eds.) *The Elusive Pursuit of Social Europe and the Eurocrisis*, Palgrave, forthcoming.

<sup>18</sup>J. Zeitlin & B. Vanhercke, *Socializing the European Semester? Economic Governance and Social Policy Coordination in Europe 2020*, Swedish Institute for European Policy Studies (SIEPS) Report 2014:7, 2014, available at <http://tinyurl.com/o43uxho>.

An in-depth analysis of all country specific recommendations since the first European Semester in 2011 (see: Appendix 1 to 3) shows that not only national governments, but also EU institutions (the Commission and the Council) are caught in the dilemma between financial responsibility and political responsiveness. On the one hand, the Commission is even more pressing in urging the Member States to reduce their level of debt and deficit. On the other hand, national governments are also required to be responsive to populations' needs and policy challenges as by implementing efficient reforms.

France is an example where, especially in the first years, responsiveness and continuous spending have prevailed over financial responsibility. As its financial situation has clearly deteriorated between 2010 and 2014, the last recommendations urged France to cut expenditure in virtually all sectors of government, especially in social security, healthcare, family and housing allowances (see Appendix 1, 2014). At the same time, the recommendations point out the need for improving vocational training and education in order to tackle youth unemployment and facilitate the transition of low skilled people from school to work. Public services for job seekers (notably effective individual counselling) are also another area where the French government is urged to invest more resources.

As far as Germany is concerned, the dilemma is less acute as the financial situation of the country improves over the period under study. Still, the recommendations focus strongly on reducing healthcare and long-term care expenses. On the other side, the German government is advised to maintain spending in education and research as well as to improve the availability of childcare facilities in order to enhance the incentives for "second earners" (read women) to enter the labour market (see Appendix 2). This begs the question as to why education and childcare expenses are regarded as necessary expenditure whereas health and long-term are not. A careful reading of the recommendations suggests that the EU institutions see the former as "growth friendly" i.e. productive sectors while the two latter are not. This reflects a conception of political responsiveness where welfare needs are only addressed insofar as they can enhance economic performance.

Finally, the UK is an interesting case insofar as it exhibits a prioritisation of financial responsibility over responsiveness. The UK has undertaken massive cuts in public spending and, as a result, succeeded in decreasing its deficit from about 6% in 2011 to about 4% in 2014. This nevertheless remains over the 3% levels set by EU rules hence continuous admonishments from the Commission and Council about a credible strategy allowing the country to comply with the targets. On the other hand, however, the recommendations dealing with responsiveness to policy needs are the most extensive and critical among all three countries. A clear lacking vocational training and education policy is pointed out as a factor exacerbating high youth unemployment. Childcare facilities are described as well as lacking, which contributes to a high number of inactive households. This, in turn, feeds rapidly increasing child poverty. To that end, the recommendations point to

a lack of investment in transport infrastructure and renewable energies. Eventually, the contradiction between budget austerity and efficient policy making is underlined: “As part of the Government’s fiscal consolidation strategy, 2013 public sector net investment will fall sharply by 2014-15, which risks exacerbating existing pressures on transport infrastructure unless alternative funding sources can be secured.” (see: Appendix 3, 2012).

Finally, **a bird eye view shows that the recommendations tend to be repetitive over time, especially as far as the responsiveness side is concerned. This indicates that budget austerity allows for little policy reform and investment.** Where the deficit has been cut most drastically in little time (in the UK), responsiveness seems to even have deteriorated to a large extent. Only Germany, which is going through the crisis with low deficits, can maintain satisfactory levels of investment in education. The following looks more into detail at the way in which national governments have dealt with the dilemma between responsibility and responsiveness.

### 3. National Responses to Increased Demands for Financial Responsibility and Political Responsiveness

The crisis has not only reduced the resources available for national governments, it has also increased demands for welfare and public services. Skyrocketing levels of unemployment in particular have increased poverty levels. It is particularly interesting to focus on children, as we know that the sources of inequalities form at a young stage of individuals’ lives.

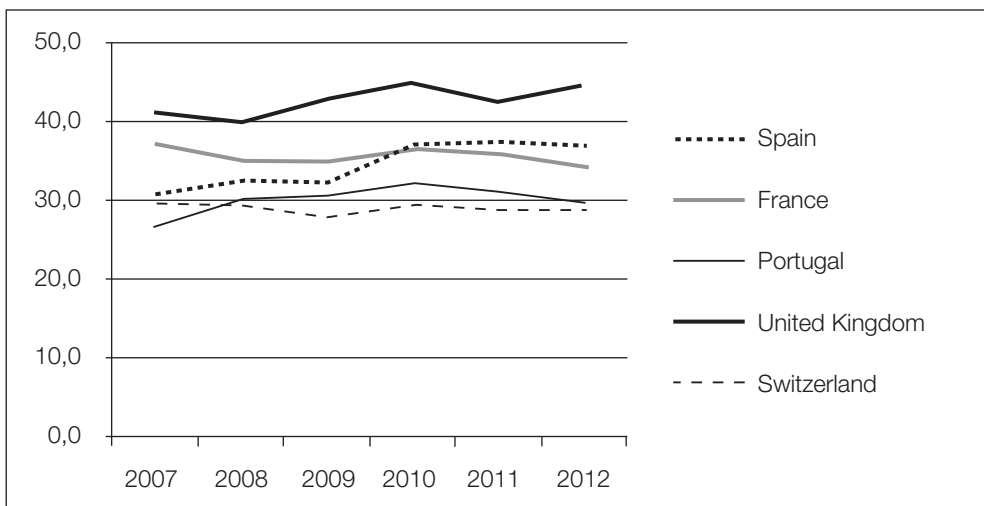


Table 1. At risk of poverty rate under 18 – before social transfer

Source: Eurostat

The table above shows that the number of children threatened by poverty have sensibly increased since 2007, except from France and Switzerland<sup>19</sup> that remain respectively on the stable levels. As children's poverty stems from families' poverty, this indicator reflects growing needs for responsiveness by governments. Considering the same indicator after social transfer allows examining the evolution of governments' capacity to respond to these needs.

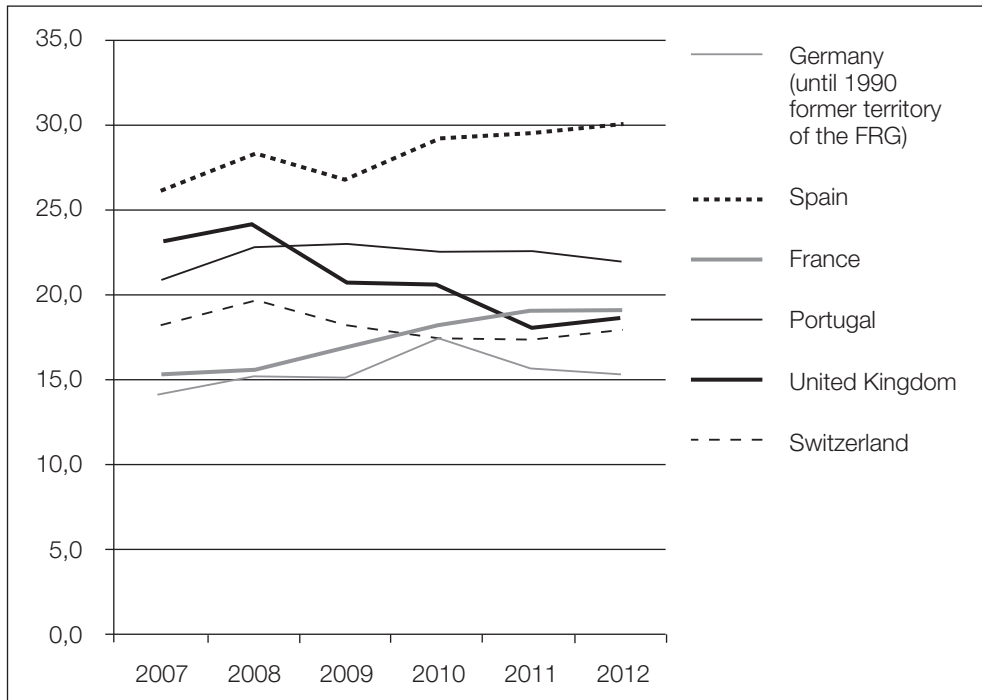


Table 2. At risk of poverty rate under 18 – after social transfer

Source: Eurostat

We observe that, for example, confronted with high levels of risks, the UK has actually improved its capacity to alleviate poverty, while in contrast France's welfare state capacity to contain such risk has deteriorated since 2007. After a rise in the number of children at risk of poverty in 2009-2010, Germany's figures after social transfer have gone back, in 2012, to levels of 2008. Again, Switzerland displays stable trends.

As Table 3 shows, in all countries under examination, there has been a clear impulse towards deficit reduction from 2009 onwards. This has happened both through tax increase and cuts in expenditures. Virtually all EU countries have used the rise of VAT as a quick means to rapidly increase State revenue. This has contributed to increase, rather than alleviate poverty levels as VAT affects all categories of income in an undifferentiated

<sup>19</sup> The inclusion of Switzerland allows a comparison with a similarly wealthy, non-EU country.

manner. On the other hand, public services have been the main target of large-scale austerity plans.

In its 2009 Budget, the British government set the target of saving 9£ billion a year for a total of 35 £ by 2014 by: selling government buildings and the privatization of state-owned enterprises such as the Royal Mail; contracting out some welfare services; efficiency measures in health, education, transportation, local government, privatisation of jails and restrained salary increases to public sector workers; cut of 10,000 jobs in local authorities in 2010; cut of 350,000 jobs in the central public sector between 2010 and 2014.

Germany adopted the largest austerity plan in the post-war period in June 2010. The so-called 'package for the future' (*Zukunftspaket*) foresaw 80€ billion cuts – i.e. 0.8 % of GDP – by 2014. The plan included: job cuts in the public sector and the controversial suppression of some long-term unemployment benefits and subsidies to families.



**Table 3: Government deficit (% of GDP)**

Source: Eurostat

France adopted its first austerity plan in November 2011 aiming at saving €65 bn by 2016. It foresaw mainly an increase in tax, but also attempts to contain healthcare and pension-related costs, and cuts in aids to families. Meanwhile, France has adopted two further austerity plans after the 2012 presidential election. The plan put forward by Prime Minister Valls in April 2014 foresees cuts amounting to €50bn in 2015-2017. 18 and 11bn will be respectively cut from the central government's and local authorities' expenses, 10bn from the budget of national healthcare insurance and 10bn on further

social expenses<sup>20</sup>. Quite tellingly, an Office for Budget Responsibility was created in the UK after the 2010 general election. Its role is to

*“(...) provide independent and authoritative analysis of the UK’s public finances (...); produce five-year forecasts for the economy and public finances twice a year (...); judge the Government’s performance against its fiscal targets (...); scrutinise the Treasury’s costing of tax and welfare spending measures (...); and assess the long-term sustainability of the public finances”<sup>21</sup>.*

The healthcare sector has been particularly problematic. The main reason for increased needs is the ageing of European population hence adjustments are needed not only in health care but also in long term care for the elderly. As the population is ageing over time, this means the expenses increase mechanically every year. In spite of societies increase needs, the containment and eventually reduction of healthcare expenses has been a main direction set by governments. Table 4 shows that since 2009, government expenditure in healthcare has been stabilised and then reduced. While the trend is stronger in Spain and Portugal, it is also visible in France, Germany and the UK.

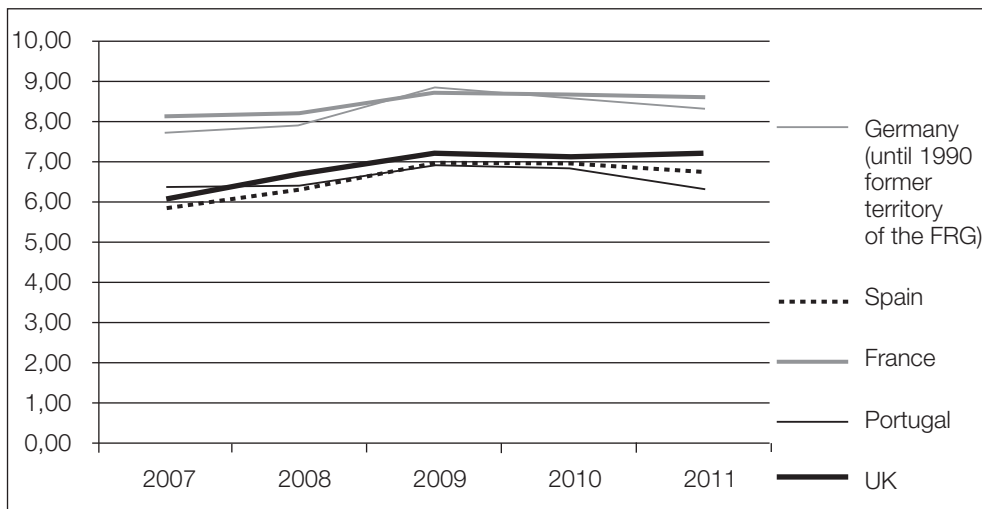


Table 4. Government healthcare expenditure (% of GDP)

Source: Eurostat

In the UK, the debate on the funding crisis of the National Health Service has been particularly acute over the past couple of years. Since 2010, saving measures amounting to £20bn have implied cuts on services, staff pay freeze and pension reforms. Further

20 M. Valls , *L’effort de 50 milliards n’est ‘pas un plan d’austérité’*, *Libération*, 16.04.2014.

21 See: <http://budgetresponsibility.org.uk/>

cuts for £30bn are foreseen by 2020-21<sup>22</sup>. At the same time, the Baker report put forward by a committee of experts reviewing the state of social care in the country called on the British government to restructure social care and in order to meet the needs and claiming that “The government should plan on the assumption that public spending on health and social care will reach between 11 per cent and 12 per cent of GDP by 2025. This will involve some significant tax increases”<sup>23</sup>. The sector of health and social care seems to be one where the gap between needs for government responsiveness and the imperative of budgetary responsibility has exacerbated at a fast pace over the past few years.

Table 5 shows that expenditure in education has also been affected by deficit reduction. While government spending in education has increased everywhere until 2009, a declining trend is visible after that year at the exception of the UK which displays a strong rise from 2009 to 2010 but also a decline afterwards. A sensible fall can be detected in Portugal, while the figures remain fairly stable for France. All in all, it is interesting to note that the curve of Spain and Germany are fairly similar. The creation of 60 000 jobs in the *Education nationale* has been a main theme of Francois Hollande’s presidential campaign and the French government has ensured that it would not be questioned.

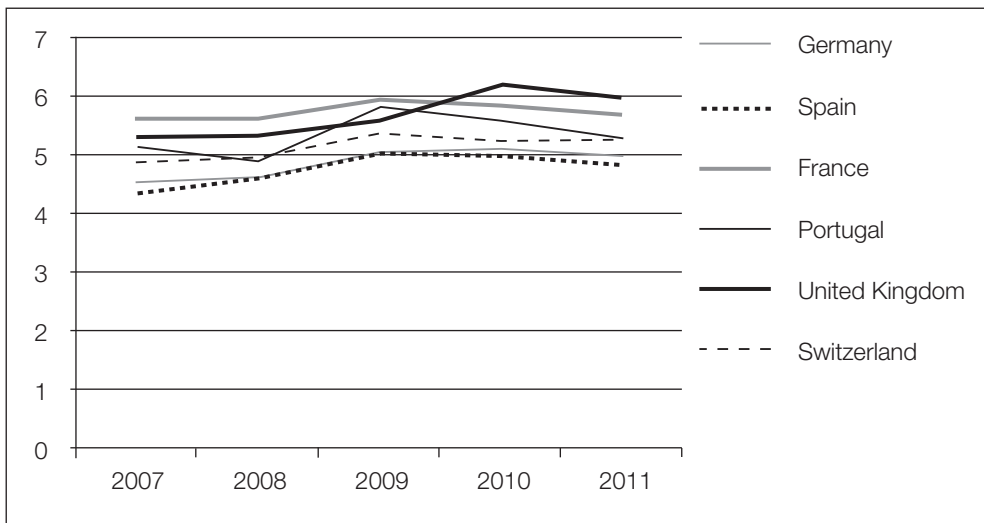


Table 5. Public expense on education (% of GDP)

In conclusion, **evidence available on public spending on public and welfare services over the past years shows that, in face of increased needs due unemployment,**

<sup>22</sup> Guardian Professional online, 30.07.2014: <http://www.theguardian.com/healthcare-network/2014/jul/30/finance-managers-speak-out-cuts-nhs>

<sup>23</sup> Commission on the Future of Health and Social Care in England, *A new settlement for health and social care. Final report.*, 2014, [http://www.kingsfund.org.uk/sites/files/kf/field/publication\\_file/Commission%20Final%20%20interactive.pdf](http://www.kingsfund.org.uk/sites/files/kf/field/publication_file/Commission%20Final%20%20interactive.pdf)



precarious employment an ageing population, European governments have prioritised deficit reduction over responsiveness to social demands. The following section looks at how the marketization of welfare has become a strategy for governments to escape the dilemma between responsibility and responsiveness.

#### 4. Marketization (and Charity?) as a Way Out of The Dilemma

Even before the crisis, a common trend towards the marketization of welfare can be observed across Europe. This trend involves the introduction of managerial methods such as benchmarking, decentralization to the local level, the outsourcing of public sector tasks to the private sector, and funding through public-private partnerships. For example, the stabilization and decline of public expenditure in the public sector has been accompanied by a steady rise of private expenditure, as displayed by table 6 below at the exception of Switzerland).

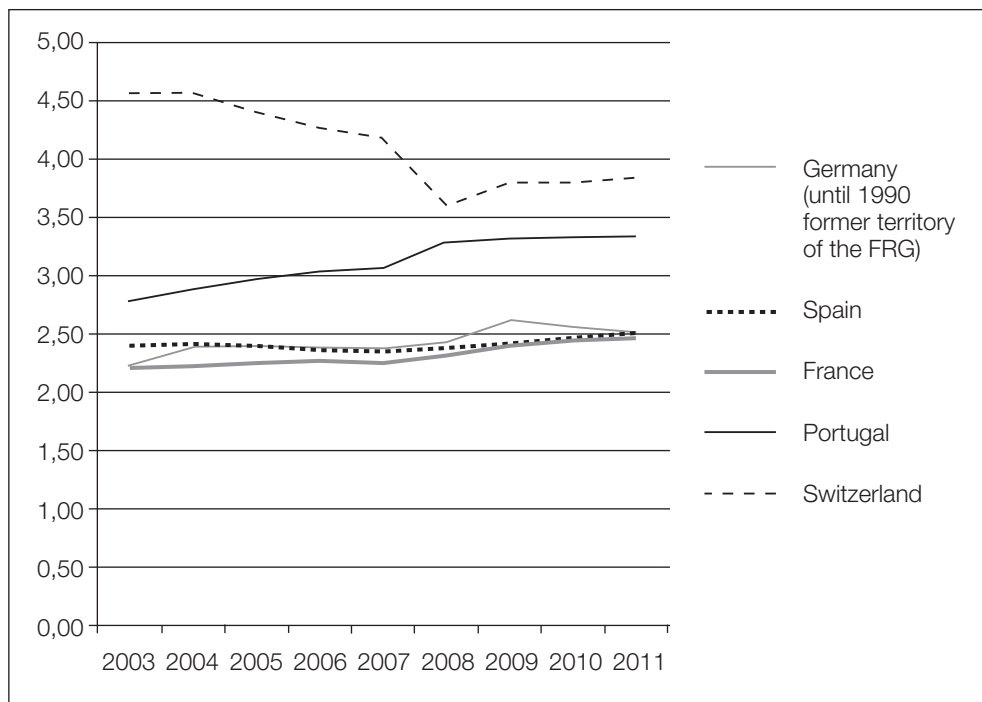


Table 6. Healthcare expenditure financed by the private sector (% of GDP)

Source: Eurostat

The British debate reveals two interesting facts highlighting the limits of marketization of health and social care. First, the OBR notes that:

*“(...) health care provision is relatively labour intensive and we might therefore expect productivity growth to be slower in this sector than in the economy as a whole. Yet over the long term, wages in the sector would still need to rise in line with those in the whole economy. This would lead to what is known as ‘Baumol cost disease’ where costs in the public sector rise relative to other sectors. To maintain an increase in the level of service provided in line with increases in real output across the rest of the economy, governments would have to increase expenditure more quickly<sup>24</sup>”.*

This has two implications. First, it shows the limits of economic reasoning when applied to welfare services. Because of their peculiarity and human dimension, it is irrelevant to apply the productivity standards of other economic sectors to most social services. Hence, they cannot be grasped entirely through the market logic. Second, even at constant levels of expenditure, needs cannot be met by governments. A freeze or decline in expenditure is therefore bound to lead to a sensible deterioration of service quality. Hence, the current discourse of “efficiency saving”, “cost improvement” and better “value for money” does appear to be well rooted neither from a normative, nor from an economic point of view. The second point highlighted by the Baker report on the future of health and social care in England is that market agents are not necessarily interested in overtaking some activity segments if they do not seem to be profitable. The report underlines that:

*“It was hoped that the cap on lifetime costs would allow an insurance market to emerge to help cover the significant costs that people will still have to meet. But there are very few signs of that happening. Since our interim report there have been further discussions between health ministers and the insurance industry, and further promises of best endeavours<sup>25</sup>. But the insurers show little appetite for producing the new products that would be needed. That market failure suggests to us that there will need to be more public intervention if our goal of more equal support for equal need is to be met<sup>26</sup>”.*

Marketization seems to be much more slowly in education where shares of private expenditures have risen but at a slow pace.

While situation at a much higher level in than in other countries, private expenditure in the UK displays a sharp fall since 2010, a trend, which remains to be explained.

**There is ample evidence that the marketization of welfare services has been actively encouraged by EU institutions and, in particular, the EU Commission. Before and even more so after the outbreak of the debt crisis, efforts to maintain adequate funding and regulate public and welfare services through EU policy not gone beyond the rhetorical recognition of their importance for social cohesion. The reflection on welfare services at the EU level has been gradually reduced to social services since**

24 Office for Budgetary responsibility, *Fiscal Sustainability Report 2014*, p. 103.

25 Department of Health and Association of British Insurers 2014.

26 Commission on the Future of Health and Social Care in England, *A new settlement for health and social care. Final report.*, Op. cit. p. 4.

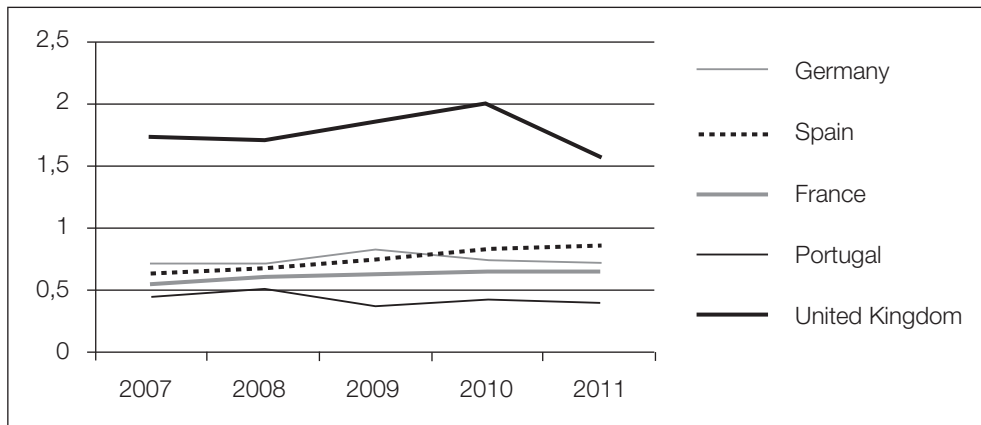


Table 7. Private expenditure in education (% of GDP)

Source: Eurostat

the early 2000s. Even in this realm, the general interest frame has been consistently associated with the contradicting market frame. On the one hand, the discourse in EU institutions has stressed the underpinning principles of solidarity and social cohesion. Policy objectives have therefore included quality, safety, affordability and equality of access by all citizens, and especially the most vulnerable<sup>27</sup>. In 2006 the EU Commission claimed that social services are “not for profit”<sup>28</sup>. On the other hand, it is clear that welfare services are conceived as part of the internal market and the modernization of welfare states has been consistently associated with that of a necessary marketization. It is illustrated in the quote below:

**There is ample evidence that the marketization of welfare services has been actively encouraged by EU institutions and, in particular, the EU Commission.**

*“Social services constitute a booming sector, in terms of both economic growth and job creation. They are also the subject of an intensive quest for quality and effectiveness. All the Member States have embarked upon modernization of their social services to tackle the tensions between universality, quality and financial sustainability.”*

This discourse has logical implications. It articulates public spending in social services as the main problem and privatization of provision, and funding as the main means for modernization. As a consequence, the approach prevailing on the ground in the Member States and promoted by the EU Commission is one that makes private companies the main actors responsible for tasks, which have been described as serving solidarity and not geared towards profit. The privatization of social services has also been increasingly

27 COM(2006)177, 26.04.2006 ; COM(2007)725, 20.11.2007.

28 COM (2006)177, p. 5.

presented as a source of growth and jobs<sup>29</sup>. While this approach has found roots in the political discourse in the course of the 2000s, the impact of the financial crisis has accentuated the existing contradictions in two ways. The allegedly excessive costs of public services are constructed as an additional problem which justifies an acceleration of marketization as accounted for in several statements made by European decision-makers amongst whom the Commission President:

*“At a time when public authorities are confronted with the need for fiscal consolidation, it is essential to ensure that right framework is in place so that high-quality services can be provided as efficiently and cost-effectively as possible.”<sup>30</sup>*

In its recent Communication on social investment, the recommendations made by the European Commission to tackle the challenge of funding SGI are the following:

*“Resources for social policies are not limited to those from the public sector. A non-negligible part comes from people and families. In addition, non-profit organizations provide social services on a substantial scale (...) Social enterprises can complement public sector efforts, and be pioneers in developing new markets, but they need more support than they are receiving now. The for-profit parts of the private sector would need to be further encouraged to use the potential of social investment ...”<sup>31</sup>.*

It is recommended that indigent states should appeal to public charity, on the one hand, and to the markets, on the other, for the delivering of basic services to impoverished populations. It is therefore clear that the ubiquitous public debt frame leaves no space for policy initiatives, which follow the logic either of solidarity or social investment.

Although the figures only display so far a timid impulse, marketization and, to a lesser extent, the role of non-profit organisations as far as social services are concerned, have become main alternatives promoted both by national governments and EU institutions in order to solve the dilemma to increased budgetary responsibility and necessary responsiveness to exacerbated needs.

## Conclusion

This paper has brought evidence that, **in the era of European austerity, there is a dilemma for governments between financial responsibility linked to economic interdependence and political responsiveness stemming from societies hit by economic recession.** The new framework for macro-economic governance, the European Semester, acts as a reflection and a catalyser of this dilemma. The Commission and the

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29 Political guidelines for the next Commission, José Manuel Barroso, 03.09.2009, [http://ec.europa.eu/commission\\_2010-2014/president/about/political/index\\_en.htm](http://ec.europa.eu/commission_2010-2014/president/about/political/index_en.htm)

30 European Commission, press release, 'Commission adopts Quality Framework for Services of General Interest in the EU', IP/11/1579, 20.12.2011.

31 COM(2013)83, p. 5.

Council issue recommendations, which, on the one hand, admonish Member States for not meeting targets for deficit reduction and, on the other hand, urges them to implement efficient policies geared towards social investment and welfare. The repetitive nature of such policy recommendations over time (2011-2014) show that policy improvement under fiscal discipline proves illusory. Where clear deficit reduction has been achieved, in the UK, this has implied a deterioration of welfare policies. Where no massive cuts have taken place (yet), in France, the budgetary situation has deteriorated bringing about more pressure under the threat of the excessive deficit procedure. This has brought about more recent endeavours towards cuts in expenditures bringing France closer to a British scenario. The comparison also shows that the belonging to the Eurozone makes no difference in the level of constraint resulting from EU governance. In order to escape the dilemma between responsibility and responsiveness, European governments have given way to a strategy of progressive marketization of formerly public welfare services are now provided through private funding, a strategy which has been consistently encouraged by the EU Commission.

The social and political implications of a situation, where impotent States have little more to offer to their citizens than prolonged austerity, are enormous. **The various recent national elections as well as the 2014 European election have shown that both democracy and the project of European integration, that is nothing less than the political foundations of contemporary Europe since the end of World War 2, are under threat. The never ending economic marasmus and continuous retrenchment of social policy have fed strong discontent among voters and brought about the rise of anti-establishment and populist parties, thus reshaping politics and political systems across Europe.** Evidence gathered in this paper calls for a critical approach of the notion of responsibility and the way in which the dilemma between responsibility and responsiveness should be dealt with. The over-prioritization of budget discipline over needs over social investment and welfare needs jeopardizes the cohesion and the functioning of our societies in the future. It has proved to be, even in the short run, politically irresponsible.

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## Appendix 1: Country Specific Recommendations issued by the EU Commission and the Council for France

France	
Responsibility	Responsiveness
<p><b>2011</b> Bringing the deficit down from 7% of GDP in 2010 to 3% in 2013</p> <p>Debt is expected to increase from 82% GDP in 2010 to 86% GDP in 2012 if no further efforts are undertaken</p>	<p>"Measures are being considered to increase active labour market policies (e.g. apprenticeship to ease the school-to-work transition of younger workers, additional childcare facilities by 2012 to improve female employment prospects, strengthening of the public employment services for jobseekers) are confirmation of existing policies (...) and do not seem fully consistent with the extent of the macro-economic challenges"</p>
<p><b>2012</b> "Reinforce and implement the budgetary strategy, supported by sufficiently specified measures, notably on the expenditure side, for the year 2012 and beyond to ensure a correction of the excessive deficit by 2013 and the achievement of the structural adjustment effort specified in the Council recommendations under the excessive deficit procedure."</p>	<p>"step up active labour market policies and ensure that public employment services are more effective in delivering individualised support."</p>
<p><b>2013</b> "Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying, by autumn 2013, and implementing the necessary measures for the year 2014 and beyond to ensure a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council recommendations under the EDP"</p> <p>"Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age, by aligning the retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending."</p>	<p>"Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed."</p> <p>"Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee (1) and promotion of apprenticeship."</p>
<p><b>2014</b> "Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. In particular, take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances."</p>	<p>"Pursue the modernisation of vocational education and training, implement the reform of compulsory education, and take further actions to reduce educational inequalities in particular by strengthening measures on early school leaving. Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled."</p>

## Appendix 2: Country Specific Recommendations issued by the EU Commission and the Council for Germany

	Responsibility	Responsiveness
2011	<p>“Since the recent reform of the health-care system introduced measures to curb spending increases mainly in 2011 and 2012, further steps to enhance the efficiency of public spending on health-care and long-term care, would support the envisaged consolidation path.”</p> <p>“Implement the budgetary strategy for the year 2012 and beyond as envisaged. Complete the implementation of the budgetary rule at the Länder level and further strengthen the corresponding monitoring and sanctioning mechanism”</p> <p>“further enhancing the efficiency of public spending on health-care and long-term care.”</p>	<p>“At the same time, maintaining a largely growth-oriented consolidation course, including by ensuring adequate expenditure on education, would help to strengthen the long-term growth potential.”</p> <p>“Further increasing the availability of childcare facilities would in particular also help improve the still low full-time labour force participation of women.”</p> <p>“Maintain a growth-friendly consolidation course, in particular by safeguarding adequate expenditure on education”</p> <p>“Increase the number of fulltime childcare facilities and all-day schools”</p>
2012	<p>“Additional efforts to improve efficiency in health care are necessary to contain expected further expenditure increases. The proposed reform of long-term care is also insufficient to cope with expected future cost increases.”</p>	<p>“use available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government.”</p>
2013	<p>“Pursue a growth-friendly fiscal policy through additional efforts to enhance the cost-effectiveness of public spending on healthcare and long-term care through better integration of care delivery and a stronger focus on prevention and rehabilitation and independent living.”</p>	<p>“Remove disincentives for second earners and further increase the availability of full time childcare facilities and all-day schools.”</p>
2014	<p>“Make additional efforts to increase the cost-effectiveness of public spending on healthcare and long-term care. Ensure the sustainability of the public pension system by (i) changing the financing of new non-insurance/ extraneous benefits (‘Mütterrente’) to funding from tax revenues, also in order to avoid a further increase of social security contributions, (ii) increasing incentives for later retirement, and (iii) increasing the coverage in second and third pillar pension schemes.”</p>	<p>“In particular, use the available scope for increased and more efficient public investment in infrastructure, education and research.”</p>



### Appendix 3: Country Specific Recommendations issued by the EU Commission and the Council for the United Kingdom

	Responsibility	Responsiveness
2011	Implement the planned fiscal consolidation aiming at a deficit of 6,2 % of GDP in 2012-2013, in line with Council recommendations on correcting the excessive deficit, and setting the high public debt ratio on a downward path when the excessive deficit is corrected by the end of the programme period"	<p>"Take steps by 2012 to ensure that a higher share of young people enter the labour market with adequate skills and to improve the employability of 18 to 24-year-olds who left education or training without qualifications."</p> <p>"Take measures, within current budgetary plans, to reduce the number of workless households by targeting those who are inactive because of caring responsibilities, including lone parents."</p>
2012	"The Convergence Programme does not include a medium-term budgetary objective as foreseen by the Stability and Growth Pact. According to programme projections, the deadline to correct the excessive deficit set by the Council in its recommendation of 2 December 2009 is expected to be missed by one year. The government deficit in 2014-15, the deadline set by the Council, is estimated at 4,4 % of GDP, implying, based on the (recalculated) structural balance 1 an average fiscal effort of 1,25 % of GDP between 2010-11 and 2014-15 which is below the 1¼ % effort set out in the Council recommendation under the excessive deficit procedure (EDP)."	<p>"The Government must take measures to ensure that the positive impact of new policies on employment and incomes will not be offset by declining amounts available for benefits, which would risk increasing poverty, particularly for families with children. One independent estimate forecasts that, in 2020-21, absolute child poverty will reach its highest level since 2001-02 and that the Government will miss targets for reducing child poverty set down in the Child Poverty Act. The Government needs to take steps to ensure that there is sufficient access to childcare, in particular for low earners. Any cuts to support for childcare would risk exacerbating the problem".</p> <p>"The UK needs substantial investment to upgrade its electricity generation capacity, given the need to replace a large part of the existing generating capacity, which will close over the next decade, and the need to meet the renewable energy obligation and tighter carbon emissions standards. The UK's transport sector faces shortcomings in the capacity and quality of its networks, which could work against the Government's aim of rebalancing the UK economy towards investment and exports. As part of the Government's fiscal consolidation strategy, 2013 public sector net investment will fall sharply by 2014-15, which risks exacerbating existing pressures on transport infrastructure unless alternative funding sources can be secured."</p>

2013	Implement a reinforced budgetary strategy, supported by sufficiently specified measures, for the year 2013/14 and beyond. Ensure the correction of the excessive deficit in a sustainable manner by 2014/15, and the achievement of the fiscal effort specified in the Council recommendations under the EDP and set the high public debt ratio on a sustained downward path. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth”	“Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability”  “Take measures to facilitate a timely increase in network infrastructure investment, especially by promoting more efficient and robust planning and decision-making processes. Provide a stable regulatory framework for investment in new energy capacity, including in renewable energy. Improve the capacity and quality of transport networks by providing greater predictability and certainty on planning and funding and by harnessing the most effective mix of public and private capital sources.”
2014	“Reinforce the budgetary strategy, endeavouring to correct the excessive deficit in a sustainable manner in line with the Council recommendation under the Excessive Deficit Procedure.”	“Continue efforts to reduce child poverty in low-income households, by ensuring that the Universal Credit and other welfare reforms deliver adequate benefits with clear work incentives and support services. Improve the availability of affordable quality childcare.”



**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Pascal ZWICKY

## **“Daring More Democracy” – Reflections on the Future Foundation of Welfare Society**



**Key words:****Rethinking welfare society – Neoliberalism – Extended Democracy –  
Social Democracy –Transformation****Abstract:**

Welfare societies are based on the social deal between capital and society. Since the rise of neoliberalism this compromise breaks apart. The growing social inequalities are probably the most distinct manifestation of this fact. Today, social democracy finds itself too often in a defensive and reactive position. We struggle to find new answers to the urging questions of our time such as the issues of (gainful) work or (capitalist) growth. The progressive left needs a hegemony project opposed to neoliberalism – an extended democracy may be this project. An extended democracy that encompasses especially also the economic realm implies the reconsidering of social democratic strategy and its focus on the redistributive state. We are in search of social development paths that prevent the structural injustices and destructions inherently produced by a capitalist market economy in the first place. The big challenge is to change economy from within and to give people more immediate, comprehensive and substantial influence on their living conditions, and therewith build a sustainable foundation for the future welfare society. Against this background, the two topics of care and basic income are discussed. Finally, a line is drawn to the concept of transformation. Democracy as a question of power lies at the heart of transformational change. Social democracy must become a “popular educator” and influence the public discourse in order to guide the transformation process in a progressive direction.

## 1. Introduction: The Welfare Society as a Dilemma of Social Democracy

Modern Western societies are based on a dual structure: The first pillar of this structure is a dynamic capitalist market economy that, inherent in the system, goes along with rapid change, uncertainty and inequality.<sup>1</sup> Social/welfare policy (including education, labour market policy, public infrastructure etc.) can be seen as a second pillar ensuring a sufficient degree of stability, equality and solidarity in society. This dual structure is the basis of welfare society. Capital and society, particularly social democracy and the trade unions as well, have embarked on this compromise at the beginning of the 20<sup>th</sup> Century. It was based on sufficiently high growth rates, which should ensure that money and resources coming from the growth of the national product can be distributed. The privileged elites have never conceded something else. Thereby, the capitalist growth imperative within welfare societies is socially generalized and politically institutionalized.

**Failed attempts to give welfare society a pan-European dimension make clear that welfare policy is still primarily a nation-state issue. Correspondingly, the specific welfare challenges between countries and welfare regimes differ.** However, the focus of this article lies not on specific characteristics and differences but on the basic structures and developments that become apparent European-wide - from Scandinavia to Eastern, Central and Southern Europe – and are undermining the fundament and the idea of the welfare society as a whole. It deals with the more and more brittle relationship between a capitalist market economy and a compensatory welfare state.

**The crisis of welfare society certainly is connected to the rise of neoliberalism. I would argue that most of the problems of welfare society that are raised in the literature and the public debate – demographic, social, cultural, economic and international ones<sup>2</sup> – are primarily “proxy wars” that tend to cover the real conflict.**

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1 See: U. Schimank, *The Fragile Constitution of Contemporary Welfare Societies: A Derailed Functional Antagonism between Capitalism and Democracy.*, Welfare Societies Working Paper, Universität Bremen, 2011, [www.welfare-societies.de](http://www.welfare-societies.de)

2 See: B. Palier, *The Emerging Intergenerational Conflict*, [http://www.policy-network.net/pno\\_detail.aspx?ID=4575&title=The-emerging-intergenerational-conflict](http://www.policy-network.net/pno_detail.aspx?ID=4575&title=The-emerging-intergenerational-conflict), 2014; K. Schubert et al., *Europäische Wohlfahrtssysteme. Ein Handbuch.*, VS Verlag, Wiesbaden 2008; A. Skrzypek, *Way Forward for European Welfare Society*, Working Paper, FEPS Next Left Focus Group, 2013; G. Vobruba, *Krisenverlierer: Wohlfahrtsstaat.*, <http://www.uni-leipzig.de/~powision/wordpress/magazin/georg-vobruba-krisenverlierer-wohlfahrtsstaat/>, 2011.

The dual structure described above is breaking down and it is mainly the left that still believes in a social deal nowadays – the capital has dismissed the underlying compromise long-since. The growing social inequalities are probably the most distinct manifestations of this development.<sup>3</sup>

Neoliberalism has become much more than just an economic project serving the interest of the elites. As a comprehensive ideology, an amalgam of individualism, competition and market, neoliberalism penetrates increasingly more and more areas of life. Today, the purposively rational thinking that reduces everything and everyone to its/their monetary utility is dominating.<sup>4</sup> The phrase “Every man is the architect of his own fortune” replaces the values of solidarity, equality and justice in the neoliberal era. This reasoning is used particularly by those who benefit from the existing system in order to legitimize their privileges and “success”. Thus, a welfare society based on social security mechanisms and institutions of solidarity must almost inevitably come under pressure. Furthermore, increasing transparency on individual and/or group-specific behaviours and probabilities of becoming a welfare recipient is lifting the “veil of ignorance” that was partially protecting the welfare state.<sup>5</sup>

It is no accident that the crisis of welfare society coincides with a political and, especially also, ideological crisis of social democracy. A significant part of our self-esteem as a party and movement, our legitimacy and our strength derives from the welfare society – and especially its (former?) ability to decommodify work. Historically, the fact that social democracy became the party of welfare society was not undisputed within the left (is welfare society a surrender, a mere contentment of the working force or is it an achievement because it ensures the working force a “decent survival” within capitalism?). It is a social democratic dilemma, which is connected to the decision for a reformist policy in terms of welfare society:<sup>6</sup> On the one hand, social democracy has to deal with current interests and needs of their party base. On the other hand, the party just risks that the wage earners lose the discontent “needed” in order to pursue the longer-term goals of social democracy, i.e. a future beyond capitalism.

One may ask if this dilemma is relevant at all. Do we need long(er)-term goals? In view of the numerous global problems that are connected directly to neoliberal capitalism<sup>7</sup>, the answer to this question is a clear yes. We need to ask questions that have been

3 See: Z. Bauman, *Does the Richness of the Few Benefit us All?*, Polity Press, Cambridge 2013; J. Stiglitz, *The Price of Inequality. How Today's Divided Society Endangers Our Future.*, W. W. Norton & Company, New York/London 2012; F. Bourguignon, *Die Globalisierung der Ungleichheit.*, Hamburger Edition, Hamburg 2013; T. Piketty, *Capital in the Twenty-First Century.*, Harvard University Press, 2014.

4 See: H. Byung-Chul, *Psychopolitik. Neoliberalismus und die neuen Machttechniken.*, S. Fischer Wissenschaft, Frankfurt aM 2014.

5 See: P. Rosanvallon, *Die Gesellschaft der Gleichen.*, Edition HIS, Hamburg 2013, pp. 251-252.

6 See: G. Vobruba, *Jenseits der sozialen Frage.*, Suhrkamp, Frankfurt aM 1991.

7 See: U. Brand, *Die Multiple Krise. Dynamik und Zusammenhang der Krisendimensionen, Anforderungen an politische Institutionen und Chancen progressiver Politik.*, Heinrich Böll Stiftung, Berlin 2009.

largely neglected in recent years. **It is obvious that the prevailing system of neoliberal capitalism benefits only a small global elite at the expense of the vast majority of society. We need to identify the most important contradictions in capitalist development and propose new solutions.** In spite of a neoliberal hegemony, one has to be aware that capitalist societies cannot be fully comprehended by the logic of capital. As long as people are not (yet) totally redundant for the ruling class, non-capitalist areas of society and life are crucial for the reproduction of the working force.<sup>8</sup>

With that said, the constant search of capital for new sectors for valorisation or marketization must provoke contradictions. Today, the neoliberal policies of privatization and public-private partnerships are promoted in diverse areas of society, especially in the core areas of the welfare state. We need to examine the potential of such contradictions for transformative, anti-capitalist resistance. In that sense, social democracy should start to rethink the basic idea of welfare society and the way it points beyond the constraints of capitalism. As progressives we are looking for a hegemonic project that is **(1)** opposed to neoliberalism, **(2)** compatible with the needs and wishes of our time and **(3)** able to performatively change the realities we are criticizing.

In the present article, the case is made for *democracy* as the progressive hegemonic project of the future. A broad and value-based democratization of society and especially also economy would overcome the limits of the current pillars of welfare society (chapter 2) and build the foundation of a new welfare society because it enables long-term and sustainable solutions in terms of the functioning of the economic system and the distribution of social wealth (chapter 3). This would not least imply a change in social democratic strategy. Against this background, we take a closer look at two topics that concern the core of welfare society and its further development: care and basic income. Finally, chapter 4 deals with the question of social transformation and outlines some of the consequences of the proposed paradigm shift for social democracy as a party and as part of a progressive and transformative movement.

## **2. Economic Growth and Gainful Work – Viable Pillars for the Future Welfare Society?**

### **2.1 The Crisis of the Wage-Based Society**

Wage labour or gainful employment is still a sacred cow of social democracy. This leads partially to an “unholy alliance of profit and employment maximizers”<sup>9</sup>, as one can

<sup>8</sup> See: N. Fraser, *Behind Marx's Hidden Abode. For an Expanded Conception of Capitalism.*, [in: ] *New Left Review* 86, Mar/Apr 2014.

<sup>9</sup> See: G. Vobruba, *Entkopplung von Arbeit und Einkommen. Das Grundeinkommen in der Arbeitsgesellschaft.*, VS Verlag, Wiesbaden 2007.



observe by the examples of the Agenda 2010 and most recently the “crisis corporatism” in Germany. Due to continuous increases in productivity (which are more and more in the sole interest of capital) and structural unemployment, left theorists point for quite some time to a “crisis of the wage-based society”.<sup>10</sup>

*Due to the technological progress we produce more and more with less and less living labor, i.e. produced by human labor force. This creates an army of superfluous ones. These include the elderly, which are no longer in the production center of our society, but also the young, as the current rates of youth unemployment shows. This means that both, the old and the young are victims of an accelerated production system. Our entire economy is operating under a business perspective and is no longer an ‘economy of the whole house’, as it was once called, an economy of the whole community.*<sup>11</sup>

That points to question of how a society can control and make use of productivity gains. It is the crux of productivity growth under capitalist conditions that its motor, accumulation, is institutionalized as the focal point of the system itself and thus as an end in itself.<sup>12</sup> Within the scope of redistribution and classic social partnership, and given the dominant neoliberal practice and ideology of global competition, productivity growth is at most partly a democratically controllable instrument. Hence, it is not surprisingly that issues like the reduction in working hours and/or a relative decoupling of income and work are treated step-motherly by the established actors (including social democracy).

“Decent work” in the sense of an activity that is more or less emancipatory and fulfilling is merely wishful thinking for the vast majority of people. For the financialised economies of Germany and Switzerland it is estimated that about 50 per cent of the volume of gainful work consists of “redundant work”.<sup>13</sup> However, the problem of redundant work and “bullshit jobs”<sup>14</sup> is not even the worst. As it is indicated above, an increasing number of people worldwide gets excluded from the capitalist market societies and becomes redundant as human beings – at the latest when they are no longer able to be good consumers.<sup>15</sup> In this context, one can situate the return of the defamation and stigmatization of unemployed or welfare recipients as lazy, welfare scroungers and the like. Analogous to the debate on pauperism in the mid-nineteenth century in England and France, the structural problems of an economic order are getting moralized and transformed into individual failure in order

10 See: A. Gorz, *Kritik der ökonomischen Vernunft. Sinnfragen am Ende der Arbeitsgesellschaft.*, Rotpunktverlag, Zürich 2010.

11 S. Howald, *Nein, ich bin kein Pessimist.*, Interview with Oskar Negt, WOZ, No. 22/2014, 29.05.14, <https://www.woz.ch/1422/oskar-negt/nein-ich-bin-kein-pessimist> / own translation

12 See: G. Vobruba, *Entkopplung von Arbeit und Einkommen. Das Grundeinkommen in der Arbeitsgesellschaft.*, VS Verlag, Wiesbaden 2007, p. 14.

13 See: H. Schatz, *Die Erwerbsarbeitsblase*, [in:] Gurny, R. & Tecklenburg, U. (eds.), *Arbeit ohne Knechtschaft. Bestandsaufnahmen und Forderungen rund ums Thema Arbeit.*, edition 8, Zürich 2013, pp. 217-236

14 See: D. Graeber, *On The Phenomenon of Bullshit Jobs*, 2013, <http://www.strikemag.org/bullshit-jobs/>

15 See: G. Therbörn, *New Masses? Social Base of Resistance.*, [in:] *New Left Review* 85, Jan/Feb 2014, pp. 7-16; I. Trojanow, *Der überflüssige Mensch.*, Residenz Verlag, St.Pölten – Salzburg – Wien 2013

to legitimize inequality and injustice.<sup>16</sup> The focus on traditional jobs and active labour market policy strengthens rather than weakens this ineffable trend. The facts that the labour market is becoming increasingly selective due to productivity gains and profit maximization, and that the capitalist system itself reaches its limits, remains hidden.

Against this background, a new definition and understanding of work that goes beyond the *fordist* wage-earner-model is an important field of societal transformation.<sup>17</sup> Being superfluous as a human being is only possible within the prevailing neoliberal notion of work, economy and society. Other forms of work such as voluntary work and care work need to be integrated in the socio-political and especially also the economic debate.

## 2.2 Limits of the Capitalist Growth Model

Capitalism as an economic system works only as an expansive system. Therefore, the system always drives in direction of one of the two extremes: expansion or collapse. It is through processes of “capitalist Landnahme” that the logic of capital accumulation resp. economic growth invades more and more sectors of society. However, one can assume that the Euro zone, and more generally the global north, will not reach the growth rates of earlier times anymore. At the same time, at least a relative decoupling of economic growth and quality of life has to be stated.<sup>18</sup> Moreover, the world faces the huge problem of ecological limits to resource-intensive growth, which was not really an issue after the Second World War.

### Capitalist societies face a “growth dilemma”<sup>19</sup>:

- Growth is neither ecologically nor socially sustainable – at least in its present form (including concepts of “green growth”, decoupling of capitalist growth and consumption of resources and the like).
- De-Growth is not stable – at least in its present form (i.a. because the whole system and idea of the welfare state is based on economic growth).

Furthermore, neoliberal policies promoting a global single market whose main goal is to guarantee permanent growth or permanent profits without any measures in social policy, labour-market policy, housing policy, traffic policy or spatial planning tends to foster

<sup>16</sup> See: P. Rosanvallon, *Die Gesellschaft der Gleichen.*, Edition HIS, Hamburg 2013, pp. 109-113

<sup>17</sup> See: W. Spieler, *Vorrang der Arbeit vor dem Kapital*, [in: ] Gurny, R. & Tecklenburg, U. (eds.), *Arbeit ohne Knechtschaft. Bestandesaufnahmen und Forderungen rund ums Thema Arbeit.*, edition 8, Zürich 2013, pp. 18-35; B. Ringger, *Die Sonne der Arbeit*, [in: ] Gurny, R. & Tecklenburg, U. (eds.), *Arbeit ohne Knechtschaft. Bestandesaufnahmen und Forderungen rund ums Thema Arbeit.*, edition 8, Zürich 2013, pp. 36-53.

<sup>18</sup> See: R. Wilkinson & K. Pickett, *Gleichheit ist Glück. Warum gerechte Gesellschaften für alle besser sind.*, Tolkemitt Verlag, Berlin 2010.

<sup>19</sup> See: K. Dörre, *Kapitalismus im Wachstumsdilemma*, 2012, <http://www.gegenblende.de/++co++5790423c-a679-11e1-49bd-52540066f352>; T. Jackson, *Wohlstand ohne Wachstum. Leben und Wirtschaften in einer endlichen Welt.*, oekom, München 2012.

nationalist-isolationist and discriminatory “solution strategies” that diametrically contradict the basic values of social democracy. Today, the middle-classes are confronted with new competition pressure as well. Their own social status and lifestyle is threatened – at least in their perception. Due to populist right-wing parties and the media, this discontent is often connected to population growth or immigration.

Therefore, it is of utmost importance to be precise when criticizing growth. **A progressive growth criticism must be a specific critique of capitalism, it needs to be internationalist and pluralist and it has to consider questions of the intertwining of social and ecological sustainability, (in)equality and distributive justice, democracy and new understandings of a “good life”.**

Table 1: Typology of growth criticism

Nationalist-isolationist Growth Criticism	Ecological / Ecologicistic Growth Criticism	“Victims-of-Success”-Growth Criticism	Progressive Growth Criticism
<ul style="list-style-type: none"> <li>-Cultural identity (nation state) has priority</li> <li>-Chauvinistic-xenophobic tendencies (i.a. debate on «welfare tourism»)</li> <li>-Limiting immigration / population growth (national)</li> </ul>	<ul style="list-style-type: none"> <li>- Protection of nature and environment as primary goal</li> <li>-Logic of Sacrifice</li> <li>- Critique of consumerism</li> <li>- Partly undemocratic tendencies</li> <li>-Limiting population growth (global)</li> </ul>	<ul style="list-style-type: none"> <li>- New growth criticism primarily from the middle class</li> <li>- Competition and growth pressure endangering privileges and quality of life</li> <li>-Social stress due to perceived overpopulation</li> <li>- Uncertain future prospects</li> <li>- Feeling of being short-changed (unjust distribution of the “fruits of growth” / primarily national)</li> </ul>	<ul style="list-style-type: none"> <li>- Specific critique of the capitalist growth model resp. of pressures to valorize capital</li> <li>- Critique of production and consumption</li> <li>- Social and ecological transformation of economy and society</li> <li>- Development according to societal needs</li> <li>- Broad democratization (of power) as a core element</li> <li>- Goal of distributive justice (against unjust distribution of the “fruits of growth” / global)</li> <li>- Internationalism / International Solidarity</li> <li>- Alternative definitions of “good life”</li> </ul>

As indicated in the table above, a progressive and solution-oriented critique of growth focuses by and large on a broad democratization of economy and society. A social and ecological transformation in direction of a post-growth society needs a decentralization of (economic) power and more bottom-up participation in order to enable people to develop a new relationship with society and nature, a new sense of responsibility.<sup>20</sup> This does not

20 See: U. Brand, *Die Wachstums-Enquete: Parlamentarische Sackgasse?* [in: ] *Blätter für deutsche und internationale Politik*, 10/2012, pp. 18-21; U. Brand, *Interview mit Ulrich Brand zu seiner Arbeit in der Enquete-Kommission, zu Lebensqualität, Buen Vivir und zur ökologischen Umverteilungsdebatte*, 2013, <http://www.rii.de>

imply an abandonment of development. **What we need are democratic mechanisms to conduct development (growth) under non-capitalist conditions according to societal needs.**

### **3. Rethinking Welfare Society and Social Democratic Strategy**

We postulated previously that the end of the Social Deal in the course of a neoliberalization of economy and society, resulting in an increasing unequal distribution of social wealth and the associated power, is the main reason for the crisis of the welfare society. After, the obvious problems and limitations of the two main pillars of the current welfare state model, gainful work and (capitalist) economic growth were outlined.

Against this background and from a left and progressive point of view, the question arises, what the (new) basis and mechanisms of a welfare society in the 21<sup>st</sup> century could be. How is the distribution of the collectively created wealth organized? Even though redistribution policies will remain an important instrument for social democracy in the foreseeable future, not least the debate about Predistribution signals that conventional redistribution-policies cannot solve future social problems.

According to the US-economist Richard D. Wolff redistribution has at least three flaws:

- *First, redistribution mechanisms rarely last. Once established, progressive tax rates, social securities, safety nets, minimum wages, welfare states, and all the other mechanisms of redistribution can be and usually are undermined. The last 40 years, and especially the aftermath of the global crisis in 2008, starkly illustrate the undoing of redistribution.*
- *Second, redistribution is socially divisive, often extremely. When taxes not only pay (quid pro quo) for government services rendered, but also serve to redistribute income, opposition usually grows.<sup>21</sup> Some taxpayers suspect they pay more and get less in public services than others. Deteriorating economic conditions that lessen capacities to pay taxes intensify resistance. That often turns into opposition to income redistribution in principle. Lower-income people get demonized as lazy welfare-dependents. Racist and anti-immigrant oppositions get drawn into the mix, and so on. [...]*
- *Third, redistribution is costly. Taxing, spending and regulating require large government bureaucracies funded by tax revenues. Opposition to taxes easily*

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albanknecht.de/publikationen/Interview-Ulrich-Brand-Lebensqualitaet.pdf

21 Given the huge inequalities in income and wealth, which always reflect an unequal distribution of power and influence as well, the likelihood of effective resistance against state redistribution rises.

*extends into opposition to bureaucracies like the IRS [Internal Revenue Service in the U.S.]. Those bureaucracies usually intrude on privacy and quickly become objects of influence peddling, bribery, and abuse. Exposés of the latter provide further fuel to redistribution's opponents.<sup>22</sup>*

The French sociologist Pierre Rosanvallon brings in another point to strengthen the argumentation that the era of redistribution, and thus the welfare society in the traditional sense, has come to an end. According to him, the redistribution paradigm referred to a society that was understood as a united, enclosed machine, to which individual persons related in an abstract and universalistic manner: he or she was a cog in the machine that had to be oiled when needed. Today, in the age of the individual, we have to deal with a society of "singularities", which is characterized by the fact that individuals ...

*... from now on want to socialize on the basis of their specific uniqueness. The appreciation of the singular thus has a directly social dimension. There is no tendency of the individuals to distance themselves from society (in the sense of a privatist, separatist individualism), but rather establishes the expectation of reciprocity and mutual acknowledgement. Thereby, it opens up access to a fully democratic era of the social, in line with the finding [...] that democracy as a political system is no longer isolated from democracy as a type of society.<sup>23</sup>*

Both Wolff and Rosanvallon hint at real problems of the political idea and strategy lying behind the concept of welfare society. However, it is important to note that, firstly, the redistributive mechanism of the welfare state certainly are not just problems, but first and foremost important collective achievements of institutionalized solidarity. Secondly, the political conclusion from their analysis is not the sudden abandonment of the redistributive welfare state, but its further development and – this is important! – the intensified search for new approaches and ways to a just and sustainable society as part of a long-term transformation process (see chapter 4).

The traditional idea of the welfare society is inextricably linked to the idea of the redistributive state. It aims at repairing in hindsight what capitalism has destroyed. This was the path of social democracy in the past. In light of global crises and increasingly aggressive attacks on the welfare-state-achievements it is time to consider how the progressive left can come out of this defensive and reactive position. We are in search of social development paths that prevent the structural injustices and destructions inherently produced by a capitalist market economy in the first place. Progressives in the Anglo-Saxon-, as well as in French- or German-speaking world are discussing and claiming "more democracy" as an alternative to the neoliberal status quo and the fordist notion of

<sup>22</sup> R. D. Wolff, *Better than Redistributing Income.*, 2014, <http://www.rdwolff.com/content/better-redistributing-income>.

<sup>23</sup> See: P. Rosanvallon, *Die Gesellschaft der Gleichen*, Edition HIS, Hamburg 2013, pp. 309-310.

welfare society.<sup>24</sup> When asked about reasons for having hope in social progress today, Thomas Piketty replied in an interview with “Le Monde”:

*Je répondrais qu'il est possible de développer une vision optimiste et raisonnée du progrès. Pour cela, il faut miser sur la démocratie jusqu'au bout. Il faut s'habituer à vivre avec une croissance faible, et sortir des illusions héritées des «trente glorieuses », où la croissance allait tout régler. La réflexion sur les formes concrètes de la démocratisation de l'économie et de la politique, sur la façon dont la démocratie peut reprendre le contrôle du capitalisme, cette réflexion ne fait que commencer. Il est urgent de développer des institutions réellement démocratiques, au niveau européen comme au niveau local, avec de nouveaux modes de participation collective aux décisions et de réappropriation de l'économie. Ce n'est pas parce que le XX siècle a été marqué par des chocs violents et des échecs terribles qu'il ne faut pas reprendre cette page, presque blanche, du progrès.*<sup>25</sup>

Intellectual debates are one thing, reality is another – one may say. Strive for more democracy though is by far not only an intellectual concern. The vast majority of the social movements and civil society initiatives that evolved all around Europe in the last years are grouped around the issue of (lacking) democracy and participation. They oppose the notion and reality of a world in which the major decisions about the further development of society are made in distant corporate headquarters and financial centers and/or party offices and government buildings, without appropriately involving the affected people. **I would argue that the cry for more democracy is the cry for more immediate, comprehensive and substantial influence on one's living conditions.**

The hidden cause behind the multiple crisis is a lack of democracy. Therefore, we need more democracy – in particular within the economic realm. We have to overcome the dominant logic of economy or the power relations behind this logic to achieve real progress. I think it is irrational to treat economy as a somehow disconnected system where the rules of a succeeding and sustainable society were violated systematically. The strengthening of reactionary forces all over Europe is not least traceable to the neoliberal ideology of permanent and reckless competition. There are frightening similarities to the situation in Europe at the beginning of the 20<sup>th</sup> century.<sup>26</sup> That is why it is essential to combine the fight for an open and progressive Europe more systematically with the fight of an alternative economy. Because the dominant economic logic undermines the sense of community, the need for solidarity that is necessary for an open society.

In the globalized neoliberal economy of our time, traditional democratic politics lacks

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24 See: A. Demirović, *Multiple Krise, autoritäre Demokratie und radikaldemokratische Erneuerung.*, [in: ] *PROKLA* 43, No. 171, 2013, pp. 193-215, M. Fleurbaey, *Capitalisme ou démocratie? L'alternative du XXIe siècle.*, Grasset, Paris 2006; J. Wilson, *Letting go. How Labour Can Learn to Stop Worrying and Trust the People.*, Fabian Ideas 632, 2012, <http://www.fabians.org.uk/wp-content/uploads/2012/09/LettingGo-full-text.pdf>

25 J. Birnbaum, *Il faut miser sur la démocratie jusqu'au bout.*, Interview with Thomas Piketty, [in: ] *Le Monde*, Samedi 12 juillet 2014, p. 16.

26 See: O. Negt, *Philosophie des aufrechten Gangs*, Steidl, 2014.

more and more access to the relevant economic decisions and processes. **Economy should no longer be grasped as a democracy-free zone that can be guided at the most from the outside, through regulations. We need to change economy from within. Hence, more attention should be directed to the empowerment of workers and other affected stakeholders in order to overcome the feudal monopoly of power of capital and its managers. Whenever possible, economic processes should become subject to democratic control and self-government. The democratization of economy and society is a pluralistic concept that offers numerous opportunities for progressive politics and civil society initiatives.<sup>27</sup> It ranges from the supranational regulation of financial markets to the democratic organization of enterprises on the local level.**

More democracy contributes in different ways to a functioning and sustainable (welfare) society:

- It leads to a more equitable distribution of income (primary distribution) and wealth and attached opportunities in life. Decreasing inequality goes along with a massive long-term reduction in various social and health problems and the associated costs.<sup>28</sup>
- It follows the principle of work and society before capital and thus reduces directly the need for certain welfare benefits (i.e. in conjunction with unemployment) and regulatory protection of work (and the huge amount of laws attached to it).
- It strengthens the foundation from which a solidary, just and open society can grow.
- A more democratic and more equal economy and society will work more humane and resource saving. This has positive effects on human health (e.g., reduction of stress-related diseases) and environment, what carries weight financially as well.
- More democracy in the economy reduces the vulnerability to crisis of the world economy, which can essentially traced back the problem of over-accumulated capital and profit maximization logic. A more democratic economy is more long-term oriented and brings more (planning) security - socially and individually.
- A democratic and more equal economy with decentralized power prevents great upheavals of social and ecological nature in the first place and therefore needs much less government micromanagement and thus less bureaucracy.

**Overcoming the prevailing economic model based on resource- and capital-intensive growth and radical competition logic is the prerequisite for a sustainable welfare society.** Neoliberals and neoclassical economists and politicians argue that

27 See: E. O. Wright, *Envisioning Real Utopias*, Verso, London/New York, 2010; P. Zwicky, *Economic Democracy as a Key Element of a Social Europe*, Working Paper, FEPS Next Left Focus Group, 2013.

28 See: R. Wilkinson & K. Pickett, *Gleichheit ist Glück. Warum gerechte Gesellschaften für alle besser sind*, Tolkenitt Verlag, Berlin 2010.

**Overcoming the prevailing economic model based on resource- and capital-intensive growth and radical competition logic is the prerequisite for a sustainable welfare society.**

a post-capitalist economy or post-growth society is no longer sufficiently productive and efficient. Even if we create less monetary wealth in the traditional sense in the future, it would not be a problem in itself. What comes to the fore is the question of distributive justice. A democratic economy and society also leads to significantly less social and environmental problems and thus to a strong reduction of external costs, which are now imposed by private actors (e.g. shareholders, corporations) to the public. Because of that, the financial pressure on the future welfare society would be significantly lower. Thereby, resources become available and can be distributed and invested according to the needs of society.

A new understanding of democracy is the first step to prevent that the call for more democracy goes unheard:

*It is a crucial problem of our time that we do not have a strong notion of democracy any more, and that we measure the possibilities of democracy on very low standards. We need an empathic understanding of democracy as a political form of self-organization of society. We really need to re-understand and culturally-collectively anchor, that we should all shape and should want to shape and that there is the chance to shape.<sup>29</sup>*

A comprehensive and value-based democracy means ...

*... far more than majority decisions. Democracy is also the development of a participatory and emancipatory culture that has to do with transparency, conflict resolution and negotiation skills, creative solution finding and sociopolitical commitment. Democracy does not mean that everyone always gets what he/she wants. The decisive factor is that everyone has real possibilities to influence and to improve her/his life chances.<sup>30</sup>*

Such a democracy becomes attractive especially because it corresponds with the deeply human, and at the same time most current pursuit for self-determination.<sup>31</sup> The modern man, Rosanvallon's "singularities", strive for a self-determined life in and with society.

Although they are rather abstract, these arguments are of utmost importance for social democracy. Social democracy in Europe needs to find new (or old) orientation, at least partially. Towards the top and the bottom. Towards the top means, that it has to

29 H. Rosa & S. Lessenich, *Weil Kapitalismus sich ändern muss: Im Gespräch mit Hartmut Rosa und Stephan Lessenich*, [in: ] M. Kennedy et al. (eds.), *Weil Kapitalismus sich ändern muss.*, Springer VS, Wiesbaden 2014, pp. 50-51/own translation.

30 R. Dällenbach et al., *Die überflüssige Schweiz.*, [in: ] Denknetz (ed.), *Die überflüssige Schweiz. Eine Streitschrift.*, edition 8, Zürich 2014, pp. 34-35/own translation

31 See: H. Rosa & S. Lessenich, *Weil Kapitalismus sich ändern muss: Im Gespräch mit Hartmut Rosa und Stephan Lessenich*, [in: ] M. Kennedy et al. (eds.), *Weil Kapitalismus sich ändern muss.*, Springer VS, Wiesbaden 2014, pp. 48-49.



become more critical when dealing with power. Not only with regard to the economic aristocracy, but also towards itself. Towards the bottom means, that social democracy does everything it can to empower people, even if this is not always trouble-free and controllable. Democracy implies to trust the people and to reject the one-dimensional neoclassic conception of human beings as selfish utility maximizers.

Europe-wide, progressive politics fails in large parts because of neoliberal hegemony. Substantial alternatives to the neoliberal status quo are getting marginalized from the start and can therefore not develop into social alternatives. It is one of the crucial challenges for the progressive left to change this. The struggle for hegemony is the struggle for a better world and a prerequisite for a better policy. For many years social democracy was at least partly paralyzed, and fended neoliberalism only defensively – or worse, devoted itself to it. We need our own hegemony project. A hegemony project that is opposed to neoliberalism and provides answers to the pressing questions of our time.

**An extended democracy can and should be the core of the much-needed social democratic hegemony project of the future. Democracy not only encompasses the social democratic basic values of equality, solidarity and freedom, it is at the same time the mechanism that allows (1) the self-determination of a collective and (2) the decentralization of highly concentrated power structures in society. It is the DNA of social democracy to promote, develop and anchor democracy in the whole society.** Classic political democracy now reaches its limits. Parliaments and political rights, as we know them, are less and less able to find workable answers to contemporary challenges and to enforce the public interest against the power of corporations, a few super-rich and their minions in the political system.<sup>32</sup> Hence, now is the time to take a further step and to fight for more democracy, especially in economy.

### 3.1 Care as Individual-Related Service and Social Paradigm

In a comprehensive understanding care can be defined as follows: *To care is to relate: to fellow human beings, to the environment, to the self, as individuals and members of society, consciously, existentially, and over time.*<sup>33</sup> Care as a general concept of a caring and providing relationship to the world. In this sense, care is a dimension that points beyond the care-sector, it is a possible counter-concept to the neoclassical role model of the “homo oeconomicus”.

In a narrower and more common understanding, care means individual-related services. Welfare state benefits are mainly care services. Moreover, care work is still to

<sup>32</sup> See: C. Crouch, *Jenseits des Neoliberalismus. Ein Plädoyer für soziale Gerechtigkeit.*, Passagen Verlag, Wien 2013.

<sup>33</sup> M. Jochimsen cited in M. Madörin, *Care Ökonomie – eine Herausforderung für die Wirtschaftswissenschaften.*, [in: ] C. Bauhardt & G. Caglar (eds.), *Gender and Economics. Feministische Kritik der politischen Ökonomie.*, Springer, Berlin 2010, p. 87/own translation.

a large extent unpaid work and performed by women. The economist Mascha Madörin shows for Switzerland that the volume of unpaid work, and most of it is care work in private households, exceeds the volume of gainful employment.<sup>34</sup>

There are different defining characteristics of care work that also distinguish care from other services and the production of goods from an economic point of view:<sup>35</sup>

- Individual-related: Production and consumption cannot be separated, direct exchange between subjects (service provider/care giver and recipient) and not on an anonymous market. The interpersonal character of care is part of the service and of its quality.
- Dependence: every human being is dependent on care work at different stages of his/her life. Care-relations include asymmetries or imbalances of power, there are relationships of responsibility and dependence between caregiver and caretaker.
- Time-consuming and processual: The quality of care work clearly suffers when confronted with “time is money”-logic and standardization. Care develops in the process and is not a finished product that can be sold or consumed.

Especially the last point sheds light on more basic questions. Regarding the overall volume of work, the importance of care is constantly growing. However, with respect to their time exposure, personal services in education, gastronomy, childcare, nursing, etc. can only be optimized to a certain degree. The concept of diverging productivities deals with this issue. At the same time, the limits of productivity growth in the production of goods or in kind services are increasingly achieved. These two trends have the potential to become a fundamental challenge for a capitalist economy. Without the possibility of productivity growth, capitalist relations make “no sense” in the long run.<sup>36</sup>

Critical scholars diagnose a “care crisis” which can be interpreted as the pointed contradiction between economic profit maximization on the one hand, and the reproduction of workforce on the other.<sup>37</sup> Connected with that, there are other reasons that add to this crisis:<sup>38</sup>

- Because more and more women pursue gainful employment, less time is left for – unpaid – care at home or within the private domain.

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34 See: M. Madörin, *Care Ökonomie – eine Herausforderung für die Wirtschaftswissenschaften*, [in:] C. Bauhardt & G. Caglar (eds.), *Gender and Economics. Feministische Kritik der politischen Ökonomie.*, Springer, Berlin 2010, pp. 81-104.

35 See: I. Knobloch, *Sorgeökonomie als kritische Wirtschaftstheorie des Sorgens*, [in:] Baumann et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013, pp. 9-23.

36 See: H. Baumann & B. Ringger, *Care, Produktivität, Emanzipation: Der Care-Imperativ*, [in:] Baumann, H. et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013, pp. 134-175.

37 See: G. Winker, *Zur Krise sozialer Reproduktion*, [in:] Baumann, H. et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013, pp. 119-133.

38 See: I. Knobloch, *Sorgekrise. Ein Handbucharikel*, [in:] Baumann H. et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013a, pp. 24-32.

- Modern lifestyles (especially individualization) increases the demand for “outsourced” care. Care is shifting from the family realm in the private, public or non-profit-sector.
- Medical progress and the ageing of the population increases the demand for care.
- Supply is decreasing because of less attractive working conditions in the care-sector.
- Austerity-policies in the aftermath of the financial crisis raise the cost pressure for welfare states and therefore for care.
- One has to observe a “care drain” in the global south because paid and unpaid caregivers increasingly migrate as cheap care-workers to the wealthy countries of the global north.

**The only way out of the care crisis is to make societal needs and human vital interests the prior reference point of political action, instead of keeping it focused on the profit-maximization.** Against this background, the case is made for an “economy of qualities”<sup>39</sup> that must replace the dominant neoliberal approach to economy. This is a fundamental change of perspective, which is crucial for the care sector but goes beyond it. Every collective action, and economy certainly is such an action, encompasses a care dimension. In order to value this dimension adequately we need to change the prevailing social priorities.

Along these lines, but once again more specifically on care in the narrower sense, Gabriele Winker proposes three elements of a “care-revolution”:<sup>40</sup>

- People must have enough time and a secured existence in order to perform the necessary reproduction work. Therefore, a reduction of the working time and a further decoupling of income and work is indicated (see 4.2 on basic income).
- An expansion of public and non-profit care infrastructures is needed. This requires, inter alia, a significant increase in the public spending ratio. The necessary redistribution of societal wealth also means to reallocate the over-accumulated, speculative capital on the financial markets and to use it for meaningful societal tasks.
- It needs better working conditions and substantial wage increases in the care sector. Therefore, one has to think about a balance between high and low value added sectors, for example in form of increased corporate taxes and higher progressive

39 H. Baumann & B. Ringger, *Care, Produktivität, Emanzipation: Der Care-Imperativ*, [in: ] Baumann, H. et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013, p. 145/own translation.

40 See: G. Winker, *Zur Krise sozialer Reproduktion*, [in: ] Baumann, H. et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus.*, edition 8, Zürich 2013, pp. 119-133.

taxes on income and wealth. People who are employed in the high value added sectors and obtain a corresponding wage, ultimately benefit from the precarious circumstances in the care sector. Redistribution in favor of care would also be a gender-redistribution in favor of women.

The whole topic of care can be combined with the understanding of democracy described above. **Care as a broad social paradigm is, as well as democracy, a progressive concept based on human and social needs. They both share the consciousness of the importance of solidarity and common responsibility.** Points Two and Three of Winker's proposals are clearly connected to the traditional social-democratic framework of redistribution. One has to note that a democratization of economy and society would certainly change the parameters with regard to care as well, and would therefore require new answers to new challenges (see chapter 3). Concerning point Three, the right of substantial co-determination for caregivers in institutions such as hospitals and nursing homes would probably not only lead to better working conditions but to better care.

### 3.2 Basic Income

The concept of basic income is a vision that is off and on discussed as an alternative to conventional welfare state instruments. Today, it presents itself as an attractive answer to questions which are raised by productivity growth and its limits, the spreading fear for one's social existence or the problem of stigmatization (see chapter 2.1). A European Citizens' Initiative (ECI) on Unconditional Basic Income has recently failed already in the signature-gathering-phase, in Switzerland people will vote on this issue in 2016. Despite the failure of the ECI, it is worth to take a closer look at the reflections behind it. In the understanding of the initiators, the Unconditional Basic Income (UBI) does not replace the welfare state *but does complete and transform the same from a compensatory into an emancipatory welfare state.*<sup>41</sup> The emphasis of emancipation and autonomy is of utmost importance when dealing with the idea of a basic income in a progressive manner and. The initiators from 15 EU Member States agreed on four criteria that define the proposed UBI. According to them a basic income must be (1) universal, (2) individual, (3) unconditional and (4) high enough to provide for a decent standard of living.<sup>42</sup>

The ECI on Unconditional Basic Income referred to the Treaty on European Union (TEU) or the Charter of Fundamental Rights of the European Union, and thereby in particular to the centrality of human dignity. **A basic income in that sense has not**

41 See: ECI, *European Citizens' Initiative for an Unconditional Basic Income*, 2014, <http://basicincome2013.eu/en/index.html>

42 See: ECI, *European Citizens' Initiative for an Unconditional Basic Income*, 2014, <http://basicincome2013.eu/en/index.html>

primarily to be explained and defended in neoclassic economic terms but with regard to the basic human rights. To grasp a basic income as a fundamental right which is bound only to the mere existence of a human being may be seen as the key civilizing progress.<sup>43</sup> Further, it is important because the welfare states of capitalist societies of the global north (it is much worse on a global scale) are less and less capable to guarantee a decent, a good life for all.

Leopold Specht makes another point in favor of a basic income. He argues that the “old” welfare state failed not only in delivering social security as such, but led also to the retreat of citizens from democratic participation in the public arena. He grasps a basic income as an entitlement, a welfare right, but attaches this right to active participation in the “public cause” (social, cultural and educational initiatives on a grassroot level, in the care sector etc.) of the European Union. For Specht, **a basic income is a requirement for a democratic and successful Europe.**

*A guaranteed subsistence for every citizen, the material means of which should be subject to ongoing public debate and the level of which should be democratically decided, would be the basis for a new social contract. Society guarantees the subsistence of each citizen in consideration for the participation in social life. The notion of (new) property right at the basis of this proposal is the negation of the de-mobilizing substance of welfare, hegemonic in current European politics. It does not ask for a surplus to be distributed, or handed down, from above. It requests subsistence as basis for social activity from below.*<sup>44</sup>

**A basic income is a requirement for a democratic and successful Europe.**

Although I do not agree that the debate about a basic income can and should be separated from the issue of redistribution of wealth, Specht brings in an interesting perspective. Equality as (one of) the main value(s) of social democracy fundamentally depends on participation and not just on distributive justice in the form of material resources.<sup>45</sup> Such a progressive focus on participation goes along with a positive conception of man and a truly democratic society:

*[A basic income] is an essential part in the political tool box of a political, democratic left which interprets the current crisis radically different than the heirs of the social democratic compromise. Instead of continuing praying in front of the cold alters of technocracy, such a democratic left believes in the imaginative power of heightened democracy. And it trusts*

43 See: R. Blaschke, *Irrweg Marktmensch.*, [in: ] Blaschke, R & Rätz, W. (eds.), *Teil der Lösung. Plädoyer für ein bedingungsloses Grundeinkommen.*, Rotpunktverlag, Zürich 2013, pp. 25-40.

44 L. Specht, *Redistribution and Entitlement: a Democratic Union*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Framing a New Progressive Narrative*, Brussels, Foundation for European Progressive Studies / Renner Institut, 2013, pp. 217-218.

45 See: J. Wilson, *Letting go. How Labour Can Learn to Stop Worrying and Trust the People*, Fabian Ideas 632, 2012, <http://www.fabians.org.uk/wp-content/uploads/2012/09/LettingGo-full-text.pdf>

*in the imagination of individuals not paralyzed by the day to day struggle for material survival and free to creatively participate in society and its affairs.*<sup>46</sup>

Adding to this line of argumentation from a slightly different angle, Erik Olin Wright asks in what ways a guaranteed basic income can be considered part of a broad socialist challenge to capitalism. *What we can try to do is articulate a set of anti-capitalist socialist principles and use these to indicate movements away from capitalism in a socialist direction even if we lack a clear understanding of our destination.*<sup>47</sup> Because we inevitably lack a clear notion of our destination, we must all the more be sure about the principles that guide our way. Wright differentiates three core principles that define the socialist compass:

- Strengthening the power of labor relative to capital
- Decommodifying labor power
- Strengthening the power of civil society to shape the priorities for the use of the societal surplus and the organization of economic activity

The last point is less familiar in classical socialist reasoning than points one and two. Nevertheless, for me it is a very important principle because it implies a distinction from centralized and bureaucratic systems of command-economy like the Soviet Union. Wright differs in this context between statism and *social-ism*, a system that is democratically organized from bottom-up.<sup>48</sup>

Wright argues that a basic income can principally be viewed as a socialist reform on all three criteria listed above:

- If a basic income is generously (guaranteeing a decent life) calculated it strengthens the power of labor for three reasons: Firstly, to the extent that the labour markets become tighter, the individual bargaining power of workers increase. Therefore, secondly, labour is collectively in a better bargaining position. And thirdly, basic income can be seen as an unconditional and inexhaustible strike fund.
- The most obvious and most often mentioned effect of a basic income is on the partial decoupling of income and wage labor. A basic income fosters the decommodification of labor. A basic income is a way to (more) equal “fire power” between capital and labor. It would guarantee people the right for a secure livelihood apart from the labor market and their willingness to accept wage labor. Today, mainly the privileged elites and their heirs have a certain security when pursuing their life goals. A basic income would be a step in the direction of more equal opportunities. In this sense, a basic income could have emancipatory, activating and creativity-promoting effects.

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46 L. Specht, *Redistribution and Entitlement: a Democratic Union*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Framing a New Progressive Narrative.*, Brussels, Foundation for European Progressive Studies / Renner Institut, 2013, p. 218.

47 E. O. Wright, *Basic Income as a Socialist Project.*, [in: ] *Basic Income Studies* 1, No. 1, 2006, p. 2.

48 See: E. O. Wright, *Transforming Capitalism through Real Utopias.*, [in: ] *American Sociological Review* 78, No. 1, 2013, pp. 1-25.

- A life-sustaining basic income is insofar a prerequisite for a real democratization of economy and society as it empowers workers/employees to participate and decide more independent from the accumulation logic of capital/business – provided that such structures and institutions of economic democracy exist.<sup>49</sup>

It can be learned from these deliberations that **a basic income needs to be embedded in a comprehensive societal transformation project that points beyond capitalism if it wants to have an emancipatory impact.**<sup>50</sup> An extended democracy as outlined above is such a transformation project. Both Specht and Wright Social democracy needs to be ready to use public debates about a basic income in order to develop new visions and mechanisms of a future welfare society.

There are several critical points brought forward against a basic income – from conservatives and neoclassic economists but also from feminists and social democratic politicians and unions.<sup>51</sup> The idea of a basic income concerns the basic concept of work that is historically and rightly so of utmost importance and identity-establishing for social democracy and the trade unions. Nevertheless, reconsidering the traditional notion of gainful work and the institutions connected to it (see chapter 2.1) is an urgent requirement for social democracy in the 21<sup>st</sup> century. There may be good reasons to reject a specific political project on basic income, but it should be at least a constructive rejection. In Switzerland, the social democratic party emphasizes in its official communication that the idea of a basic income raises important and partly unanswered questions of our times. However, the party rejects the popular initiative on an UBI because it assesses the risk that the proposal is getting misused from the conservative majority in the parliament to further dismantle the welfare state as too high. It is not by chance that also neoliberal thinkers as Milton Friedman had sympathies for the idea of a basic income. From a pragmatic point of view, there are several conditions to a progressive basis income:<sup>52</sup>

- The level of the benefits of the existing social security systems must be guaranteed

49 See: W. Spieler, *Vorrang der Arbeit vor dem Kapital*, [in: ] R. Gurny & U. Tecklenburg (eds.), *Arbeit ohne Knechtschaft. Bestandesaufnahmen und Forderungen rund ums Thema Arbeit*, edition 8, Zürich 2013, pp. 18-35; S. Vitols, *What is the Sustainable Company?* [in: ] S. Vitols & N. Kluge (eds.), *The Sustainable Company: A New Approach to Corporate Governance*, ETUI aisbl, Brussels 2011, pp. 15-37.

50 See: A. Gorz, *Kritik der ökonomischen Vernunft. Sinnfragen am Ende der Arbeitsgesellschaft*, Rotpunktverlag, Zürich 2010; B. Wagner, *Das Grundeinkommen in der deutschen Debatte. Leitbilder, Motive und Interessen*, WISO Diskurs, 2009, <http://library.fes.de/pdf-files/wiso/06194.pdf>

51 See: Flassbeck et al., *Irweg Grundeinkommen. Die grosse Umverteilung von oben nach unten muss beendet werden*, Westend, Frankfurt aM 2012; I. Robeyns, *Feminism, Basic Income and the Welfare State*, [in: ] C. Bauhardt & G. Caglar (eds.), *Gender and Economics. Feministische Kritik der politischen Ökonomie.*, Springer, Berlin 2010, pp. 132-148; P. Van Parijs, *Basic Income: A Simple and Powerful Idea for the Twenty-First Century*, [in: ] *Politics & Society* 32, No. 7, 2004, pp. 7-39.

52 See: Fachgruppe Sozialpolitik, Arbeit und Care-Ökonomie, *Ein bedingungsloses Grundeinkommen muss die Freiheiten aller stärken*, [in: ] Denknetz (ed.), *Auf der Suche nach Perspektiven. Analysen und Impulse zur Politik*, edition 8, Zürich 2012, pp. 193-195.

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- It has to be specifically connected with a top-down redistribution of societal wealth,
- It must not subvert the efforts for good gainful work and does therefore not replace but complement minimum wages
- It must not counteract the collective responsibility of society for good public infrastructures.

An emancipatory basic income is a positive vision – as it is true for a deeply democratic society. What we have learned is that both visions are intertwined somehow. **There is no participatory democracy without social security. Therefore, the political left needs deal simultaneously with both issues. The democratization of economy and enterprises that would lead to less inequality and less social and ecological problems could be started today.** Several of the problems that are part of the reasoning in favor of a basic income such as stress, alienation or exploitation, can be traced back to enterprises, especially big corporations, and the power relations within these organizations. At the same time, Europe or single member states could develop their welfare structures in the direction of a further decoupling of social security and gainful work inspired by the idea of a basic income. The aforementioned connection of basic income to some kind of social participation is one possibility.<sup>53</sup> Another is the proposal of an Unconditional Sabbatical in the form of three years of a paid sabbatical that is granted to all adults during their working life.<sup>54</sup>

In conclusion, I think it is important to leave the discussion about basic income not to proponents from cultural and intellectual middle-class milieus, but to bring in left arguments that combine a modern way of thinking with the necessary materialistic consciousness. Moreover, we always have to be aware that a basic income for all would not collapse because of lacking financial resources or societal wealth but because of an unequal and unjust distribution of the same.

## 4. Transformation and Social Democracy

Human history is a history of change. The question is how social change takes place. Evolutionary, as a reform process within a given social order or as a radical break, as revolution. Intellectuals attached to the Rosa-Luxembourg-Foundation argue that transformation is the key type of social change for a progressive left in the 21<sup>st</sup> century (for the characterization of the concept see Appendix 1).<sup>55</sup> Transformation is

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53 See: P. Van Parijs, *Basic Income: A Simple and Powerful Idea for the Twenty-First Century*, [in: ] *Politics & Society* 32, No. 7, 2004, pp. 7-39.

54 See: R. Gurny and B. Ringger, *Das Bedingungslose Sabbatical für alle (BSA)*, [in: ] Denknetz (ed.), *Auf der Suche nach Perspektiven. Analysen und Impulse zur Politik*, edition 8, Zürich, 2012, pp. 196-202.

55 See: M. Brie (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus*, Westfälisches Dampfboot, Münster 2014.



to be understood as an *intentional, intervening, formative, and at the same time an intrinsically dynamic and organic-evolutionary development process. Historical change with the character of transformation is usually driven by both processes. Transformation is change, which always includes continuity.*<sup>56</sup> Succeeding transformation leads to a new model of social development. This requires a fundamental change of path. However, this change draws on the skills and experiences existing today and further develops them in a participatory and ultimately open-ended process. *Transformation is the effort not to think only up to a coming revolution, but to take the negative historical experience with the central political planning of state socialism, its self-illusionment and the authoritarian consequences seriously and to investigate the question of what follows 'The day after'.*<sup>57</sup>

Today and more substantially it is about ...

*... a transformation of the economic path and a transformation of social relations. In other words: Socio-ecological and democratic-solidary development - these are the two connected pillars - are the core of this transformation of the society in the 21<sup>st</sup> century. It has its origin not only in the contradiction between market radicalism and democratic-social regulation, but arises from the requirements of a fundamental change in the way of carrying out economic activities, of working, of life.*<sup>58</sup>

Such a transformation affects essentially power and ownership structures. **Democracy as a question of power lies at the heart of transformational change.** *The frontal attack on democracy and its institutions associated with the neoliberal turn demands more than ever a profound reorganization and new construction of democratic institutions as a precondition for sustainable social, ecological and peaceful development.*<sup>59</sup> Transformation implies a democratization in which the democratic participation itself creates the institutions that enable democratic participation and binding decisions. *This can only be achieved by a transformation of the living and working conditions in which the material reproduction and collective decision-making processes cohere.*<sup>60</sup> In this context, the democratization of enterprises and the associated change of the predominant orientation from profit

56 R. Reissig, *Transformation – ein spezifischer Typ sozialen Wandels. Ein analytischer und sozialtheoretischer Entwurf.*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, p. 54/own translation.

57 A. Demirovic, *Transformation und Ereignis. Zur Dynamik demokratischer Veränderungsprozesse der kapitalistischen Gesellschaftsformation.*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, p. 430/own translation.

58 R. Reissig, *Transformation – ein spezifischer Typ sozialen Wandels. Ein analytischer und sozialtheoretischer Entwurf.*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, p. 71/own translation.

59 *ibid.*, p. 75/own translation.

60 A. Demirovic, *Transformation und Ereignis. Zur Dynamik demokratischer Veränderungsprozesse der kapitalistischen Gesellschaftsformation.*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, p. 433/own translation

maximization to the common good is a necessary condition of a comprehensive social transformation.

What is the role of social democracy in this transformation process? **Transformation is a process of social change at different speeds or with different time horizons on the one hand, and manifold content on the other. In a short- and medium-term perspective, social democrats have to defend the redistributive welfare state and parliamentary democracy against the neoliberal financial capitalism and develop it further. At the same time, and this in contrast to social-democratic policy of the last decades, social democracy has to engage seriously in the emancipatory democratizing of economy and society and become a driving force of a progressive and transformative movement.**

The social or public discourse is of central importance in all this. In times of change and transition it decides about the directions in which societies develop. *Change, transformation of society begins with change in the social field and especially in the social discourse, with change in people's minds.*<sup>61</sup> **Social democracy must become a “popular educator”, it must have the courage to stand up to the hegemonic neoliberal mainstream, throw lights on background stories and demonstrate working alternatives to the status quo.**

<sup>62</sup> The approach presented in chapter 3, extended democracy as a hegemony project, allows to follow this path and to develop appropriate political narratives. This applies in particular with regard to the further development of welfare society and the related goals/values such as solidarity, self-determination, emancipation and security.

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61 R. Reissig, *Transformation – ein spezifischer Typ sozialen Wandels. Ein analytischer und sozialtheoretischer Entwurf*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, p. 61/own translation

62 See: S. Hall & A. O'Shea, *Common-sense Neoliberalism*, 2013, [http://www.lwbooks.co.uk/journals/soundings/pdfs/Manifesto\\_commonsense\\_neoliberalism.pdf](http://www.lwbooks.co.uk/journals/soundings/pdfs/Manifesto_commonsense_neoliberalism.pdf)

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**Appendix 1: Transformation – a specific type of social change<sup>63</sup>**

<p><b>Essence</b>          Specific type of social change; Transition to and reconstitution of types of social and cultural order, types of socio-economic and socio-cultural development;          Complex, multidimensional change of the defining process structures, regulatory systems, development and cultural patterns;          Interaction of intentional, appropriated and evolutionary, intrinsically dynamic and uncontrollable processes;          Searching, learning and experimenting process of collective and individual actors with certain common goal orientations / guiding principles / assumptions about the future</p>	<p><b>Historic-logic types</b>          Change of          - Types of civilization          - Types of society, socio-economic and socio-cultural development models          - Political and institutional regime types</p>
<p><b>Causes</b>          Social and global situations of radical change and transition;          Endogenous systemic (economic, social, cultural) conflicts, fault lines, crises;          New social challenges in conflict with traditional structures and modes of development;          - Exogenous impulses, events</p>	<p><b>Levels, realms, spaces</b>          Levels          - social level, macro and micro levels, system and lifeworld          Spaces          - National, regional, global society          Realms          - Political, economic, social, spiritual-cultural complexity</p>
<p><b>Actors</b>          Swarm of different actors who build different discourse, interpretation and transformation coalitions;          Big social interest groups, social movements, critical intellectuals and elites, parts of progressive state-political actors and entrepreneurs;          "Pioneers of Change" (individuals, small groups)          Transformation is depending in particular on actor constellations with sufficient power, resources, willingness and ability to change</p>	<p><b>Forms and patterns</b>          Diversity of forms that often occur in combination;          Controlled change and self-directed process, gradually and eruptive;          Redemption and conversion process from "below" and "above";          Constancy and change, break and convergence;          Reconstruction of existing and construction of new institutions, regulation systems, structures;          Interaction of "large" and "small" transformations;          Conflictual political and social conflicts, emergence of a democratic majority will and search for a broad democratic consensus of transformation in society</p>

63 R. Reissig, *Transformation – ein spezifischer Typ sozialen Wandels. Ein analytischer und sozialtheoretischer Entwurf.*, [in: ] Brie, M. (ed.), *Futuring. Perspektiven der Transformation im Kapitalismus über ihn hinaus.*, Westfälisches Dampfboot, Münster 2014, pp. 93-94/own translation.

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#### Results

Contingent, open development process with intended and unintended consequences;  
Possible different results: Succeeding transformation = new type of social and cultural order, sustainable path of socio-economic and socio-cultural development and thus establishing of a new regulatory system, compromise and forms of social hybrid formation; stagnation, failure, regression;  
Indicators of measuring: degree of establishment and institutionalization of a new, social, ecological, democratic and solidarity-based way of development; degrees of freedom, equality, justice and democratic participation as the basis of individual development opportunities and lifestyles;  
New, further development options as a result of social evolution and transformation

#### New paradigm of transformation

Necessary reorientation of the (classical) theory of social change, transition to a new model/  
concept/paradigm of transformation as the basis for contentful and empirically verifiable statements about the what, why, how, and the meaning and consequences of social transformation processes in our time;  
Theory of transformation as an interdisciplinary research and discursive dialogue and learning process of social sciences, cultural sciences and history

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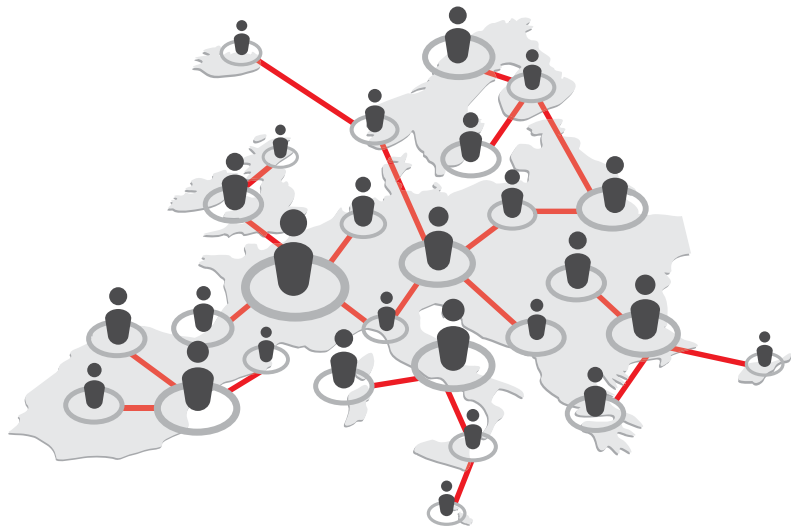
**Acting through Europe:  
Solidarity, Politicization  
and Communitarian Method**

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Robert LADRECH

## **External and Internal Challenges to Social Democratic Leadership in Europe**



**Keywords:**

**Critical Elections - European Parliament - European Commission –  
Politicisation - Social Democratic Parties**

**Abstract:**

This paper explores the possibility of social democratic leadership in the EU. It asks what such leadership would embody in the presently configured EU by first suggesting that the Delors presidency represented an example. It then evaluates the current challenges to European social democracy both within member states as well as within social democratic parties themselves. Finally, it suggest that although the Spitzenkandidaten process in 2014 was a step in the right direction, social democratic leadership in the EU first requires a major renewal that can then inform and hopefully mobilise voters for the next set of European elections.

The promise of Euro-parties has been to develop a cross-national partisan force to influence policy-making at the level of European Union decision-making. However loosely related to the model of a national political party, the basic assumption has been that their development as transnational partisan organizations in a competitive environment – i.e. European Parliament elections – would contribute to citizen engagement with the EU as well as assist in the development of a European-level policy direction. **One of the key problems for Euro-parties has been that while they aspire to be vote-seeking as well as policy-seeking actors, the difference with national parties is that they cannot also be office-seeking, at least while elections to the European Parliament do not lead directly to the formation of a government, as understood by most people.**

For social democratic parties and their Euro-party, the Party of European Socialists (PES), the problem is two-fold. First is the absence of a European form of government – strictly speaking, something more than simply ‘governance’, networked or otherwise – that is common to all Euro-parties. Second, social democratic parties/PES operate in a multi-level environment in which EU/euro-zone economic policy constraints impact more directly social democratic domestic policy agendas than they do those of centre-right parties (the case of Portugal during the financial crisis is a case in point, where the centre-right government welcomed the austerity policies as a means of undermining labour and welfare prerogatives of its opponents). Social democratic parties must therefore act as agents of change, but in such a multi-level (if not fragmented) policy-making environment, the challenge to do so is immense. **This paper concerns itself with the question of how European social democracy can – if at all possible – exhibit leadership at the EU level.** It therefore first considers what exactly *leadership* would resemble at the EU level in the absence of ‘government’, then turns to the challenges social democratic parties *in particular* face at the national and supranational levels which may impact the potential European level of leadership, then ends with some possible prescriptions for progress.

## **What do We Mean by European Leadership?**

The study of leadership in the EU has focused on institutions, so a rotating presidency, or a Commission president, or the Council, in particular the Council Secretariat<sup>1</sup>. The

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<sup>1</sup> D. Beach, *Leadership and Intergovernmental Negotiations in the European Union*, [In: ] *Research Agendas*

analysis of leadership has generally fallen into two models, the comprehensive and rationality models. Both models 'posit that when governments want agreement but are hindered by high transaction costs there exists a strong demand for leadership' and that the delegation of leadership 'functions as a 'rational' trade-off between efficiency gains and delegation costs...'<sup>2</sup>. In theory, leadership can be supplied by the Presidency, but small state presidencies suffer from informational resources and large-state presidencies may suffer from a lack of trust and acceptance by the other states, especially if the presidency seems solely self-interested. The body of literature upon which these models of leadership rest have focused on the dynamics of leadership to produce new treaty advancements, break negotiation deadlocks, etc.<sup>3</sup> Such examples are products of the integration process, and although partisan considerations at the domestic level of one or more national government may have been present, contestation has been presented as an *inter-governmental* rather than partisan affair. This is not to say that transnational party/family factors have been absent, as Johansson<sup>4</sup> suggests with regard to the drafting of the Maastricht Treaty and the role of organized Christian Democratic parties and governments at the time.

Another very different perspective on leadership in Europe, at least in terms of the institutionalization of the integration project itself and major turning points – such as EMU – concentrates on competing normative visions of Europe. Parsons<sup>5</sup> argues that the visions or ideas of key individuals have influenced the integration process, from de Gaulle and Adenauer to Mitterrand and Kohl, and in certain (exceptional?) circumstances, their personal beliefs overcame domestic and international resistance, sometimes from within their own camp or party (e.g. Mitterrand and EMU). The thrust of Parson's argument is that at certain periods, influential and well-placed individuals have pushed an idea or vision that because of the cross-cutting nature of the integration debate, has allowed them a greater degree of autonomy of decision-making than would have been the case for 'ordinary' policy development. This is less a 'great man in history' argument than one that acknowledges political actors' competing normative visions of the EU.

Combining the two perspectives above, **I suggest that the Delors Commission represented the closest example of political leadership at the European level, mixing**

*in EU Studies: Stalking the Elephant*, M. Egan, N. Nugent & W. Paterson (eds.), Basingstoke, Palgrave, 2010, p. 113

<sup>2</sup>Ibid.

<sup>3</sup> See, *inter alia*, D. Beach & C. Mazzucelli, *Leadership in the Big Bangs of European Integration*, Basingstoke, Palgrave, 2007, and J. Tallberg, *Leadership and Negotiation in the European Union*, Cambridge, Cambridge University Press, 2006.

<sup>4</sup> K.-M. Johansson, *Another Road to Maastricht: The Christian Democratic Coalition and the Quest for European Union*, [in: ] *Journal of Common Market Studies*, Vol. 40. No. 5, pp. 871-893.

<sup>5</sup> C. Parsons, *Competing Visions of European Union*, [In:] *The SAGE Handbook of European Studies*, C. Rumford (ed.), London, SAGE, 2009, pp. 191-208.

elements of the two general models of leadership briefly discussed above.<sup>6</sup> In the first place, Delors had the support of the two most critically important member states at the time, France and Germany. Second, Delors articulated a vision of European integration, one with support from Mitterrand (and not directly opposed by Kohl). Third, the early to mid-1980s was characterised by an environment that motivated national leaders to entertain alternative solutions to the sluggish economic growth at the time, and the challenge of American and Japanese technological superiority.

The timing of the White Paper, the change of economic direction by the French government in 1982,<sup>7</sup> etc. created the potential for leadership. The concern of this paper is European leadership and social democracy, and in the actions of the Delors presidency (1985-1995), we can witness elements of a competitive normative vision (a social democratic discourse), attention to transnational mobilisation (support for the development of the PES), and partial success in terms of policy. Let us briefly consider each of these points.

*Competitive normative vision:* alongside the development of the Single Market programme arising from the Single European Act (SEA) was a general publicity campaign labelled 'Europe 1992' (signalling the date that the barriers to the free movement of goods, capital, people and services would be complete). But importantly from the perspective of social democrats, Delors famously articulated a difference between the Europe of 1992 and the socio-economic models of both the US and Japan (the leading capitalist economies at the time). He stressed that the 'European model of society' had different norms and underpinnings from the others, and in so doing also sought to legitimise a 'Social Europe' complementing the market-making directives emanating from the SEA. The importance given by Delors to a social dimension in the Single Market programme helped Mitterrand in France to justify his shift/U-turn in economic policy by emphasising the complementary nature of European and national economic dynamics. It also reflected the German 'social-market' model at the time, thereby also gaining support from other social democratic and Christian democratic parties and governments (the Benelux in particular). Although the UK of Prime Minister Thatcher resisted any deviation from a straight-forward liberalisation programme, Delors (again) famously won support from the British trade union movement at the TUC Conference of 1988.

*Transnational mobilisation:* Delors had involved himself in the development of the PES from its very beginning.<sup>8</sup> Not only was he present as Commission President (or more importantly as a socialist) in the steps leading from CSPEC (Confederation of Socialist Parties in the European Community) to the formation of the PES, he also attended PES

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6 See H. Drake, *Jacques Delors: Perspectives on a European Leader*. Abingdon, Routledge, 2000, and G. Ross, *Jacques Delors and European Integration*, Oxford, Oxford University Press.

7 See D. Howarth, *The French Road to Monetary Union*. Basingstoke, Palgrave, 2001.

8 See S. Hix & U. Lesse, *Shaping a Vision: A History of the Party of European Socialists, 1957-2002*, Brussels, Party of European Socialists.

Congresses and leader summits. The Social Charter promoted by Delors for the Maastricht Treaty to counter-balance (or one could say alleviate?) the liberalisation dynamics in the drive for single currency membership engaged social democratic leaders and prime ministers in a co-ordination drive. Delors' viewed the PES as a mechanism for transnational social democratic co-ordination in the EU, and even after his term of office as Commission president ended became more involved in policy development and co-ordination with the PES, for example presenting a report at the 1997 PES Congress '*Towards a New Model of Development*'.<sup>9</sup> In the Conclusion of this report, he refers back to the 1993 White Paper on Competitiveness and Growth, mentioning that many efforts had not been promoted. He states: '*The Party of European Socialists must fight for the full application of the Treaties, and must propose a new model of development, as the only means by which we can meet the challenges of the future...*'.<sup>10</sup>

*Policy developments:* Formally speaking, the Social Charter, bringing a social dimension to the Treaties (however modest), was an advancement in terms of laying a basis for future policy evolution. The experience of co-ordinating social democratic effort at the EU level no doubt also helped in the promotion of the European Employment Strategy (EES) in the Amsterdam Treaty (1997). Delors' efforts at supranational and transnational promotion of a European social dimension, and sustainable economic growth, allowed social democratic parties to find a common denominator as a basis for co-ordination, and a useful role for the PES.

That more ambitious policy initiatives did not occur by the end of the 1990s, when social democratic governments constituted 11 of 15 prime ministerships and participated in 13 out of 15 EU governments, and the consequences of this situation for European social democratic leadership, is the next topic of discussion. The experience of social democrats dominating the Council did not translate into a fundamental shift in social democratic visions of EU and national social and economic development. Indeed, **if 1999 was the electoral high point for social democratic parties in terms of national government, the situation since has called into question whether the electoral weakness of social democracy is less 'crisis' and more of a long-term structural position.**

### **Lessons from the Recent Past: the Social Democratic Electoral Dominance of the Council**

In order to discuss the possibility of European social democratic leadership, it is necessary to understand why a period of cross-national electoral dominance by social

9 R. Ladrech, *Social Democracy and the Challenge of European Union*. Boulder, Lynne Rienner Publishers.

10 J. Delors, *Towards a New Model of Development*, document presented to the Third Congress of the Party of European Socialists, Malmö, [http://www.sap.se/eucon/delo\\_en.htm](http://www.sap.se/eucon/delo_en.htm)

democratic parties failed to influence the direction of EU policy in any fundamental fashion. Understanding this episode in European politics is a pre-requisite to a discussion of contemporary challenges to leadership. Three factors will be discussed:

- a) ideological dispersal,
- b) domestic electoral success, and
- c) the consequence of a + b = lack of a competing normative vision.

*Ideological dispersal*: this term is employed to denote the variety of policy positions attributable to Western European social democratic parties, both in term of their programmatic statements as well as government policy.<sup>11</sup> The fact that there are differences among social democratic parties, rooted as they are in distinct national institutional, political, cultural and party system settings is hardly astonishing. Rather, when attempting to co-ordinate on a transnational level, it is to be expected that differences would arise, as they did publically at the PES Party Leaders summit of 1997 between Jospin and Blair. The issue is whether there can be an agreed policy development at the European level of *major substance* that all or most social democratic governments would actively promote (the EES is *not* an example of such a policy initiative). One might have thought that the Financial Transaction Tax or so-called Tobin tax would have been a vehicle for social democratic transnational solidarity, but the variation among such governments resulted in a more modest policy in the end. Yet as Keating argues,<sup>12</sup> despite the national state origins and development of social democracy, the challenge of a multi-level framework does not *a priori* absent a European level social democratic adaptation.

*Domestic electoral success*: the period of the 1990s to the first years of the twenty-first century witnessed a 'magical return' of social democracy,<sup>13</sup> that is, the election of social democratic parties to power across the overwhelming number of the fifteen member states of the European Union. British Labour, French Socialists and German Social Democrats returned to power (after an especially long absence for the British and German parties). If the European level of policy-making was understood to complement domestic economic and other policy needs, the period of the late 1990s, both electorally and to an extent in terms of economic growth, deflected attention away from Delors' admonition that the European level of policy-making must prove itself as a necessary and legitimate entity for the citizens of the member states or else suffer the consequences of un-co-ordinated

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11 See S. Berger, *Social Democratic Trajectories in Modern Europe: One or Many Families?*, [in: ] *The Future of European Social Democracy: Building the Good Society*. H. Meyer & J. Rutherford (eds.), Basingstoke, Palgrave, 2012, pp. 13-26, and W. Merkel et al., *Social Democracy in Power: The capacity to reform*. Abingdon, Routledge, 2008.

12 M. Keating, *Multilevel Social Democracy: centralisation and decentralisation*, [in: ] *The Crisis of Social Democracy in Europe*. M. Keating and D. McCrone (eds.), Edinburgh, Edinburgh University Press, pp. 213-227.

13 R. Cuperus & J. Kandel, *The Magical Return of Social Democracy: An Introduction*, [in: ] *European Social Democracy: Transformation in Progress*, Amsterdam, Wiarid Beckmann Sticing and Friedrich Ebert Stiftung, pp. 11-28.



national economic fiscal policies in the context of monetary union. Whether domestic electoral success breeds complacency at a supranational level, or else that admission into the new Euro-zone club signalled the completion of strenuous efforts regarding the European integration process, or both, what is clear is that a European level social democratic vision was not forcefully articulated, despite a Commission President – Prodi – sympathetic to centre-left aspirations. Political parties' horizons extend up to the next election, and the penetration of the PES into member national parties was weak,<sup>14</sup> so beyond an agreed PES manifesto for EP elections (which at least until 2014 were second-order in most Western European EU member states), no new initiative of the order of the Social Charter/Social Europe was launched.

*Lack of a competing normative vision:* Ideological dispersal and the second-order nature of the EU itself in domestic politics provided the conditions such that the social democratic majority in the Council did not translate or support a powerful vision for the EU. In fact, the launch of the Lisbon process in 2000, according to many commentators, witnessed the assertion of inter-governmentalism and consequent decline in supranational solidarity.<sup>15</sup> When we speak of a *competing* normative vision, this assumes there is an existing vision for social democrats to challenge. The Lisbon process emphasis on voluntary change (the so-called Open Method of Co-ordination), the practical irrelevance of the 'Growth' section of the Stability and Growth Pact, would suggest that the social democratic majority was different only in degree, not in kind, from what the French came to label '*la pensée unique*'. Division within social democratic ranks became explicit in the arguments in some member states over the Constitutional Treaty in 2005, with left-wingers arguing that the treaty would 'constitutionalise' a neo-liberal approach in member state economic policy.

## Contemporary Challenges for Social Democracy

One may ask whether or not it is possible to replicate the example of leadership illustrated under Delors. I would argue that the conditions that allowed Delors to practice an activist Commission presidency, promote a social dimension for the EU, and find support from a Franco-German alliance, have changed substantially. Below I will simply briefly present the factors that characterise the present situation, and afterwards suggest how social democratic parties can adapt to the new circumstances.

*Rise of euro-scepticism and far-right parties:* If we consider the end of the so-called '*permissive consensus*' has resulted in the rise of euro-sceptic public opinion, then national leaders – sensitive to the next election – may be convinced that 'less rather than more

14 R. Ladrech, *An Obdurately National Party Politics*, [in:] *European Disunion: Between Sovereignty and Solidarity*. J. Hayward & R. Wurzel (eds.), Basingstoke, Palgrave, 2012, pp. 48-64.

15 J. Hayward, *Union without Consensus*, [in:] *European Disunion: Between Sovereignty and Solidarity*. J. Hayward & R. Wurzel (eds.), Basingstoke, Palgrave, 2012, pp. 5-14.

Europe' is the safest bet. Euro-sceptic attitudes – of varying degrees of intensity – are present in centre-left as well as centre-right parties, thus mainstream political party leaders may view the EU as a potential negative issue in terms of electoral salience . . . and avoid it.<sup>16</sup> However, the recent success of the Swedish Democrats demonstrates that far-right (and euro-sceptic) parties are becoming entrenched in a number of party systems, producing government coalitions where a distinct social democratic policy identity may struggle in a grand coalition framework, e.g. the Netherlands, Germany, especially where the euro-sceptic party in a party system is able to politicize European integration.<sup>17</sup>

*Social democratic voter volatility:* empirical evidence of a growing propensity of voters to switch parties, with (euro-sceptic) far right and far left parties the recipients of some votes, adds an additional quandary to the strategic decisions of social democratic party leaderships. Some analysts have suggested that far-right anti-immigrant parties have been the beneficiary of social democratic defecting voters, as in Sweden and Denmark. The issue of immigration is tied with that of the EU, so the normally liberal policy stance of social democratic parties on this issue is becoming in some member states an electoral liability.

At the same time, the social democratic parties face a continuing challenge from the radical left, especially in light of the austerity policies pursued by the Troika as well as in reaction to German government economic preferences. The 2014 European Parliament elections saw radical left parties secure historic levels of support, from Syriza in Greece to Die Linke in Germany (which now has a Die Linke representative as minister-president in the German state of Thuringia), with new entrants making unprecedented inroads to mainstream parties' support, for example Podemos in Spain. Although the Democrats in Italy under Renzi have bucked the trend (with 40% in the 2014 EP elections), predictions for social democratic parties' electoral fortunes suggest a squeeze from radical left and radical right parties, with immigration and economic policy/fairness manifesting the dual policy issues gaining support for the two extremes of the national party systems.

*EU inter-institutional arrangement:* since Delors left the Commission presidency in 1995, the prominence of the Commission as an agenda-setter has been somewhat circumscribed.<sup>18</sup> A more legitimate president of the European Council and a more assertive European Parliament means that a Commission president must navigate in a more complex decision-making environment. The Council, whose frequency of meetings has increased

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16 See L. Hooghe & G. Marks, *A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus*, [in: ] *British Journal of Political Science*, Vol. 39, no. 1, 2009, pp. 1-23.

17 See S. Hutter & E. Grande, *Politicizing Europe in the National Electoral Arena: A Comparative Analysis of Five West European Countries, 1970-2010*, [in: ] *Journal of Common Market Studies*, Vol. 52, no. 5, 2014, pp. 1002-1018.

18 See J. Hayward, *National Governments, the European Council and Council of Ministers: a plurality of sovereignties*, [in: ] *European Disunion: Between Sovereignty and Solidarity.*, J. Hayward & R. Wurzel (eds.), Basingstoke, Palgrave, 2012, pp. 65-81.

substantially since the days of the bi-annual summits, has become the site of fundamental and at times politicised policy initiatives, especially as the euro-zone crisis unfolded.

*The Franco-German axis:* the shared interest by the political leaders of France and Germany regarding European integration translated into political mobilisation around key initiatives appears to be dormant at present. To some degree it may also have depended<sup>19</sup> on a special relationship between individual leaders, e.g. Giscard d'Estaing and Schmidt, and Mitterrand and Kohl, certainly a contingent factor. These were also examples of partisan opposites, so the political support given for European integration initiatives was more explicitly institutional. The personal relationship between French and German leaders since 1997/1998 has not, from all accounts, approximated the nature of previous relationships and the clear hegemony of Germany during the euro-zone crisis weakens the notion of an axis.

**The brief points noted above, i.e. the entrenchment of euro-sceptic attitudes and the electoral presence and strength of far-right and radical left parties, social democratic voter volatility, the reduced pre-eminence of the Commission in the inter-institutional framework in Brussels, and the prominence of Germany as a policy agenda-setter (or constraint), would suggest that the exercise of political leadership in the EU could not resemble the Delors years.**

A final but critical point to make at this juncture in the argument pertains to the impact of the euro-zone crisis for social democratic parties. On the one hand, it is clear that social democratic parties did not benefit electorally at EP elections in 2009 or 2014 (apart from the Italian Democrats in 2014). Opposing austerity in European Parliament elections and the resulting social and economic privations triggered by budgetary retrenchment did not help most social democrats in national elections from 2008 to the present, and where they have returned to government, as in Germany in 2013 or the Netherlands in 2012 or Sweden more recently, their share of the vote has been at near historic lows or else forced into a grand coalition. On the other hand, a crisis can potentially become a stimulus to change, that is, a crisis can become an opportunity if new directions are sought. If the period during the Delors presidency was one in which national governments – of the centre-left as well as centre-right - turned toward European-level solutions to their economic predicament – thus creating the conditions for leadership according to the first set of models discussed above, the contemporary economic and financial crisis may motivate governments to again 'return' to Europe, and for social democrats to search for a mobilising theme. In fact, as both Laffan and Vilpišauskas highlight,<sup>20</sup> decisions have

19 See W. Paterson, *A Contested Franco-German Duumvirate*, [in: ] *European Disunion: Between Sovereignty and Solidarity*, J. Hayward & R. Wurzel (eds.), Basingstoke, Palgrave, 2012, pp. 235-251.

20 B. Laffan, *Testing Times: The Growing Primacy of Responsibility in the Euro Area*, [In:] *West European Politics*, Vol. 37, no. 2, 2014, pp. 270-287, and R. Vilpišauskas, *Eurozone Crisis and European Integration: Functional Spillover, Political Spillover?*, [in: ] *European Integration*, Vol. 35, no. 3, 2013, pp. 361-373.

already been taken by national governments, with profound implications in the euro-zone, to transfer to the Commission and European Central Bank under the rubric of a Fiscal Compact (to be brought into the treaties by 2018) regulatory responsibility over national budgets and fiscal matters. Laffan concludes that 'the politics of constrained choice will condition electoral competition and party government in the euro states. It may well sharpen the bifurcation between parties aspiring to govern and challenger parties within party systems. Governing parties find themselves caught between domestic electoral politics and stronger external commitments that place limits on their freedom to respond to their electorates'.<sup>21</sup> The incentives are then strong for social democratic parties to fashion a strategy to avoid alienating their electorates, which presumably have more to lose from tighter fiscal policy than centre-right parties (although they may find themselves having to respond to their right).

However, social democrats have another '*image problem*' in respect to the decisions taken by the European Council to combat the Eurozone crisis, i.e. those in government voted for, among other initiatives, the Fiscal Compact. Of course, some social democratic parties in government, for example Pasok in Greece, had little choice in voting for bail-out conditions. Additionally, it needs to be noted that fiscal conservatism is not the preserve of only centre-right parties, as expressed by some social democratic parties, e.g. the Dutch Labour Party. Therefore **social democratic parties in many cases became tarnished with the same brush of austerity pain as centre-right parties since they voted for and have supported national budgetary consolidation legislation.** This last point concerning fiscal perspectives is an important point to take into consideration when one turns to the practicalities of a new social democratic vision, normative or otherwise, for the European Union, as discussed below.

## Social Democratic Leadership in Europe

The previous section has painted a rather bleak picture of the situation for social democratic parties and the potential to exercise leadership at the European level. As the previous section concluded, an electorally resonant theme has eluded social democratic parties, especially as in some quarters there was initial hope that they would benefit from popular reactions to the austerity-administered policies of the financial bail-outs devised by the Troika. This did not occur, and present circumstances have led to more soul-searching among social democratic parties as the spectre of a new '*crisis of social democracy*' has arisen. I suggest that these conditions may actually present a potential opportunity, a confluence of political necessity and institutional changes. I refer to the need for social democrats to respond to the altered terrain of domestic budgetary and fiscal policy

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21 B. Laffan, *ibid.*, p. 285.

regulation by the EU *and* to prospects of presenting a competitive normative vision at the European level, namely with the new arrangement for the selection of the Commission president tied to European Parliament elections to which I now turn.

Another change from the Delors period is the selection process of Commission president, involving the so-called Spitzenkandidaten.<sup>22</sup> Although the first operation of the new rules did not, in the end, result in the PES candidate becoming president, nor did the Council easily acquiesce to the eventual EP supported candidate, Mr Juncker, the experience did provide the basis to build upon and perfect strategies – especially communication – over the next couple of years. **The selection process within the PES and subsequent campaign provide the potential for articulating and mobilising a competitive social democratic vision, for several reasons: one, pro-European discourse is in need of a new mobilising theme as the discussion above concerning euro-scepticism illustrates; two, the Fiscal Compact rules will begin to impact domestic politics (although not precisely the Fiscal Compact, the situation in France with its continual missing of budgetary targets is already constraining ‘choice’); third, if social democratic parties decide that a pro-active strategy at the European level may benefit themselves domestically, there may be political will for a common policy initiative that transcends their ideological dispersal (although the differences may have narrowed somewhat over the past several years in a reaction against Third Way politics); lastly, the EU has, in many senses of the word, moved from a second-order issue to a mainstream issue with domestic salience. In this context, social democratic parties have no choice but to confront their predicament regarding their support for European integration and their need for domestic political relevance.**

## A Counterfactual Evaluation

Before turning to the final section and Conclusion, it may be worth indulging in a bit of counterfactual reasoning. Let us suppose that instead of the EPP winning the largest share of votes/seats at the 2014 European Parliament elections, and Mr Juncker becoming the Commission president designate, that the PES won the plurality of votes/seats. Furthermore, Mr Schulz, the PES Commission president candidate, was able to put together a majority coalition, comprising the following EP party groups: Socialist and Democrats, Greens, ALDE, and perhaps some national delegations not in NGL/GUE, in other words a centre-left majority. The first order of business (after the naming of the Commissioners), would be the unveiling of a project, as Mr Juncker did at the end of

<sup>22</sup> See, *inter alia*, G. Brustier, C. Deloy, & F. Escalona, *Political Families in the European elections May 2014: an assessment.*, [in: ] *European Issues*, Fondation Robert Schuman, no. 319, 1 July 2014, and S. Hobolt, *A vote for the President? The role of Spitzenkandidaten in the 2014 European Parliament elections*, [in: ] *Journal of European Public Policy*, 2014, DOI 10.1080/13501763.2014.941148.

November 2014, the so-called European Investment Fund. Mr Schulz and the PES did campaign on a project, but of course not all national member parties actually employed PES material in their campaigns, or for that matter focused on EU level issues. And although the PES Presidency did release a 'Declaration on a European Investment Plan' in reaction to Juncker's plan (November 2012) with specific recommendations, it would have fallen to Schulz to present a plan that matched the ambitions of social democrats to move beyond austerity and demonstrate the utility of the EU for building sustainable economic growth, thus one might suggest such a plan would have to have been more ambitious than the Juncker plan. In fact, this was precisely the reactions by certain centre-left organizations – in addition to the PES Declaration, the ETUC also bemoaned its means and aims. Furthermore, and more pertinent for this counterfactual, one might have expected to see a break with the conventional economic policy regarding the Eurozone crisis solution, that is, member states with huge sovereign debt continuing to reduce it, thus leaving little for public sector investment, so hoping for private finance and so engaging in reducing regulation as an incentive for such private capital. Instead, as the *Financial Times* columnist Wolfgang Munchau has highlighted, only the radical left has proposed – sensibly from his perspective – a plan based on more public-sector investment and debt restructuring. Regarding the position of social democratic parties, he states that in opposition in their respective national political systems they may advance such notions, 'but once in government they feel the need to become respectable, at which point they discover their supply-side genes'.<sup>23</sup> If we assume Martin Schulz, leading a Commission supported by a centre-left EP majority, launched such a plan, even if applauded by some non-classical economists, some of those social democratic-led governments would have balked at such a bold plan. As mentioned earlier in this paper, ideological dispersal among social democrats was a factor preventing a social democratic-led mobilisation at the end of the 1990s when they held a large majority in the Council; today, that same factor, at least focused on potential cures for the Eurozone crisis, may persist as an impediment to a new social democratic vision for Europe.

## What Is to Be Done?

The Spitzenkandidaten process for Commission president can still be an opportunity for transnational democratic candidate selection where ideas and policy proposals can be debated, and perhaps media attention will be more widespread (a EU minimum wage could be such a proposal). However, as this process still involved mostly those in national parties already interested or engaged with EU matters, the need by social democrats

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23 W. Munchau, *Radical left is right about Europe's debt.*, [In: ] *The Financial Times*, 23 November 2014, <http://www.ft.com/cms/s/0/48e6fa76-70bd-11e4-8113-0144feabdc0.html>

to renew their vision for Europe and engage voters as well as more party supporters, may be to focus less on the EU *per se* and instead develop the vision and policy in a process much more ambitious than that of the Spitzenkandidaten, one that can capture the attention and imagination of a wider cross-section of society. Beginning now to plan, it may be worthwhile to have an event that brings together a wider range of people and activists, perhaps modelled on a combination of the Convention on the Future of Europe<sup>24</sup> and the European Social Forum, a special assises for European democratic socialism involving all of the democratic left aimed at producing a roadmap for new European future. Part of the challenge for social democratic parties is to challenge themselves to think beyond the next election, to view conformism to fiscal conservatism (which is not the opposite of fiscal profligacy), to break with *la pensée unique*, to alter the political 'path dependency' of the past couple of decades, to excite the imagination of those voters either turned off voting anymore or else supporting radical right alternatives. Such an Assises would necessarily have to involve national parties, civil society groups including trade unions, environmental groups, etc., and if co-ordinated efficiently could give a 'bounce' to the Spitzenkandidaten process. In either case, the democratic left must demonstrate a purpose twenty years after the fall of the Berlin Wall, and such a process – the Assises – may contribute to a rapprochement of the various organizational manifestations of the left splintered by the Cold War. It may also give a new élan for the left in electoral terms.

**Part of the challenge for social democratic parties is to challenge themselves to think beyond the next election.**

## Conclusion

The recent assertiveness (relatively speaking) of Italian Prime Minister Renzi and French President Hollande with regard to Germany and EU-mandated constraints on their budgetary and debt situation suggests that the political will to engage EU policy dogma may exist, driven by domestic necessity. The PES, the S&D group, and some national social democratic parties will have to review the experience of the selection process of a Commission candidate as well as the dynamics of the campaign to prepare for 2019, and any new processes, such as the proposed Assises, would need to be in place within a couple of years. **The divisions among social democratic parties over a European Union economic policy, though constrained in many cases by coalition partners to their right, must be debated in order to demonstrate – through peer pressure –**

24 See M. Holmes & K. Roder (eds.), *The Left and the European Constitution: From Laeken to Lisbon*. Manchester, Manchester University Press, 2012.

the debilitating effects of division at a European level, the necessary complement to national economic policy. Though the campaign of Martin Schulz did articulate an anti-austerity message, co-ordinated support among member parties was not universal. As 'Europe' intrudes even more into the domestic political fortunes of social democratic parties, instead of avoiding 'Europe', a co-ordinated social democratic response/leadership in the EP, Council and national election campaigns is worth a try.

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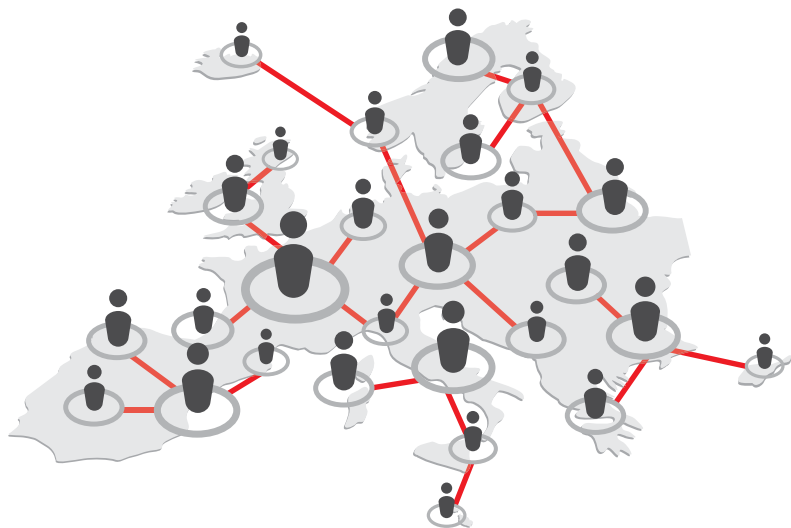


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Isabelle HERTNER

## **Who is that *Spitzenkandidat*? The Press Coverage of Martin Schulz and his 2014 European Campaign**



**Keywords:**

**Spitzenkandidat - Party of European Socialists - Martin Schulz -  
European Parliamentary Campaign**

**Abstract:**

This article analyses and compares the press coverage of Martin Schulz, the Party of European Socialists' top candidate for the 2014 European elections. It draws on articles from British, Austrian and German broadsheet and tabloid papers, published between 1 March and the end of May 2014. The article reveals major differences between Schulz's press coverage in the United Kingdom on the one hand, and Austria and Germany on the other. Whilst the Austrian and German press report widely on the campaign and Schulz's personal background and policies, the British press shows very little interest in the candidate. Furthermore, whilst the Austrian and German newspapers equally praise and criticise Schulz' personality and policies, large parts of the British press are very negative about the PES Spitzenkandidat. There are three interlinked factors that might account for the differences in quantity, quality, and tone of Schulz's press coverage in the UK, Austria, and Germany: the three countries' relationship with the European Union; Schulz's nationality; and the attitude of the Labour Party, the SPÖ and SPD towards Schulz.

To a visitor from out of space, European elections would look rather funny: every five years, the citizens of the European Union (EU) can elect a pan-European parliament that makes pan-European laws. The candidates, however, are rarely pan-European. Instead, they are selected by national parties and often campaign on issues that have little to do with the EU. **The 2014 European parliamentary elections have somewhat challenged this practice: For the first time in the history of the EU, each of the major parties at the European level (“Europarties”) nominated their common, pan-European candidate(s) for the presidency of the European Commission.** In EU circles, these were soon referred to as “*spitzenkandidaten*”, which is the German word for the front-runner, or the candidate on top of an electoral list. The intention behind the nomination of a common top candidate was for the European Parliament to flex its muscles vis-à-vis the national governments, to politicize the election campaigns, to give politics a face, and to mobilize the voters.

The campaign of the Party of European Socialists’ (PES) *spitzenkandidat*, Martin Schulz, began officially on the 1<sup>st</sup> March 2014 - when he was elected by the PES Congress. The PES headquarters in Brussels officially coordinated his campaign. Between the 1<sup>st</sup> March and the European elections from 22-25 May 2014, Schulz campaigned in 25 out of 28 EU member states where he attended about 60 events.

During and outside of election campaigns, political parties rely on the media to inform the voters about their policies and candidates. It is common knowledge that national election campaigns have become increasingly “personalized” in the past decades. *Personalization* generally refers to *the notion that individual political actors have become more prominent at the expense of parties and collective identities*<sup>1</sup>. In the media coverage, candidates, and in particular leaders, have become more visible relative to their parties<sup>2</sup>. This focus on leaders has also been described as a *presidentialization* of politics<sup>3</sup>. In the past, European parliamentary elections were fought in each member state separately, hence the lack of a pan-European presidentialization of politics. But in the 2014 European elections, the

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1 L. Karvonen, *The Personalisation of Politics: A study of parliamentary democracies.*, Colchester: ECPR Press 2009.

2 C. Holtz-Bacha et al., *The personalization of politics in a comparative perspective: campaign coverage in Germany and the United Kingdom.*, [in: ] *European Journal of Communication* 29 (2)/2014, pp. 153-170.

3 T. Poguntke & P. Webb (eds.), *The Presidentialization of Politics: A Comparative Study of Modern Democracies.*, Oxford: Oxford University Press 2005.

media have played an important role in communicating Martin Schulz, to the European voters. The media were in a very powerful position: they tell stories about candidates' lives, political careers, and their political values and beliefs.

In this paper **I investigate the portrayal of Martin Schulz and his campaign in the national print media. I am particularly interested in his image as the common European candidate of the centre-left.** Is Schulz thus portrayed as the *European* candidate of the PES, or rather as the *German* SPD candidate? Or, in other words: how much of a role does the nationality of the *spitzenkandidat* matter? Moreover, has a politicization taken place, and do the media discuss Schulz' policies? In order to answer these questions, I analyse and compare the press coverage in three member states of the European Union: the United Kingdom (UK), Germany, and Austria.

The analysis draws on articles published in the major broadsheet and tabloid journals published in the three countries<sup>4</sup>. It starts with Schulz's election by the PES on 1 March 2014 until the date of the European elections on 22-25 May 2014. The three countries have been selected for three main reasons. First, the PES has member parties in each of the three countries: the British Labour Party, the German Social Democrats (SPD), and the Austrian Social Democrats (SPÖ). Schulz being their top candidate, we can expect the three parties to invite him to join their campaign. Second, the three countries differ in their relationship with the European Union and therefore make an interesting comparison. The UK has been labelled the 'awkward partner' ever since they joined the EU in 1973, and EU membership continues to be highly contentious<sup>5</sup>. Austria, one of the EU's smaller member states, also has a complex relationship with the European Union, and Euroscepticism has become more pronounced in the recent decade<sup>6</sup>. Germany, on the other hand, is the EU's biggest member state and owes the EU its rehabilitation post 1945<sup>7</sup>. Whilst soft Eurosceptic parties have occasionally popped up in Germany, the mainstream political parties and the press still tend to be supportive of the EU<sup>8</sup>. Third, Martin Schulz is German and it will be interesting to see how much difference nationality makes in a pan-European election campaign. After all, most politicians build up a career in their home country, which is often their country of origin. This is where they campaign, in their native language, with plenty of cultural references. According to one of Schulz' campaign advisers, Sir

4 Articles from the following newspapers were used for this study: UK: The Guardian, The Times, The Independent, The Sun, The Financial Times. Austria: Der Standard, Kurier, Kronen Zeitung. Germany: Frankfurter Allgemeine Zeitung, Süddeutsche Zeitung.

5 A. Geddes, *Britain and the European Union*. Basingstoke: Palgrave Macmillan 2013.

6 A. Pelinka, Austrian Euroscepticism: the Shift from the Left to the Right., [in: ] *European Studies: A Journal of European Culture, History and Politics* 18, 2004, pp. 207-224.

7 W. E. Paterson, *The reluctant hegemon? Germany moves centre stage in the European Union.*, [in: ] *The JCMS Annual Review of the European Union in 2010*, Vol. 49, Supplement s1, 2011, pp. 57-75.

8 C. Lees, *Dark Matter: Institutional Constraints and the Failure of Party-based Euroscepticism in Germany.*, [in: ] *Political Studies*, 50, 2002, pp. 244-267.

Julian Priestly<sup>9</sup> the PES campaign team were warned in advanced that Schulz's nationality could become an issue of contention during the campaign. Have the first pan-European *spitzenkandidaten* challenged these national boundaries? In the next three sections I will compare Schulz's press coverage in Austria, the UK, and Germany. This will be followed by a concluding discussion where I explain the differences and commonalities and point to the broader academic and political implications of my findings.

## 1. The British Press: about Battles, Titans, and the Arch-federalist

In the British press, little attention was paid to the European elections in general and the *spitzenkandidaten* in particular. Thus, very little was written about Martin Schulz's or his conservative counterpart, Jean-Claude Juncker's, personalities, careers, or policies. What mattered most in the press coverage were the broader political implications of their nomination for the balance of power in Brussels and for Britain's future relationship with the EU. Most notably, the power struggle between the European Council and the European Parliament in the nomination of the next European Commission's president was described in a rather dramatic language. For instance, the centre-left newspaper *The Guardian* wrote:

*The talk in Brussels is of a looming "bloodbath" and a "titanic battle" over who calls the shots for the commission post, with the parliament flexing its muscles under new powers conferred by the Lisbon Treaty.<sup>10</sup>*

In the same article, *The Guardian* described Schulz and Juncker as 'inflated titans'. A similarly dramatic, bellicose language was used in an article by the centre-left-leaning newspaper *The Independent*, which referred in its title to the "Schulz vs. Juncker battle".<sup>11</sup> This article also focused on the novelty of the *spitzenkandidaten* nomination process and its implications for power politics in Brussels. Yet again, we learn very little about the policy positions of Schulz or Juncker. The only reference to their policies is the following:

*Both are fiercely pro-EU, at a time when many people are fed up with unemployment and austerity and are expected to turn in droves to protest parties. "These guys are all cut from the same cloth," says Stephen Booth, research director at the Open Europe think-tank. "They are all associated with the Brussels elite that has led Europe into this situation where we are desperately looking around for ways to get people engaged.*

<sup>9</sup> Interviewed on 11/11/2014.

<sup>10</sup> I. Traynor, *European polls herald clash of Europe's inflated titans.*, *The Guardian Online*. <http://www.theguardian.com/world/2014/may/21/european-commission-eu/print> (accessed on 10/09/2014).

<sup>11</sup> C. McDonald-Gibson, *EU elections 2014: Schulz vs Juncker - the battle to become President of the European Commission that should be captivating Europe.*, *The Independent Online*. (14/05/2014) '<http://www.independent.co.uk/news/world/europe/eu-elections-2014-schulz-vs-juncker-the-battle-to-become-president-of-the-european-commission-that-should-be-captivating-europe-9372425.html> (accessed on 10/09/2014).

Hence, the two candidates' pro-Europeanness is portrayed in a very negative manner. Martin Schulz's pro-integrationist views were also highlighted by *The Guardian*. Before Schulz was nominated by the PES on 1 March 2014, *The Guardian* wrote<sup>12</sup>:

*The Labour Party will on Saturday set itself definitively against the federalist vision of Europe when it refuses to endorse the European parliament president Martin Schulz as the Socialists' candidate to be the next European commission president. In a clear signal to its European partners on the left that there are limits to Labour's support for the EU, the party will say that the German's "political priorities" clash with its vision for Europe.*

In the same article, Schulz is also described as an "arch-federalist" and as "fiscally irresponsible" because he argued against a cut in the EU budget that was supported by the Labour Party and David Cameron's government. At the same time, we never learn what Schulz's "arch-federalist" views are, or what the PES manifesto is about. Another theme that runs through the British press coverage is Schulz's alleged opposition to Britain's EU reform agenda. For instance, the centre-right newspaper *The Times* writes<sup>13</sup>:

*Downing Street is making a last-ditch diplomatic effort to find European allies to block a leading opponent of Britain's reform agenda from the top job in Brussels. Frantic calls and visits by ministers are under way to stop Martin Schulz, the German socialist who is president of the European parliament, trying to seize the initiative in the race to become president of the European Commission.*

Yet, we don't learn more about Schulz's attempts to block Britain's reform agenda, or what this reform agenda is actually about. An even stronger sentiment of animosity is expressed in an article by Britain's leading tabloid paper *The Sun*, which describes Schulz as an "anti-Brit Eurocrat threat to UK hope"<sup>14</sup>. In this context, "UK hope" refers to the UK's hope that the EU will reform itself and become more British.

So far, **the story told by the British press of Martin Schulz's candidacy is one of confrontation and animosity. But it is also a very vague account lacking detailed information about the candidate and his policies.** Only the *Financial Times* provides a better-informed and more positive account of the election campaign, writing that Schulz was very well received by the French Socialist Party during the election campaign<sup>15</sup>:

12 N. Watt, *Labour rejects left's candidate for next European commission president.*, *The Guardian Online*, (01/03/2014) <http://www.theguardian.com/world/2014/mar/01/labour-european-commission-president-martin-schulz> (accessed on 10/09/2014).

13 S. Coats, *No 10 tries to block German socialist Schulz's bid for European presidency.*, *The Times Online*, (19/05/2014) <http://www.thetimes.co.uk/tto/news/world/europe/article4093644.ece> (accessed on 10/09/2014)

14 D. Wooding, *Anti-Brit Eurocrat threat to UK hope.*, *The Sun Online*, (25/05/2014) <http://www.thesun.co.uk/sol/homepage/news/politics/5648681/martin-schulz-expected-to-head-european-commission.html> (accessed on 10/09/2014).

15 P. Spiegel, *Martin Schulz changes game in wrangling for top Brussels job.*, *Financial Times Online*, (22/05/2014) <http://www.ft.com/cms/s/0/ae6b7da0-e1b5-11e3-9999-00144feabdc0.html#axzz3CuCtwVBU> (accessed on 10/09/2014)

*To many who have toiled to build the European project – only to find anti-EU populist parties surging in opinion polls across the continent – the fact that a German social democrat is campaigning in France is enough to make this election historic. “A French Socialist party thinks it’s useful to have a leading German politician saying: vote for me,” said Julian Priestley, once the EU parliament’s top civil servant and now a Schulz campaign aide. “That is new.”*

Schulz’s ‘Germanness’ is highlighted again in the same article:

*It’s not a big secret that Martin Schulz wasn’t everybody’s choice,” said Ruairi Quinn, the Irish education minister who headed a PES task force that created the spitzenkandidat system. “Maybe [they wanted] someone who was less German.*

Hence, the image portrayed is not so much one of a pan-European candidate, but that of a *German who is too German*.

Thus, with the exception of the *Financial Times*, **British newspapers wrote very little about Martin Schulz’s campaign, his political career, or his policies, and what little was written was rather vague and negative.**

## **2. The Austrian Press: About Charme, Rootedness, and Pocket Knives**

In contrast to British newspapers, the Austrian press reported much more widely on the *spitzenkandidaten* and the European parliamentary election campaign in general. Like in the British press, Schulz’s Germanness played a major role in Austria. For instance, Schulz and one of the Green *spitzenkandidaten*, Ska Keller, appeared on an Austrian television programme to participate in an election road trip. **In the Austrian context, humour appeared to be the key quality of the politicians.** One of Austria’s leading national newspapers, *Kurier*, reports<sup>16</sup>:

*During the break, at a motorway station, he [Martin Schulz] tried to be Austrian and was more charming than one would like to expect from a German: ‘Dear Austrians, I hereby promise that you can keep your pocket knife which you need to cut tomatoes’ (...).*

On the TV programme, **Schulz spoke with a mock Austrian accent, and, despite being German, seems to have passed the Austrian humour test, whilst Ska Keller is portrayed as a rather humourless, vegan East German.** The Austrian conservative tabloid newspaper *Kronen Zeitung*, also refers to Schulz’s Germanness, which it perceives as problematic for the campaign of the Austrian social democrats<sup>17</sup>:

16 E. Peternel, *Schulz mit Tränen, Keller ohne Humor.*, *Kurier Online*, (06/05/2014) <http://kurier.at/politik/eu/wahlfahrt-schulz-mit-traenen-keller-ohne-humor/64.207.605> (accessed on 10/09/2014).

17 R. Schmitt, *Schulz wählen damit Deutscher EU-Präsident wird.*, *Kronen Zeitung Online*, (24/05/2014) [http://www.krone.at/Welt/Schulz\\_waehlen.\\_damit\\_Deutscher\\_EU-Präsident\\_wird-Aerger\\_ueber\\_Inserat-Story-405588](http://www.krone.at/Welt/Schulz_waehlen._damit_Deutscher_EU-Präsident_wird-Aerger_ueber_Inserat-Story-405588) (accessed on 10/09/2014)



*'Has Social Democracy really understood the European idea?' This question is being asked by many internet users on Twitter and Facebook. Because a huge advertisement of the social democratic EU Spitzenkandidat Martin Schulz in the German newspaper 'Bild' plays with nationalism: Germans are asked to vote for Schulz next Sunday to ensure that 'a German becomes the president of the European commission'. (...) The facts that this topic is now also discussed in Austria probably won't help the social democrats: this very German marketing campaign will not make it easier for the rather unsuccessful Spitzenkandidat of the SPÖ, Eugen Freund, to win the elections.*

Unlike the British press, Austrian newspapers did a more thorough background research on Schulz's past. Most notably, a journalist from *Kurier* visited Schulz's hometown, Würselen, to find out what the locals think about the PES *Spitzenkandidat*. The image portrayed of Schulz in the article is very positive: one of rootedness in the local political community, and achievement. *Kurier* writes<sup>18</sup>:

***One thing is intriguing when people here speak about Martin Schulz: it is not only the local patriotic pride that "one of us" now laughs with the Chancellor in the Bild-Zeitung. There is also plain respect.*** *Because the mayor of Würselen, a city of 37000 inhabitants, has held his ground in the European Parliament. Because before, the son of a policeman and trained bookseller was the city's mayor for ten years. And respect because – and this is also openly discussed, even by Schulz himself – someone who was an unemployed alcoholic at the age of 20 – has achieved so much.*

This notion of rootedness stands in clear contrast to the negative portrayal of Schulz as a "Eurocrat" in large parts of the British press.

**Another major difference between the UK and Austria is that Schulz's policies are analysed and discussed in the Austrian press.** For instance, his views on youth unemployment, EU-wide taxes for multinational companies, and Turkey's membership of the European Union are discussed<sup>19</sup>. Schulz is also criticised for leading a major election campaign whilst being the president of the European Parliament. *Der Standard* perceives this as a conflict of interests<sup>20</sup>. Overall, however, the press coverage is rather positive in Austria. In his blog for *Der Standard*, Thomas Meyer writes<sup>21</sup>:

18 Hacker-Walton, P. (09/05/2014) 'Der bodenständige Buchhändler'. *Kurier Online*. [http://kurier.at/politik/in-land/martin-schulz-der-bodenstaendige-buchhaendler/64.599.191\\_](http://kurier.at/politik/in-land/martin-schulz-der-bodenstaendige-buchhaendler/64.599.191_) (accessed on 10/0/2014)

19 See for instance: *Kurier* (22/03/2014) *Martin Schulz: "Rückschritte in der Türkei"*, <http://kurier.at/politik/eu/martin-schulz-rueckschritte-in-der-tuerkei/57.129.350> (accessed on 10/09/2014); *Der Standard* (02/03/2014) *Sozialdemokraten führen Martin Schulz zum Spitzenkandidaten bei EU-Wahl.*, <http://derstandard.at/1392686845275/EU-Wahl-Sozialdemokraten-kueren-Martin-Schulz-zum-Spitzenkandidaten> (accessed on 10/09/2014).

20 *Der Standard* (04/04/2014), *Druck auf SPE-Kandidat Martin Schulz steigt.*, <http://derstandard.at/1395364356297/Druck-auf-Martin-Schulz-steigt> (accessed on 10/09/2014).

21 T. Meyer, *EU-Wahlen haben bereits einen Gewinner: Martin Schulz.*, *Der Standard Online*. (03/02/2014) <http://derstandard.at/1389859088210/EU-Wahlen-haben-bereits-einen-Gewinner-Martin-Schulz> (accessed on 10/09/2014)

(...) Schulz has no experience in government. He has never been a cabinet minister, not to mention: head of government. He has made his career since 1994 exclusively in the European Parliament where he was PES party group leader from 2004 until 2012. Yet, today he is one of Europe's most prominent politicians, a fighter, and a brilliant speaker in three different languages: German, English, and French. Whatever the outcome of the European elections – Schulz is already one of the winners.

Overall, the coverage of Martin Schulz' campaign in Austrian newspapers was far more extensive, better informed, and positive than in the UK press. Not surprisingly, Schulz's Germanness played a role and was seen as an impediment in parts of the Austrian press. Yet, there were also positive debates on Schulz's Europeanness (for instance, his command of foreign languages), his EU career, and his policies.

### 3. The German Press: About Feistiness, Multilingualism, and Emptiness

Unsurprisingly, amongst the three countries, the German press has covered Martin Schulz's nomination as *spitzenkandidat* and election campaign most extensively. There are news and opinion pieces (including blogs) about Schulz and interviews with him and the other *spitzenkandidaten*. The main themes developed in the German press are: the new election process of the commission president and what this means for EU democracy; the SPD's European parliamentary election campaign strategy; Schulz's policies; and the rivalry between Schulz and Juncker.

Like its British and Austrian counterparts, the German press discusses the novelty of the pan-European *spitzenkandidaten* and its implications for democracy in the EU. The tone, however, differs from the British debate. For instance, the centre-left *Süddeutsche Zeitung* writes<sup>22</sup>:

*His [Martin Schulz's] election as the spitzenkandidat is for the first time linked to the candidacy for the presidency of the European commission. According to the EU reform treaty of Lisbon the heads of state and government have to take the results of the European elections into account when they nominate the next president of the commission. For Schulz this means: 'I want to become the first president of the commission who didn't get the job because of back room deals made in Brussels, but who was elected democratically'.*

Thus, whilst the nomination of the *spitzenkandidaten* is seen with great suspicion by the British press, the *Süddeutsche Zeitung* quotes Schulz as saying that it will be a more democratic procedure. At the same time, however, the *Süddeutsche Zeitung* warns that in the end, a *spitzenkandidat* might not actually become commission president, as the

<sup>22</sup> *Süddeutsche Zeitung* (01/03/2014) *Schulz soll's richten.*, <http://www.sueddeutsche.de/politik/spd-und-europawahl-schulz-solls-richten-1.1901797> (accessed on 11/09/2014)

allocation of posts may still be decided by the heads of state and government behind closed doors and not the European Parliament.

Furthermore, like the Austrian press, German newspapers also take time to explore Schulz's character and political background. A good example is an article entitled "Le Pen is afraid of the red man" which deals with a failed TV duel between Martin Schulz and the French *Front National* leader Marine Le Pen. In this article the *Süddeutsche Zeitung* criticises Le Pen for having refused a TV duel with Martin Schulz<sup>23</sup>, stating:

*The TV station was looking for a counterweight, at least for 25 minutes of controversial debate – and found Schulz. The bearded comrade and Spitzenkandidat of the EU Socialists who is feisty when dealing with Europhobes speaks perfect French. He accepted the invitation.*

This article portrays a positive image of Schulz as one who is happy to take on right-wing extremist Europhobes and speaks perfect French. His multilingualism is mentioned in several other articles. Even the centre-right newspaper *Frankfurter Allgemeine Zeitung*, writes positive things about Schulz's personality, for example<sup>24</sup>:

*Actually, Schulz is a piece of luck for the SPD: with his Aachen dialect and his approachable manner he masters the market place as well as the panel debate memorizing the First World War. Schulz hits the right tone, Schulz thinks and speaks fast, Schulz is well read. And in contrast to the former Chancellor candidate [Peer Steinbrück] his ego is not in his way. The political opponent takes him seriously – so much that Angela Merkel decided to have her own smiling face on the republic's posters although it is not her but Luxembourg's Jean-Claude Juncker who will stand against him.*

But Schulz is also ridiculed and criticised by the German press for leading an "empty" election campaign that is only about the top EU job and lacks meaningful content. The argument put forward by the *Süddeutsche Zeitung*, is that former Italian prime minister Silvio Berlusconi's personal attacks on Schulz are in fact good publicity for Schulz whose campaign is otherwise rather empty<sup>25</sup>:

*The skirmishes with the Bunga-Bunga-Italian made Schulz famous in Europe. And they distract from the fact that Machnig's mono-causal campaign strategy (Schulz for president) is rather meagre, content-wise.*

23 C. Wemicke, *Le Pen hat Angst vor dem roten Mann.*, *Süddeutsche Zeitung Online*, (10/04/2014) <http://www.sueddeutsche.de/politik/tv-duell-in-frankreich-le-pen-hat-angst-vor-dem-roten-mann-1.1933862> (accessed on 11/09/2014).

24 M. Sattar, *Martin Schulz: Der Kandidat ist die Botschaft.*, *Frankfurter Allgemeine Zeitung Online*, (05/05/2014) <http://www.faz.net/aktuell/politik/europawahl/martin-schulz-der-kandidat-ist-die-botschaft-12922853.html> (accessed on 11/09/2014)

25 T. Denkler, *Schulz steht neben sich'.*, *Süddeutsche Zeitung Online*, (28/04/2014) <http://www.sueddeutsche.de/politik/spd-im-europawahlkampf-schulz-steht-neben-sich-1.1945766> (accessed on 11/09/2014)

More generally, and not surprisingly, the SPD's European election campaign is more thoroughly explored in the German press. The *Süddeutsche Zeitung*, for example, writes<sup>26</sup>:

*Last Thursday Matthias Machnig introduced the SPD's election campaign strategy. Machnig manages the European campaign for Schulz in Germany. He is an experienced war horse and has successfully managed general election campaigns for the SPD. Machnig's key strategic message: He wants to promote this election campaign as a duel between the two European Spitzenkandidaten, Martin Schulz for the social democrats and Jean-Claude Juncker for the conservatives. Supposedly, the question is: who will become the president of the commission, Schulz or Juncker?*

The personalization of the campaign, thus the rivalry between Schulz and Juncker, is also an important and recurring theme. Here, the German press coverage is rather differentiated: on the one hand, the two candidates' statements made in their TV duels are compared and critically evaluated<sup>27</sup>; on the other hand, it is argued that Schulz's real adversary is not actually Jean-Claude Juncker, but Chancellor Merkel, "who already made it clear that the European elections won't determine the question as to who will become the president of the European commission".<sup>28</sup> The whole purpose of the contest is therefore put into question.

The most striking feature of the German press coverage of Martin Schulz is, however, the focus on his policies (and those of Jean-Claude Juncker), especially during the TV debates<sup>29</sup>. Most commentators criticise the similarity between the two *Spitzenkandidaten*' positions, and accuse them of grand coalition politics in the European Parliament. Due to this lack of differentiation, the election campaign was therefore "impossibly boring", the FAZ writes<sup>30</sup>.

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26 T. Denkler, *SPD bekämpft den falschen Gegner.*, Süddeutsche Zeitung Online, (27/3/2014) <http://www.sueddeutsche.de/politik/martin-schulz-bei-der-europawahl-spd-bekaempft-den-falschen-gegner-1.1923329> (accessed on 11/09/2014).

27 K. Haimerl & M. König, *Schulz kämpft mit aller Wucht – Juncker kontert mit Humor.*, Süddeutsche Zeitung Online, (08/05/2014) <http://www.sueddeutsche.de/politik/tv-duell-zur-europawahl-schulz-kaempft-mit-wucht-juncker-kontert-mit-humor-1.1956468>

28 T. Denkler, *SPD bekämpft den falschen Gegner.*, Süddeutsche Zeitung Online, (27/3/2014) <http://www.sueddeutsche.de/politik/martin-schulz-bei-der-europawahl-spd-bekaempft-den-falschen-gegner-1.1923329> (accessed on 11/09/2014).

29 M. König & M. Kolb, *Juncker gibt sich "fanatisch" – Schulz ganz dankbar.*, Süddeutsche Zeitung Online, (21/05/2014) <http://www.sueddeutsche.de/politik/ard-wahlarena-zur-europawahl-juncker-gibt-sich-fanatisch-schulz-ganz-dankbar-1.1970887> (accessed on 11/09/2014).

30 T. Gutschker, *Europawahl: Langweiliger ging es nicht.*, Frankfurter Allgemeine Zeitung, (22/05/2014) <http://www.faz.net/aktuell/politik/europawahl/europawahl-langweiliger-ging-es-nicht-12956432.html> (accessed on 11/09/2014).

### Why is the press coverage so different in the UK, Austria, and Germany?

The pan-European *spitzenkandidaten*, who were selected by the Europarties in 2013/2014 and competed for the presidency of the European Commission, were a novelty in the history of the EU. The candidates campaigned across the EU, and some of these debates and events were picked up by the national print media.

In this short paper **I have analysed and compared the press coverage of the PES *spitzenkandidat* Martin Schulz in Germany, Austria, and the UK, starting with his election by the PES on 1 March 2014 until the date of the European elections on 22-25 May 2014. The comparison shows that the quantity, quality, and tone of the press coverage differed significantly between the three countries.**

It does not come as a surprise that in all three countries, the press was interested in the new selection process of the European commission candidate and its implication for the power balance in the European Union. Whilst the tone was overwhelmingly negative in the British press, as a loss of British influence in Brussels was feared, the German and Austrian press were more positive in their reporting.

Furthermore, PES *spitzenkandidat* Martin Schulz received far more attention in German and Austrian newspapers than he did in the British press. What is more, his political views and personal character were explored and discussed, whilst in the British press, vague labels like 'pro-European', 'arch-federalist' and 'fiscally irresponsible' set the tone. Schulz's *Germanness* was highlighted in the three countries, but in different ways. In Germany, he was portrayed as 'one of us' and 'our man in Brussels', whilst in Austria he was portrayed as the German who needed to prove a sense of humour and adapt to the Austrian way of life. In the British press, Schulz was portrayed as a 'too German' socialist. Sir Julian Priestley, who was one of Schulz' campaign advisers, explains that overall, Schulz's *Germanness* was not an issue. In addition to speaking French and English, Schulz gave short speeches in Italian and Spanish when he campaigned in Italy and Spain, which was very well received by the local parties<sup>31</sup>. In Greece, Schulz had managed to distance himself from the Merkel government's austerity policies and was therefore welcomed by the left and centre-left. According to Priestley, the British press was exceptionally disinterested and hostile, and therefore the outlier amongst European newspapers. How can we explain these stark differences?

**There are three interlinked factors that might account for the differences in quantity, quality, and tone of Schulz's press coverage in the UK, Austria, and Germany. The first factor relates to the three countries' relationships with the European Union and their EU press coverage more generally. It is common knowledge that in the UK, large parts of the press are Eurosceptic<sup>32</sup>. Generally, not much is written about the**

31 Interview with J. Priestley, 11/11/2014.

32 B. Hawkins, *Nation, Separation and Threat: An Analysis of British Media Discourses on the European Union Treaty Reform Process.*, [in: ] *Journal of Common Market Studies* 50(4), 2012, pp. 561-577.

EU, and what little is written, is often negative, especially in the Rupert Murdoch-owned *The Times* and *The Sun*. Most British newspapers no longer have journalists staying in Brussels on a more permanent basis, so the EU coverage is often thin, superficial, and patchy.

What is more, with a referendum on the UK's EU membership looming in 2017, the EU is heavily contested amongst British parties, and the Eurosceptic UK Independence Party sets the terms of the debate<sup>33</sup>. In the past few years, pro-Europeans have tried to play the issue down by not mentioning the EU and by focusing on national issues instead. In this political climate, Martin Schulz's Europeanism seems almost exotic. By contrast, in Germany, the press and political elites continue to be largely pro EU-integrationist. The 2014 European Parliamentary election campaign was very visible and dealt mainly with European rather than domestic issues. It is therefore not surprising that Schulz's campaign got wide coverage in the German press. Austria, by contrast, has a shorter and more complicated relationship with the EU. Eurosceptic parties have done well in the past two EP elections. For instance, the right-wing populist Freedom Party (FPÖ) won 19,7 per cent of the votes in May 2014. Issues such as Turkey's EU membership and immigration have become highly contested in Austria. Still, and in contrast to the UK, Austrian mainstream parties win higher shares of the votes than populist fringe parties. The (print) media are largely pro-integrationist and report from Brussels far more frequently and thoroughly than their UK counterparts.

The second factor that explains the differences in Martin Schulz's press coverage is, of course, his nationality. As this comparative study has demonstrated, Schulz's *Germanness* played a major role in the German, British, and Austrian press. Not surprisingly, in the German press, he is portrayed as 'one of us', whilst his nationality was an obstacle in the British context. Schulz was very present on German TV and also caught a lot of attention by the press.

Third, **the attitude of the Labour Party, SPÖ, and SPD towards Martin Schulz's candidacy is a very important factor explaining the differences in the press coverage.** For instance, the SPD took great pride in campaigning for and with Martin Schulz, even mentioning him in their 2014 EU manifesto, stating:

*We are proud that with Martin Schulz, a German social democrat will be the first Spitzenkandidat of all European social democrats and that he might thereby become the future president of the European commission.*

It is also important to note that Schulz has for years been the SPD's EU advisor and the most prominent MEP amongst the German social democrats. He was on the election

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33 N. Copesey & T. Haughton, *Farewell Britannia? 'Issue capture' and the Politics of David Cameron's 2013 EU Referendum Pledge*. [in: ] *Journal of Common Market Studies* 2014, Vol. 52 Annual Review 2014, pp. 74–89.

posters during the campaign. By contrast, the Labour Party abstained in their vote for Martin Schulz at the PES election congress in March 2014. As a consequence, Schulz was neither part of their European campaign, nor was he (or the PES more generally) mentioned in their EU manifesto. The Labour Party did not want Schulz to come to Britain to campaign alongside them. This decision was taken for domestic reasons, as Labour tried to avoid attacks by the Eurosceptic press, the Conservative Party, and the UK Independence Party for supporting an outspokenly pro-integrationist, federalist candidate. Meanwhile, the Austrian social democrats were friendly towards Martin Schulz's candidacy and supported his campaign. Schulz campaigned in Austria alongside the SPÖ's *spitzenkandidat*, Eugen Freund, and was therefore much more present in the Austrian press.

Thus, **the 2014 European elections were an interesting experiment of pan-European candidates, and this short study has shown how the press coverage has differed between three Western European countries.**

**For the PES and the other Europarties, the 2014 experiment raises a number of challenges: how to find a candidate who is endorsed and embraced by all member parties? How to overcome the differences in language (and culture)? How to encourage a debate on policy (and not just on personality and institutional processes)?** In 2014, the conservative *spitzenkandidat*, Jean-Claude Juncker, became president of the European Commission, despite the doubts raised in the press. Perhaps in 2019, when the next European elections will take place, national media and parties will take the *spitzenkandidaten* much more seriously. We will have to watch this space.

**For the PES and the other Europarties, the 2014 experiment raises a number of challenges: how to find a candidate who is endorsed and embraced by all member parties? How to overcome the differences in language (and culture)? How to encourage a debate on policy (and not just on personality and institutional processes)?**

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Erol KÜLAHCI

## **A Differential Emergence of Europarties? European Institutions and Cartel of Domestic parties**



**Keywords:**

**Party Politics - Cartel of Domestic Parties - Europarties Regulation - Representation Deficit - Statute and Financing**

**Abstract:**

Three main perspectives are distinguished in the party politics literature: the genetic, the morphological and the representation. In this respect, the author argues that EU institutions and the cartel of domestic parties have promoted a differential emergence of Europarties as they reinforced centrally the genetic dimension of Europarties and, secondarily, the morphological dimension while ignoring the representative perspective. Accordingly, the author illustrates mainly this argument by the 2001 Europarties regulation proposal and by completing the analysis with reference to the 2003, 2007 and 2017 regulations. Using EU documents and elite interviews, he examines the EU political institutions' positions as well as the domestic parties' preferences around three issues : the statute, the financing and Europarties' role.

## 1. Europarties between Genetic, Morphological and Representation Perspectives

It is common to distinguish three perspectives regarding party politics literature. Firstly, the genetic perspective focuses 'on the process through which social and cultural divisions are politicised into a set of oppositions and organisations'. Secondly, the morphological perspective concentrates on 'the format and the alignment of the party system and the way these affect the performance and the stability of the institutions'. Thirdly, the representation perspective focuses 'on the extent to which elected political elites are representative of and responsive to the distribution of identities, interests, values and preferences of the voters and of the public opinion in general'<sup>1</sup>.

In this respect, I argue that EU institutions and the cartel of domestic parties have promoted a differential emergence of Europarties as they reinforced centrally the genetic dimension of Europarties and, secondarily, the morphological dimension while ignoring the representative perspective. Accordingly, I illustrate mainly my argument by the 2001 Europarties regulation proposal and by completing the analysis with reference to the 2003, 2007 and 2017 regulations.

The reasons for engaging in this type of research will be further exposed. First, numerous authors writing in the field suggested the important role played by the European institutional actors in the (non-)development of the Europarties<sup>2</sup>. Secondly, it is also important to point out that those domestic political parties preferences are important and reflect a cartel rather against the development and emergence of Europarties<sup>3</sup>. All in all, the case allows me to show that the domestic political parties positions and their extension in the three main European institutions has ensured a limited and differential emergence of Europarties.

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1 S.Bartolini, *The strange case of the 'European parties'*, [in: ] E. Kūlahci, *Europeanisation and party politics. How the EU affects domestic actors, patterns and systems*, ECPR Press, 2014.

2 S.Hix, *The transnational party federations.*, [in: ] J.Gaffney (ed.), *Political parties and the European Union.*, London: Routledge, 1996.; R.Ladrech, *Party Networks, Issues Agendas and European Union Governance.*, (in: ) D.S. Bell & C.Lord (eds.), *Transnational Parties in the European Union.*, Aldershot: Ashgate, 1998, pp. 68-79; P.Magnette, *Les contraintes institutionnelles au développement des partis politiques européens.*, [in: ] P.Delwit, E. Kūlahci & C. Van de Walle (eds.), *Les fédérations européennes de partis. Organisation et Influence.*, Editions de l'université de Bruxelles.

3 E.Kūlahci, *Le statut et le financement des fédérations européennes de partis : vers un renforcement du phénomène partisan européen ?*, Brussels : Paper presented at the Conference of the 'Association Belge de science politique', 14-15 March 2002. See also : E.Kūlahci, «Institutions européennes, cartels de partis nationaux et développement des partis européens., [in: ] *Romanian Journal of European Affairs*, 2005, Vol.5, N°4, pp. 5-27.

The first proposal regulation of the European Commission was at the origin of the 2001 debate initiated by the adoption of the Nice Treaty, but not yet its implementation of the 191 article on codecision procedure to define the statute and the financing of Europarties. Despite that the 2001 proposal was not adapted in a context of unanimity decision-making precisely because Nice Treaty was not yet implemented, this case-study will allow us to study both the formal positions of European institutions (the European Commission, the European Parliament and the Council of Ministers) and the informal attitudes of actors belonging to these institutions (European deputies and representatives of the national governments).

This paper proceeds as follows. In part I, I will briefly present the historical context that led to the 2001 regulation proposal. In doing so, I will concentrate on two key events: the Maastricht and the Nice Intergovernmental Conferences. In part II, I will analyse the inter-institutional debates on the statute, the financing and Europarties' role. Thus, I will focus on successive expression of preferences: the European Commission's proposal for regulation related to this specific topic, the opinion of the European Parliament, the negotiations within the Council of Ministers and the Europarties' demands.

## 2. Historical Context of the 2001 Regulation

### 2.1. The Maastricht Treaty: the Breakthrough

Since the beginning of the integration process, the European institutions have not paid too much attention to the functioning of the Europarties. Indeed, it is only with the occasion of the first European elections that the European institutions indirectly acknowledged the existence of party federations.

As a matter of fact, the European institutions recognised the Europarties more than two decades ago. The Treaty of Maastricht is the first formal step in this direction. The 138A article states that: "*Political parties at European level are important as a factor for integration within the Union. They contribute to forming a European awareness and to expressing the political will of the citizens of the Union*"<sup>4</sup>. During the Intergovernmental Conference (IGC) the Europarties played a significant role in the formulation of this decision. The three general secretaries, Christian Ehlers (ELDR), Thomas Jansen (EPP) and Axel Harish (PES) inspired themselves from the German Fundamental law and proposed the wording of the Maastricht article on "European Parties"<sup>5</sup>.

4 *Les traités de Rome, Maastricht et Amsterdam.*, Paris: La documentation française, 1998, p.158.

5 C.Dorget, *Des fédérations de partis nationaux aux partis politiques européens.*, [in:] O. Audeoud, (ed.), *Les partis politiques au niveau européen. Fédérations de partis nationaux.*, Nancy: Les Cahiers du GERSE, 1999, p.14.

After Maastricht, European Party Federations and the political groups in the European Parliament prepared the second IGC of the decade. As Christelle Dorget argues, the adoption of the article 138A represents a success for the leaders of the European parties, but not an end in itself<sup>6</sup>. The leaders of the Europarties raised the issue of a legal statute for their organisations as well as the question of their financing by the EU. As a result of these discussions and demands, the Greek government, backed up by the Austrian and the Italian governments, made a proposal regarding the Europarties during the 1997 IGC in Amsterdam. However, the project failed due to several blockages. The European Parliament was divided on the subject, the majority of the member states did not support the proposal and the national political parties were rather reluctant<sup>7</sup>. Accordingly, at the end of the IGC, the article 138A became article 191 of Amsterdam Treaty without any modification of its content<sup>8</sup>.

## 2.2. The Nice Treaty: the Refinement

The Amsterdam failure delayed but did not prevent further developments. Therefore, new steps were made forward with the occasion of the Nice IGC. On the one hand, the Europarties managed to preserve the Maastricht *acquis*. On the other hand, new amendments were introduced to the former article 138A according to which: “*The Council, acting in accordance with the procedure referred to in Article 251, shall lay down the regulations governing political parties at European level and in particular the rules regarding their funding*”<sup>9</sup>.

This Nice-related advance on the issue of funding can be explained through a cumulus of factors. First, the proposal of the European Commission on the Europarties met no real opposition<sup>10</sup>. Secondly, the European Court of Auditors started to put pressure of on the European Parliament and its expenses status<sup>11</sup>. Thirdly, one can equally take into account the intensive activity of the Europarties for improving their statue and financing situation. For instance, the Europarties developed informal contacts with the political groups in the EP. As a consequence

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6 Ibid.

7 Ibid.

8 *Les traités de Rome, Maastricht et Amsterdam, op.cit.*, p.158.

9 Conférence des représentants des gouvernements des Etats membres, *Traité de Nice*, Brussels: 22 December 2000, SN 533/1/00, REV 1, p.44.

10 European Commission, *Communication de la Commission. Contribution complémentaire de la Commission à la Conférence intergouvernementale sur les réformes institutionnelles. Le statut des partis politiques européens*, Brussels, 12 July 2000, 444 final, p. 4.

11 Court of Auditors, Special report No 13/2000 on the expenditure of the European parliament's political groups, together with the European Parliament's replies., [in: ] *Journal Officiel des Communautés européennes*, 28 June 2000, C 181/1, 16p.

of this process of socialisation, the EP issued a common position on the subject<sup>12</sup>. In addition, the leaders and the general secretaries of the Europarties contacted repeatedly the European Commission<sup>13</sup>. In the same time, new dynamics were set at the internal level. The domestic members of the Europarties started debating on the statute and the financing with the occasion of their high-level party leaders' meeting prior to the gatherings of the European Council<sup>14</sup>.

Furthermore, the Europarties' financing became a salient topic of research. Already in early 1980s, several authors put into evidence the precarious state of European party federations' finances<sup>15</sup>. For example, in 1994, Luciano Bardi showed that the Europarties depended on the financial contributions of the political groups in the European Parliament and their respective member parties. Data on Europarties' 2000 and 2001 budgets confirms this analysis (see the following table on the PES).

#### Budget of The PES €/year

PES*:	2000	2001
Political Group in the EP	214 000, 00	217 000, 00
Parties of the PES	248 000, 00	260 000, 00
Own resources	-	-
Total	472 000, 00	477 000, 00

\* PES, Budget 2000, (Brussels), 1p. and PES, Budget 2001, Brussels, 1p.

Having presented the evolution of the general agenda of the European institutions, I will turn now to the concrete formulation of the statute, the financing and the functions of party federations. For this purpose, the focus will be on the 2001 European Commission's proposal. It is the very first proposal regulation of this supranational institution, which allowed an inter-institution debate involving also Europarties.

12 D.Tsatsos, *Report on the constitutional status of the European political parties*, Brussels: A4-0342/96, 1996, 13p.; J. Leinen & G. Dimitrakopoulos, *Rapport sur les propositions du Parlement européen pour la Conférence Intergouvernementale.*, Brussels: 27 March 2000, A5-0086/2000. PE-235.758, 14094/1999 - C5-0341/1999 - 1999/0825 (CNS)), 18p.

13 Presidents and secretary generals of the EPF, *Lettre à Romano Prodi.*, Brussels: 17 February 2000, 1p; and The representatives of the five EPF, *Lettre à Romano Prodi, Michaela Schreyer et Michel Barnier.*, Brussels: 13 June 2000, 2p.

14 This is the case of the Party of European Socialists. Interview with Ton Beumer - secretary general of the PES, Brussels, 07 March 2002.

15 G.Pridham & P.Pridham, *Transnational Party Co-Operation and European Integration.*, London, Boston and Sydney: George Allen & Unwin, 1981, p.132.

### 3. Analysing the Constellation of Actor Positions

#### 3.1. The Position of the Commission: Promoting the Emergence of Euro-parties

On 15<sup>th</sup> of February 2000, the general secretaries of the political groups in the EP declared jointly that a regulation was needed for amending the existing treaty article in order to reinforce the democratic basis of the EU and to guarantee transparency<sup>16</sup>. Their aim was therefore to define a European party, to regulate its organisation, its functions and its financing. They suggested that the political groups in the EP could constitute the basis for a European political party. Even going further, the general secretaries asked for the European Commission to finance the European political party. First, the Commission did not embrace the idea of financing the European political party, fearing the emergence of financial scandals.

The document issued by the general secretaries of the political groups in the EP was a source of inspiration for the European Commission's proposal from February 2001<sup>17</sup>. One can easily depict a number of similarities in the wording of the two texts<sup>18</sup>.

For example, there are three similar points as regards the *statute* of the Europarties. To start with, it is stated that the party federations should constitute and/or join a political group in the EP. Then, an independent committee will establish the rules to recognise a Europarty. Next, the Europarties have to respect the basic constitutional principles of the treaty on the EU such as democracy, human rights and rule of the law.

The European Commission equally used the document of the general secretaries of the political groups in the EP for proposing different modes of *financing* the Europarties. Accordingly, the Europarties' *own resources* would consist of the contribution of domestic parties. In addition, the global *European fund* would be distributed among the Europarties registered at the European level according to the results from the last European elections.

However, the European Commission dismissed one key demand of the general secretaries of the political groups in the EP as they proposed that the political groups in the EP may become the basis of a European party.

Moreover, the Commission recommended that each Europarty should be considered as such if it is composed of domestic parties from at least five member states while the EP political group proposed a representation of at least 1/3 of the member states as a condition to be financed by European funds.

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16 Secretary generals of the political groups in the European Parliament, *Statuts Parti Européen.*, Brussels: 15 February 2001, 1p..

17 Interview of Ulla Von Huirirbean – parliamentary assistant of Ursula Schleicher., Brussels: 27 February 2002.

18 European Commission, *Proposition de règlement du Conseil sur le statut et le financement des partis politiques européens.*, Brussels: 13 February 2001, COM (2000) 898 final, 2001/0011 (CNS), 13p.



Having formulated the proposal, the European Commission decided to follow the procedure of the article 308 for a regulation on Europarties. According to article 308, "If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community, and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures". Consequently, the European Commission submitted the proposal to the European Parliament, requesting its opinion<sup>19</sup>.

### **3.2. The Position of European Parliament: Between Group Control and Euro-party Autonomy**

The next step in this development is the reaction from the EP, which voted widely in favour of the Commission's proposal. The president of the Constitutional Affairs Committee, Giorgio Napolitano, considers that the European deputies voted with a very large majority an opinion which had a twofold aim: win sovereignty vis-à-vis the member parties and further open the path for Europarties<sup>20</sup>. For the EP, the proposal was considered to have offered financial incentives and transnational criteria necessary for developing Europarties' activities in the European arena.

Nevertheless, this quasi-consensual image is far from providing the variety of positions and ideas inside the EP forum. For instance, the Constitutional Affairs Committee met four times to discuss the European Commission's proposal. The following part of the paper will illustrate the nature of these internal debates on Europarties' statute, financing and functions<sup>21</sup>.

#### **a.1. The Statute**

The issue of Europarties' statute raised debates touching mostly four questions. The first one had a pronounced ideological character. Numerous questions were addressed such as *Do we have to grant the statute of European party to anti-European Europarties?* Two positions became observable. On the one hand, one can quote the example of the representative of the Spanish United Left, Alonso José Puerta (Confederal Group of the European United Left/Nordic Green Left - CGEUL/NGL), who defended the idea that a European party has to be in favour of the EU. On the other hand, several European

19 European Commission, *Explanatory Memorandum for Amended Commission proposal – European political parties.*, Brussels: 2001, COM (2001) 34, p.1.

20 Interview of Giorgio Napolitano, Brussels, 27 February 2002.

21 Secretariat General of the Commission, *Information Note on the proceeding of the EP. Subject: Meeting of the Constitutional Affairs.*, Brussels: 6 March 2001, p.7. See also the following document: Secretariat General of the Commission, *Information Note on the proceeding of the EP. Subject : Meeting of the Constitutional Affairs.*, Brussels: 10 April 2001, p.7.

deputies expressed an opposite position. This was the case of the Greek socialist Dimitris Tsatsos, the Danish Jens-Peter Bonde from the '*June Movement*' and the German social-democrat Jo Leinen.

Another dilemma that the European deputies were confronted with was: *Do we have to grant the statute of European party to those Europarties which display xenophobic positions?* As in the first case, two groups of expression emerged during the internal debates. On the one hand, there is the example of the British Conservative, Christopher Beazley (European People's Party and European Democrats EPP-ED), who was in favour of granting the statute of European party to xenophobic party federations. Thus, he rejected the criteria proposed by the European Commission, arguing that they were rather exclusive. For him, this exclusion would only aggravate the situation by making the xenophobic Europarties more attractive in the citizens' eyes. On the other hand, the representative of the European Commission, John Fitzmaurice (British Labour Party), thought quite the contrary. For him the Commission's proposed criteria were minimal referring mainly to the respect of democratic principles, the need of a European objective, the requirement of a certain degree of representation and the transparency of financial resources.

The following issue under discussion was whether *the Europarties were supposed to respect the European Charter of Fundamental Rights?* The German *rapporteur* Ursula Schleicher (EPP-ED) backed up this idea and the European Commission responded that such an option was conceivable.

One of the last questions was about *the obligation of the Europarties to respect the democratic principles*. The British Liberal Andrew Duff (ELDR) contested this idea. Instead of writing this obligation in the future regulation, he argued that the European Parliament could play this role informally when it comes to distribute the budget between eligible Europarties.

The second theme touches the issue of solving divergences in the EP regarding the interpretation of a contested regulation. Two options were presented in regard to this question. Jo Leinen, supported by Ursula Schleicher, proposed that the Bureau of the EP may be competent on this matter. Others such as the representative of the British Labour, Richard Corbett (PES), promoted the idea of a committee of wise men, representing each political institution, which would settle the divergent opinions.

The third theme was related to the minimal number of domestic parties that should compose the party federations at the European level. The Commission proposed in this regard a threshold of political parties from at least five member states. Numerous deputies considered, however, that the Commission's threshold was set up too high. The representative of the Austrian Popular party, Reinhard Rack (EPP-ED) and Dimitris Tsatsos could be counted among the defenders of this position. For Dimitris Tsatsos it would be feasible to introduce a threshold of 3 member states. In opposition, other delegations considered the Commission's threshold of 5 member states to be too low. Jo Leinen,

Richard Corbett et Andrew Duff proposed thus a threshold of 1/3 of member states. For Ursula Schleicher, the threshold of 1/3 of member states is important in the perspective of EU enlargement.

The fourth theme was related to the Europarties "*legal personality*". Ursula Schleicher and Jo Leinen required for the party federations to have legal personality. The European Commission indicated that this proposal could be equally retained.

After having exemplified the nature of the debates on the statute, I will pass now to the financing and the functions issues, which are very important questions for the future development of party federations as political actors. The illustration of the points raised during the meetings of the EP Constitutional Affairs Committee has the objective to bring a better understanding of the national positions and the different interests and ideas behind the institutional proposal adopted in the Nice Treaty. It is believed to be very interesting to unravel the different positions and orientations of MEPs and the nature of the dialogue between the European institutions in defining the existence and functioning of party federations as relevant political actors.

### a.2. The Financing

The financing issue triggered lots of contrasting reactions within the EP. On the one side, the proposal of the European Commission in regard to the financing of party federations met with an utter opposition from different European deputies: Gerhard Hager from the Austrian extreme right party (group of Non-Attached, NA), and George Berthu from the French Conservative right (NA).

On the other side, several MEPs supported the solution proposed by the European Commission. They raised, however, a number of controversial dimensions such as the parameters of financing. In this sense, Schleicher recommended to increase the proportion of the *flat-rate basic grant* from 15% to 25% for the benefit of Europarties. A second suggestion came from José Ribeiro E Castro, the representative of the Portuguese Popular Party (Union for Europe of the Nations Group, UEN). He proposed to reduce the flat-rate of Europarties' own resources from 25% to 15%.

Another issue intensely discussed was the private financing. Numerous MEPs were against private contributions and donations as a source of financing for the Europarties. Others supported the proposal under certain conditions. The representative of the Swedish Popular party, Cecilia Malmström (ELDR), suggested pursuing with the concept of private financing while simultaneously developing the "responsibility" dimension. Jo Leinen, backed up by Ursula Schleicher, proposed to enhance the "*transparency*" dimension and to establish a number of sanctions in case of rules violation. Additional remarks were made in this sense. The representative of the French Greens, Gérard Onesta (Group of Greens/European Free Alliance, G/EFA), was opposed to contributions from private enterprises but was open to clarify the nature of other types of subsidies. Confronted

with this diversity in opinions, the European Commission insisted on introducing strict rules for the declaration and publishing of all financing sources. The Commission equally recommended the creation of an “auditing” system.

### a.3. The Functions

A review of the internal debates of the MEPs shows that the topic of the Europarties' functions has not received the same kind of attention as the statute and financing issues. Nevertheless, there are some interesting questions that can be brought up. A short description of small and democratic domestic parties' initiatives within the EP allows me to outline the weakness of the role assigned by the European institutions and the big domestic parties to the Europarties.

To begin with, Gérard Onesta (*Les Verts – The Greens*) saw the Europarties in charge with preparing the lists for the European elections. Their activity would thus become more visible in the eyes of the citizens.

Next, Andrew Duff (Liberal Democrat Party) suggested the following role: Europarties should deal with the expenses for the European electoral campaigns. Nevertheless, there was a certain degree of opposition to Duff's proposal. Ursula Schleicher (CDU-CSU) pointed out in this sense that national parties were in charge with the expenses for the European electoral campaigns. Accordingly, after receiving these diverse opinions, John Fitzmaurice (British Labour Party) of the European Commission chose to respond negatively to Duff's suggestion, arguing that it would create confusion in between the roles of national parties and those of Europarties.

### 3.3. The position of the Council: the unsolved issues during the Belgian presidency

The following step for the European Commission, after the EP's opinion, was to submit the proposal to the Council of Ministers. The Belgian Presidency of the EU gave priority to the discussions on the Commission's proposal, especially to those points related to the financing and statute of party federations. Less attention was given to the Europarties' role. More precisely, the debates during the Belgian Presidency focused on three aspects: (1) the respect of the democratic principle and thus the establishment of a system of control, (2) the threshold of representation of member states, (3) the issue of private financing or contributions<sup>22</sup>.

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22 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens.*, Brussels: 26 November 2001, 13977/01, Limite, PE 111, INST 112, Dossier interinstitutionnel : 2001/0011 (CNS), p.5. See also the following document: Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens.*, Brussels: 10 July 2001, 10699/01, Limité, PE65, INST 63, Dossier interinstitutionnel : 2001/0011 (CNS), p.9.

### c.1. The democratic principle and the system of control

The Belgian Presidency proposed a mechanism according to which any “European party” that violates the democratic principle should be immediately suppressed. The reactions to this proposal were rather diverse in the Council of Ministers, expressing the extreme politicisation of this forum and the importance of national positions. For instance, Austria and Italy declared their opposition to the Belgian proposal<sup>23</sup>. This disagreement can easily be understood in light of their governmental political party configuration. In both countries, the far right parties in government - Jörg Haider’s *FPÖ* in Austria and Umberto Bossi’s *North League* in Italy – heavily influenced their respective national positions in the Council of Ministers.

The Belgian proposal was nevertheless supported by an important number of countries such as Germany, Spain, France, Greece, Finland, Ireland, Luxembourg, Holland and Portugal<sup>24</sup>.

A third position could equally be depicted while examining the debates between the national ministers. Great Britain and Sweden (both led by social-democrat parties in power) did not pronounce themselves in this matter, fearing that such a control system of the democratic principle would only enhance the already existing federalist tendencies of the EU.

### c.2. The presence in member states

As presented above, the European Commission proposed that the party members of a federation should come from at least 5 states of the EU. This suggestion triggered several reactions from the national delegations.

The majority of the national delegations recommended a threshold of three member states<sup>25</sup>.

The most extreme position was put forward by Austria. The Austrian delegation initially required the presence of only one member state. In the course of the negotiations under the Belgian Presidency, Austria raised the threshold to two member states. Finally Austria declared itself ready to accept the threshold of three member states proposed by the other delegations under one condition: the suppression of the mention to democratic principles<sup>26</sup>. Denmark equally sustained a threshold of two member states.

23 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens.*, Brussels: 7 December 2001, 13977/01, LIMITE, PE 111, INST 112, Dossier interinstitutionnel 2001/0011 (CNS), p.3.

24 Secretariat General of the Council, *Note à l’attention du Président du Conseil (2379<sup>ème</sup> réunion, les 29 et 30 octobre 2001., Point : Proposition de règlement sur le statut et le financement des partis politiques européens.*, Brussels: 26 October 2001, GAG-statutpartis-291001.

25 Ibid.

26 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens.* (Brussels: 7 December 2001, 13977/01, LIMITE, PE 111, INST 112, Dossier interinstitutionnel 2001/0011, CNS, p.3.

Accordingly, the Belgian Presidency of the EU endorsed/proposed to pass to a threshold of three member states. Austria and Denmark continued however to contest this institutional compromise.

Bearing in mind this result and its contested nature, one can notice the importance of national partisan/governmental positions in defining the character of party federations at the EU level. The negotiations inside the Council of Ministers led to a lower outcome than the one proposed by the European Commission and the European Parliament. This observation equally entitles us to say that the Council of Ministers envisaged the existence of “European parties” that would be less transnational than the ones proposed by the Commission and the EP.

### c.3. The financing: focussing furthermore on the issue of private donations

As regards the private financing theme, the Belgian Presidency proposed a text of compromise between the diverse national positions. The text suggested the interdiction of certain types of financing. It opened the debate on several issues such as the ceiling of contributions, the non-declared donations, and the differentiation between moral and physical persons.

In order to reflect the nature of the discussions, I will present a number of national positions, which conditioned the final institutional common denominator. Belgium and France looked for a total interdiction of private funding of the Europarties. Numerous national scandals touching this issue of private financing led these countries to propose such a solution. Denmark, Germany, Finland, Luxembourg and Great Britain asked for a more “open” system of financing. Germany equally advocated the need for a “sponsoring” system. For instance, the enterprises would thus be allowed to finance conferences and publicity actions<sup>27</sup>.

The issue of *private donations* is so important for Belgium that it will lead to a change of tactics at the middle of the Belgian presidency<sup>28</sup>. Indeed, the presidency will *only* focus on this issue and it will leave aside the problems of democratic principle as well as the question of the presence of member parties from the member states in the Europarties<sup>29</sup>. The tactical change operated by the Belgian Presidency gave results as, apparently at the occasion of the reunion of the Council of Ministers from 7 December 2001<sup>30</sup>, a consensus

27 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens*, (Brussels: 26 November 2001, 13977/01, Limite, PE 111, INST 112, Dossier interinstitutionnel : 2001/0011, CNS, p.5.

28 Interview of Didier Seeuws, Belgian Permanent Representative next to the EU, Brussels, 25 February 2002.

29 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens*, Brussels: 26 November, 14484/01, Limite, PE 117, INST 116, Dossier inter-institutionnel: 2001/0011, CNS, p.2.

30 Council of the European Union, *Proposition de règlement sur le statut et le financement des partis politiques européens*, Brussels: 7 December 2001, 13977/01, LIMITE, PE 111, INST 112, Dossier interinstitutionnel 2001/0011, CNS, p.3.

emerged on: (1) the interdiction of anonymous donations to conform with the rules of transparency, (2) the interdiction of donations from political groups in the EP, respecting thus the judgement of the European Court of Auditors, (3) and the interdiction of donations from judicial entities whose capital is more than 50% owned by the state.

Nevertheless, the issue of *donations from moral persons* raised important difficulties. The Belgian Presidency suggested successively three options: (1) the interdiction of all donations from moral persons, (2) the introduction of a ceiling for donations from moral persons, and (3) the interdiction of donations from moral persons with the possibility however for the Council of Ministers to fix by QMV a ceiling for this specific type of donations.

In spite of all these proposals of compromise, the national delegations failed to find an acceptable solution in this regard, which leads me to an interesting observation. The impossibility to reach agreements in the Council of Ministers on certain aspects of the issue of financing the EPF represents an example of how these institutional intergovernmental negotiations get trapped in between national interests. For instance, one important element of tension that prevented the reach of an agreement on the financing aspects was the difference in approaches between France and Germany. As opposed to the German position, France was for the complete interdiction of donations from moral persons<sup>31</sup>. The explanation of this discrepancy lies in their national institutional experiences. The French and the German domestic frameworks for regulating the life and organisation of political parties are different and thus provoked disagreements at the European level of decision-making<sup>32</sup>.

As regards the other national delegations, they accepted in principle the existence of donations from physical and moral persons under certain conditions: the introduction of a ceiling and the identification of the donors. All in all, France looked to be in a minority position.

The description of the institutional path of the Commission's proposal on the Europarties statute, financing and functions will be followed by a short presentation of the Europarties' own demands on the subject. The remainder of the paper will be thus an occasion to investigate the nature of the dialogue between the party federations and the European institutions.

### **3.4. The Demands of the European Party Federations**

During the Belgian Presidency of the EU, the Europarties formulated a common position. The general secretary of EFGP (European Federation of Green Parties) and the presidents of the EFA/DPPE (European Free Alliance/Democratic Party of the People of Europe), of the ELDR (European Liberal Democrat and Reform Party), of the EPP (European People's

31 Ibid.

32 Interview of Didier Seeuws, Belgian Permanent Representative next to the EU, Brussels, 25 February 2002 and 7 March 2002.

Party) and of the PES (Party of European Socialists) presented thus a document to the attention of the Belgian Presidency<sup>33</sup> in order to expose their claims.

First, they addressed the issue of their statue. They asked for a 1/4 representation threshold of the member states.

Secondly, the representatives of the Europarties wished to act as organisers and employers on a common legal base. They claimed therefore a legal personality for the Europarties<sup>34</sup>.

Thirdly, as regards the financing question, the Europarties demanded 15 millions € and the creation of 'start-up subsidy' for 'start-up costs'. Moreover, they asked for an *autonomous financing* of 15%, as opposed to the 25% proposed by the European Commission. Likewise, the Europarties wanted to determine clear conditions for transparency and to establish a maximum amount for contributions from individuals and for the "sponsorship" of different events and specific activities.

Fourthly, the Europarties equally referred to their functions. They hoped that the conclusions of the Belgian Presidency would recommend the preservation of the Europarties' current activities. They did not define these current activities to which they were referring and thus did not bring any added-value to the debates in the European institutional arena.

An overview of the negotiations and their outcome in the Council of Ministers shows however that the national delegations did not pay too much attention to these claims. Accordingly, it can be said that the EPF were excluded from the inter-institutional negotiations leading to the definition of their statue, financing and role in the EU<sup>35</sup>. This observation brings light into different processes related to the functioning of the European construction. It captures and empirically illustrates the inner mechanisms of decision-making in the EU. The inter-institutional dialogue leading to decision-making is clearly shaped by national positions.

### From unanimity to Co-decision and QMV

Unanimity has showed the true nature of domestic parties in the Council, the Parliament and the Commission. Nevertheless and taking into account this failure, Europarties' proposal were echoed and further elaborated by EU institutions considering the adopted 2003 and refined 2007 and 2017 regulations in a different institutional formula (*Qualified majority voting and Co-decision*).

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33 A. Cassola, R. Cook, W. Hoyer, N. Maes & W. Martens, *Lettre à Guy Verhofstadt, Louis Michel, Annemie Neyts et Romano Prodi.*, Brussels: 10 October 2001, p.3.

34 Currently, Europarties have a domestic member state level statute (mainly Belgium). This will dramatically change as the 2017 regulation will provide EU-level legal status for European political parties and their affiliated political foundations.

35 Interview of Didier Seeuws, Belgian Permanent Representative next to the EU, Brussels, 7 March 2002.



To begin with, the 2003 adopted regulation points out that Europarties “*must be represented, in at least one quarter of Member States, by Members of the European Parliament or in the national Parliaments or regional Parliaments or in the regional assemblies, or it must have received, in at least one quarter of the Member States, at least three per cent of the votes cast in each of those Member States at the most recent European Parliament elections*”. The final decision on this question has important implications considering the successive enlargements of the EU (2004, 2007 and 2014). IN EU28, this means that Europarties should be composed of domestic parties from at least seven member states.

In the absence of a European statute, most of the party federations opted for a Belgian legal entity, the *association (internationale) sans but lucratif*. In other words, Europarties have a domestic member state level statute (mainly Belgium). This will dramatically change as the 2017 regulation will provide EU-level legal status for European political parties and their affiliated political foundations.

In 2013, Europarties and Eurofoundations received almost 34 millions €. As an instance, the PES budget increased so significantly from 477.000€ (no regulation in 2001) to 6.376.606€ (2014 EU co-financing)<sup>36</sup>. With the 2003 regulation, the EU cofinancing did not exceed 75% of the budget of each Europarty. The 2017 regulation confirms the 2007 regulation as “*15% of the funds are distributed in equal shares to the European political parties and foundations, and the remaining 85% are distributed among the European political parties in proportion to their share of elected members of the European Parliament*”. Moreover, EU institutions limited the contribution of domestic parties to Europarties at maximum 40%. They also distinguish contribution from donation<sup>37</sup>.

### A differential emergence of Europarties

Moreover, EU institutions and domestic party actors ensured a differential emergence of Europarties. Indeed and coming back to the three perspectives distinguished by Bartolini, the analysis of the very first proposal of the European Commission in 2001 reveals that, from the outset, the paradoxical intention of the institutions and domestic party actors to reinforce centrally the genetic dimension of Europarties and, peripherally, the morphological dimension while ignoring the representative perspective.

36 European Parliament, *Grants from the European Parliament to political parties at European level per party and per year*, March 2014, p.2.

37 In the 2017 regulation, the Council has decided to consider these two concepts accordingly :

- “*Donations from natural or legal persons to European political parties and their foundations will be limited to a value of 18000 € per year and per donor (rather than 12000 € under the current rules). The names of donors contributing more than 3000 € per year will have to be published*”.
- “*Contributions from European political parties' or foundations' members may not exceed 40% of the parties' or foundations' budget. In addition, contributions from non-elected individual members of a European political party are limited to a value of 18000 € per year and individual member*”.

To start with, there have been important progresses since the very first proposal in terms of Europarty genetics. To begin with, the regulation was adopted in 2003 following the co-decision procedure settled by the Nice Treaty<sup>38</sup>. On the one hand, the 2003 regulation was inspired by the demand of Europarties regarding the domestic legal personality and the transnational character (federating domestic parties from at least ¼ of member states). On the other hand, EU institutions asked Europarties to respect principles (liberty, democracy, human rights, fundamental freedoms and rule of law) and defined further the main financial rules (application for funding, obligations, prohibition, implementation and control, the distribution of funding between Europarties).

In addition, the 2007 regulation recognised the European political foundation<sup>39</sup>. On the one hand, the regulation describes the formal meaning of political foundation at European level as “an entity or network of entities which has legal personality in a Member State, is affiliated with a political party at European level”<sup>40</sup>. On the other hand and following the financial dimension of this regulation, FEPS have received grants from EP since 2008. For 2014, the European Parliament planned to allocate a grant of 3.086.695€ to the FEPS<sup>41</sup>.

**It is expected that the new regulation will reinforce the genetic features in 2017. With the European legal status, the financing of Europarties and of foundations financing will be less exposed to domestic financial charges in terms, for instance, of personnel costs. Moreover, the amount of donation will be increased up to 18.000€ per year and per donor (it is 12.000€ under the current rule)<sup>42</sup>.**

Secondly and as a consequence of these genetical progresses, the morphological dimension witnessed significant breakthrough. **On the format of the European party system, the regulation increased the number of political parties from five Europarties (2001) to thirteen co-funded Europarties.** Correlated to this, the number of funded foundation is also thirteen. Regarding the interaction between Europarties, we observed a very interesting competition between the five Europarties' candidates for the presidency of the European Commission during the 2014 European elections. Despite an outstanding competition between five Europarties to get the presidency of the European Commission in 2014 and the election of Jean Claude Juncker regardless of intergovernmental resistance,

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38 “REGULATION (EC) No 2004/2003 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 4 November 2003 on the regulations governing political parties at European level and the rules regarding their funding”, *Official Journal of the European Union*, 15.11.2003, pp. L297/1-297/4.

39 W.Gagatek & S.Van Hecke, *Towards Policy-Seeking Europarties? The Development of European Political Foundations.*, EUI Working Papers RSCAS 2011/58, 17p.

40 REGULATION (EC) No 1524/2007 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 December 2007 amending Regulation (EC) No 2004/2003 on the regulations governing political parties at European level and the rules regarding their funding, *Official Journal of the European Union*, 27.12.2007, pp. L343/5-8.

41 European Parliament, *Grants from the European Parliament to political foundations at European level per foundation and per year*, March 2014, p.1.

42 Council of the European Union, *The Council adopts new rules on European political parties*, Press release, ST 13652/14, PRESS 486, Brussels, 29 September 2014, p2.

an ever lower 2014 turnout (42,54%) than the previous 2009 election is a matter of great concern as it confirms that the majority of the EU citizens does not vote in the context of the EU political system.

Thirdly and nevertheless, the representation perspective is the missing dimension of the inter institutional debate. Indeed, Europarties and EU institutions look like not having promoted or supported enough social innovation in favour of supranational representation via Europarties. The weakness concerns *"the extent to which elected political elites are representative of and responsive to the distribution of identities, interests, values and preferences of the voters and of public opinion in general"*. Particularly, it became clear from the above overview that the European institutions did not really focus on the representation perspective.

## Conclusion

The analysis of the very first proposal of the European Commission in 2001 reveals that, from the outset, the paradoxical intention of the institutions and domestic party actors to reinforce centrally the genetic dimension of Europarties and, peripherally, the morphological dimension while ignoring the representative perspective. The risk of disintegration or nationalisation exists due to increasing Euroscepticism even in traditional Europhile countries (scenario 1).

However and in a context of relative status quo, **Europarties, such as social democrats, have the necessary means to continue coordinating internally and between each others on strategic European and transversal socio-economic issues** (scenario 2). Presiding the European Parliament via Martin Schultz and with the precious PES support, social democrats can reinforce the coordination of domestic and European social-democrat force and ensures cooperation with Christian-democrat forces (J-C Juncker as the President of the European Commission and D Tusk as the President of the European Council). Nevertheless and on external affairs, the social democrat Federica Mogherini will face the challenge of composing with domestic geopolitical models. Accordingly, solving external relations issues such as the Ukrainian crisis or the question of Palestine will be uneasy if impossible with due exception to the challenge of the Islamic State in Iraq and Syria which seems to federate even transatlantic domestic forces.

**Europarties, such as social democrats, have the necessary means to continue coordinating internally and between each others on strategic European and transversal socio-economic issues.**

Notwithstanding the 2003-2007 Europarty regulations<sup>43</sup> and its 2014 version<sup>44</sup>, key leftover remains in a supranationalist perspective (scenario 3). Academics already reflected on the form that this could take as well as on inspiring experiences<sup>45</sup>. Nevertheless, significant wider research and political debates are necessary.

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43 REGULATION (EC) No 2004/2003 and REGULATION (EC) No 1524/2007.

44 Council of the European Union, *The Council adopts new rules on European political parties*, Press release, ST 13652/14, PRESS 486, Brussels, 29 September 2014, 2p.

45 S. Bartolini, *op. cit.*, 2014; S.Hix & C.Lord, *Political Parties in the European Union.*, London, Macmillan, 1997, p.219., K. Deschouwer, *Imagining the European Party System: The Use of Comparisons.*, 16-18/12/1999, Conference Paper EUR/12, p.19; R. S. Katz, *Parties in Europe and Parties of Europe.*, 16-18/12/1999, Conference Paper EUR/7, 48p.; S. Wollinetz, *Let it All Hang Out : Hiding and Displaying Diversity in the Canadian and American Party Systems and its Implications for a Future EU Party System.*, 16-18/12/1999, Conference paper EUR/18, p. 28.

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Michael HOLMES

## **Deficits and Dilemmas: The Irish Labour Party in Government and Policy on the EU**



**Keywords:**

**Irish Labour Party – Austerity - EU and Political Parties – Political Choice  
– Policy and Office Seeking**

**Abstract:**

This paper evaluates the Irish Labour Party in government between 2011 and 2014. It uses the framework of party goals to analyse the party's performance, arguing that there is an evident shift away from policy-seeking goals towards office-seeking, but that this in turn has significantly damaged the vote-seeking opportunities for the party. The paper also argues that European integration is fundamentally altering how parties deal with these challenges, and that the political development of the European Union is making it more difficult for parties to balance these three goals.

The global recession has posed considerable challenges for social democratic parties, particularly those in European Union (EU) countries, and particularly those in EU countries that have been forced into bail-outs. The experience of the Irish Labour Party encapsulates such difficulties. The Irish economy collapsed suddenly in 2008, unemployment and emigration soared, the country's credit rating plummeted from AAA to junk status, and by 2010 the country was no longer able to sustain itself. It agreed an €85 billion bail-out with the 'troika' of the EU, the ECB and the IMF, which of course came with stringent conditions requiring swingeing cutbacks in public expenditure.

At first, Labour benefitted from the situation. They were in opposition when the crisis struck, and were free to attack the performance of the government, a coalition between the centre-right Fianna Fáil and the Green Party. When that government collapsed early in 2011, there was a surge of support for Labour, and they entered into government in coalition with another centre-right party, Fine Gael. However, this meant that Labour now had to assume responsibility for managing the economic crisis and the bail-out in Ireland. This placed Labour in a very invidious position. It faced a number of dilemmas: should it go into government or stay in opposition? If it chose office, to what extent could it steer the policy programme in its preferred direction? In particular, what approach should it adopt towards the European Union and the bail-out? And what, if any, impact would these choices have on its vote in subsequent elections? By the time of the 2014 European elections, they had swung from one of their best-ever electoral results to one of their worst.

This paper seeks to examine the implications of the crisis for the Labour Party's policies on European integration. It places the discussion in the context of the established literature on party behaviour, and evaluates how the Labour Party perceives how it has managed the trade-off between office-seeking, vote-seeking and policy-seeking approaches. The research is based on official party documents and statements, in particular the election manifestos for the 2011 general election and 2014 EP election, the programme for government agreed in 2011 together with the revised programme of 2014, and party documents from the 2012 referendum on the Fiscal Compact Treaty. It also makes use of statements and speeches by Labour members in the same period.

The next section sets out the literature on party behaviour in a little more detail, outlining how the European Union has altered the way in which parties approach the trade-off



between office-seeking, policy-seeking and vote-seeking approaches. The following section examines how the Labour Party has dealt with this balancing act since coming to power in 2011. Finally, the concluding section indicates how other social democratic parties might learn from the experience of the Irish Labour Party.

## The Dilemmas of Party Behaviour

Political parties are by definition actors that seek to contest elections and win political office in order to implement their preferred policies. Thus, parties in liberal democracies can be thought to have three main sets of objectives. They can be considered in terms of being vote-seeking<sup>1</sup>, office-seeking<sup>2</sup> and policy-seeking<sup>3</sup>. It is never a case that a party can be purely one or another of these. Instead, parties have to juggle the three different sets of objectives. And this inevitably involves trade-offs and compromises: “party leaders rarely have the opportunity to realise all of their goals simultaneously”,<sup>4</sup> and the objectives are by no means necessarily always in harmony with each other.

This creates tensions and strains for parties. As Strøm and Müller note, “the trade-offs party leaders make among votes, office and policy are often difficult, painful and consequential choices”.<sup>5</sup> For example, office-seeking strategies can often trigger discontent among party activists who might feel that party principles are being abandoned for the perks of office; a concentration on policy-seeking can damage the ability to gain votes from the electorate if policies are designed to reflect ideological principles more than voters’ interests; while in turn too much emphasis on vote-seeking can result in policy objectives being undermined. So parties have to negotiate trade-offs.

For parties in member states of the European Union, this three-way dilemma (*a trilemma*) of votes-office-policies has been rendered even more complicated. The development of the EU’s political structures has resulted in a kind of double deficit, which has created problems for parties – and particularly for social democratic ones. First of all, there is a democratic deficit.<sup>6</sup> The EU has changed where decisions are made. Whereas decision-making at the national level in most EU states can be characterised as one of interplay between governments and parliaments, at the EU level the EP has less influence, and instead governments – through the Council – have a significantly increased importance.

1 A. Downs, *An economic theory of democracy.*, Harper and Row, New York 1957.

2 W.H. Riker, *The theory of political coalitions.*, Yale University Press, New Haven 1962.

3 A. De Swaan, *Coalition theories and cabinet formation.*, Elsevier Press, Amsterdam 1973.

4 W.C. Müller & K. Strøm (eds.), *Policy, office, or votes? How political parties in Western Europe make hard decisions.*, Cambridge University Press 1999, p. 9.

5 Ibid, p. 13.

6 See for example: A. Kammel, *The democratic deficit of the European Union*, VDM Press, Saarbrücken, 2010; and L. Door, *The democratic deficit debate in the European Union*, VDM Press, Saarbrücken 2013.

Secondly, there is a policy deficit. The EU has changed which policy decisions are made. A number of key policy decisions are now no longer decided by national political structures and systems, but are undertaken at the European level. This has become particularly pronounced in recent years with the imposition of strict conditions and policy constraints linked to the provision of bail-outs. And these constraints have generally been ones that have favoured a neo-liberal economic approach, antithetical to many of the preferences of social democrats.

In overall terms, **this double deficit (democratic and policy) means that the EU political system adds a very significant premium to being in governmental office for parties if they want to be able to influence policy outcomes. Thus, the calculations made by parties when trying to resolve the votes-office-policies conundrum have been altered as a result of the EU.** Access to governmental office is now of increased importance, while the capacity to directly affect policy has been significantly curtailed. And this is particularly pronounced for social democratic parties. Although they have traditionally been strongly supportive of European integration, the experience of the economic crisis of 2008 and the subsequent recession has resulted in them adopting a more questioning and critical attitude.

## **The Irish Labour Party and Europe, 2011-2014**

The Irish Labour Party moved from being the leader of the anti-membership campaign in Ireland's 1972 referendum on joining the EC to being a strong supporter of integration by the time of the Maastricht Treaty referendum twenty years later.<sup>7</sup> But coming into the 2011 general election, that position was open to doubt. Ireland's economic circumstances following the banking collapse and its relationship with the EU after the EU-IMF bail-out had changed very fundamentally, particularly from the perspective of a social democratic party. The general stance of SDP's (social democratic parties) around Europe at this time was to remain supportive of the general principle of European integration, but to advocate a much stronger commitment to social and economic solidarity in the Union and to call for investment rather than austerity as the best means of dealing with the economic crisis.<sup>8</sup>

Labour's approach in the 2011 general election seemed initially to follow that same mood. Certainly, Labour remained supportive of EU membership and of full participation in the euro. But a different tone was also evident, particularly when party leader Éamon

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7 M. Holmes, *The development of the Irish Labour Party's European policy: from opposition to support.*, Edwin Mellen Press, Lewiston & Lampeter 2006.

8 M. Holmes & S. Lightfoot, *Limits of consensus? The Party of European Socialists and the financial crisis.*, [in: ] D.J. Bailey, J-M De Waele, F. Escalona & M. Vieira (eds), *European social democracy during the global economic crisis: renovation or resignation?*, Manchester University Press 2014, pp. 215-233.

Gilmore declared there was a choice between “Frankfurt’s way or Labour’s way”.<sup>9</sup> He also portrayed Labour as offering something distinct from the “Celtic Tory consensus”<sup>10</sup> of the two centre-right parties, Fianna Fáil and Fine Gael. There was a clear assertion that “Labour does not accept that the EU/IMF deal provides a workable basis for restoring the Irish economy. Labour in government will engage with the EU and the IMF to renegotiate the deal, so as to achieve fair and realistic terms for Ireland and for the Irish people”.<sup>11</sup> This renegotiation would be pushed through “regardless of what the ECB or the European Commission thought”<sup>12</sup> and would lead to “a jobs strategy, to share the debt burden with bondholders, to reduce the interest rate, and to leave room for Ireland’s economy to grow”.<sup>13</sup>

However, although this policy approach seems clear, in practice Labour was not going to be in a position to lead to any renegotiation. Labour has always been the rather distant third party in Irish politics, so although it was clear that Labour would thrive in the election, fanciful ambitions that Labour might become the largest party and that Gilmore could become Taoiseach were never likely to be realised. It was a very successful election for the party, winning 19.7% of the vote, an increase of almost 10% on the previous election and the party’s best performance since 1922, and claiming 37 seats, up from 20. But they still trailed well behind the centre-right Fine Gael party, which won almost twice as many votes. These two parties agreed to form what was termed a ‘Government of National Recovery’.<sup>14</sup> Labour secured five ministries, including the position of Minister of Foreign Affairs for Gilmore – significant for its European dimension, particularly since Ireland held the presidency of the EU in the first half of 2013.

But the burdens of office were to have an almost immediate impact on Labour’s policies, on its party cohesion and on its support among voters. The new government’s programme talked of the election being a “democratic revolution” in which “old beliefs, traditions and expectations were blown away”.<sup>15</sup> But it was also evident that Labour’s more critical approach to the bail-out had been softened. Blame for the economic situation

9 B. Greene, *Frankfurt’s Way*, 2012. Available online at <https://www.youtube.com/watch?v=Kpr2zaXvb4M> [accessed 30 August 2014]

10 Quoted in *The Irish Times*, 2 February 2011

11 Labour Party, *One Ireland: jobs, reform, fairness. Manifesto 2011*. ,The Labour Party, Dublin, 2011, p.9. Available online at <http://michaelpidgeon.com/manifestos/byparty.htm> [accessed 29 August 2014]

12 J. FitzGibbon, *The Irish general election of 25<sup>th</sup> February 2011.*, EPERN election briefing no. 64, European Parties, Elections and Referendums Network, University of Sussex, Brighton, 2011, p.9. Available online at <https://www.sussex.ac.uk/webteam/gateway/file.php?name=epern-election-briefing-no-64.pdf&site=266> [accessed 3 September 2014]

13 Labour Party, *One Ireland*, p.5.

14 Fine Gael/Labour, *Programme for government*, 2011. Available online at <http://michaelpidgeon.com/manifestos/docs/pfGs/PfG%202011%20-%20FG-Lab.pdf> [accessed 29 August 2014]

15 *Ibid*, p.1

was laid very squarely at the door of FiannaFáil's "reckless management"<sup>16</sup> rather than the troika. The programme clearly stated that "the new Government supports the objectives of the EU/IMF Programme of Support".<sup>17</sup> Though the programme called for renegotiation of aspects of the bail-out agreement, it can be argued that "there was no real substantive difference in the EU policies of Fine Gael and Labour compared to that of Fianna Fáil, rather their policy was based on having a more positive relationship with the EU and other European leaders that they would utilise to negotiate a better deal for Ireland".<sup>18</sup>

The problem was although **there were of course discussions between the Troika and the new government, the renegotiation was seen to be a shallow exercise that did not affect the fundamentals of the bail-out conditions. It was more a reassertion of the power of the EU and IMF rather than a renegotiation. An opinion poll in July 2011 indicated that 53% of voters felt that the new government had not done enough to try to negotiate a better deal from the EU/IMF, while only 39% said they had done so.** Perhaps an even greater concern for Labour was that among their own party supporters the figures were also negative, with 43% saying it was not a better deal compared with 41% in favour.<sup>19</sup> Instead, the FG-Labour government had to introduce a series of austerity budgets that continued the huge and devastating cut-backs in public expenditure. Inevitably, discontent with Labour's involvement in austerity continued to grow, both in the party and among voters.

The concern about the direction the party was taking in relation to the EU and IMF was brought to the fore by the referendum on the Fiscal Compact Treaty held on 31 May 2012. Although Labour called for ratification of the treaty, it did so by talking about the need for "responsible budgeting" and "keeping interest rates low" and "unlocking credit"<sup>20</sup> – hardly the kind of language to fire up its supporters. Its campaign was tepid and indeed some in the party were openly critical. For example, the MEP Nessa Childers stated "it's designed to satisfy the Germans – it's not an EU treaty, it's a political act".<sup>21</sup> Such attitudes "led to Labour's campaign being more muted with a lower profile than that of Fine Gael".<sup>22</sup> Even

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16 Ibid, p.4

17 Ibid, p.4

18 J. FitzGibbon, *The Irish general election of 25<sup>th</sup> February 2011*, p.13.

19 Ipsos-MORI poll reproduced [in: ] P. Murphy & N. Matthews, *Irish Political Studies data yearbook 2012.*, vol. 27 issue 2, p.224.

20 Labour Party, *The Stability Treaty*, The Labour Party, Dublin, 2012. Available online at <http://www.labour.ie/download/pdf/treaty.pdf> [accessed 3 September 2014]

21 Quoted in *The Journal*, *Labour plays down Nessa Childers comments on fiscal compact.*, 2012, <http://www.thejournal.ie/labour-plays-down-nessa-childers-comments-on-fiscal-compact-379757-Mar2012/> [accessed 8 September 2014]

22 J. FitzGibbon, *The referendum on the European Fiscal Compact Treaty in the Republic of Ireland, 31 May 2012*, EPERN referendum briefing no. 19, European Parties, Elections and Referendums Network, University of Sussex, Brighton, 2013, pp.5-6. Available online at <https://www.sussex.ac.uk/webteam/gateway/file.php?name=epern-ref-no-19.pdf&site=266> [accessed 3 September 2014]

those who spoke in support of the treaty did so cautiously, with Joan Burton describing it as “a safety net or water wings”,<sup>23</sup> Alex White admitting it was “not the solution to all our problems”<sup>24</sup> and Emer Costello agreeing it was just “a stepping stone to recovery”.<sup>25</sup>

**Even though the Fiscal Compact Treaty was passed quite comfortably, with 60.3% of voters voting Yes, it did not represent a success for the Labour party. Party cohesion began to wane, and there was a steady stream of defections from the party.** In November 2011, Labour’s minister of state for housing, Willie Penrose, resigned from the government and from the Parliamentary Labour Party (PLP), though he was later to rejoin the PLP. The following month, two backbench TD’s, Tommy Broughan and Patrick Nulty, voted against the government and were both expelled from the PLP and subsequently left the Labour Party. In November 2012, another Labour junior minister, Roisin Shortall, resigned from her ministerial position and from the PLP. In December 2012, Labour senator James Heffernan and the chairman of the party Colm Keaveney voted against the government and both subsequently left the party – Keaveney went on to join Fianna Fáil. Finally, MEP Nessa Childers resigned from the party in 2013.

Voter support also began to wither alarmingly, with opinion polls showing a precipitous decline in support for the party. Table 1 shows a summary of the support expressed for the Labour Party in all polls between the general election in February 2011 and the European election in May 2014. From the high of the general election vote of 19.7%, support averaged around 16.7% for the remainder of 2011. But it began to slip during 2012, with the average falling to 13.8%. By 2013, some polls were giving single-figure responses for Labour support – the lowest being 6% in an Ipsos-MRBI poll in the *Irish Times* in October, and with the average falling to 10.2%. And up to the EP election in 2014, most polls showed single-figure support for Labour, with the average being 8.9%.

Labour went into the 2014 European election with Ireland having formally exited the bail-out in December 2013. However, that did not signal the end of austerity – far from it. Instead, the coalition was still committed to further cut-backs. The party’s manifesto for the EP election tried to paint its management of the bail-out and the recession as a success, and emphasised that “Labour supports the Euro and Ireland’s continued membership of the single currency”<sup>26</sup> while also arguing “we want an EU that promotes social justice and fairness and that allows all citizens to participate in the economy as equals”.<sup>27</sup> But the fact that it was also stating that Labour “will continue to strongly make

23 Quoted in *The Irish Times*, 30 April 2012.

24 Quoted in IEL, *European referendums past and present: Fiscal Treaty 2012*. Irish Election Literature archive, available online at <http://irishelectionliterature.wordpress.com/index-of-referendums-other-campaigns/european-referendums-past/> [accessed 3 September 2014]

25 Quoted in IEL, *Fiscal Treaty 2012*.

26 Labour Party, *Working together for Ireland in Europe*. The Labour Party, Dublin, 2014, p.5. Available online at [http://www.labour.ie/download/pdf/final\\_european\\_manifesto\\_v7.pdf](http://www.labour.ie/download/pdf/final_european_manifesto_v7.pdf) [accessed 29 August 2014]

27 Ibid, p. 3.

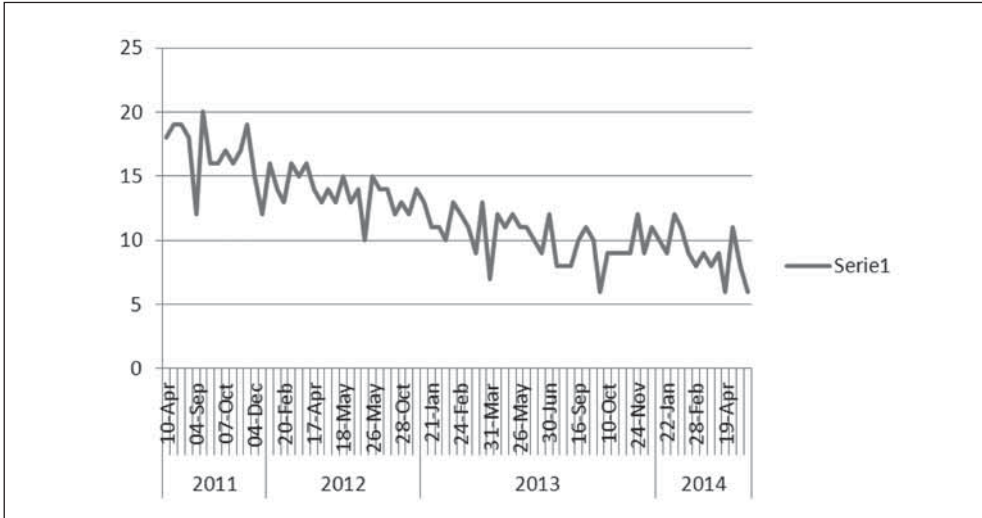


Table 1: Opinion poll support for Labour Party, Feb 2011-May 2014

Sources: Behaviour & Attitudes for the *Sunday Times* (2011-14); Ipsos-MRBI for the *Irish Times* (2011-14); Millward Brown Lansdowne for the *Sunday Independent* and *Irish Independent* (2011-14); Red C for *Paddy Power* and the *Sunday Business Post* (2011-14)

Ireland's case with the key European institutions<sup>28</sup> was perhaps an indication that it had not been as successful as it had hoped.

Certainly, the electorate seemed unwilling to give Labour credit for its performance, and the results were a catastrophe. In the EP contest, Labour's vote sank to a puny 5.3%, and it lost all three of the seats it had held. To rub salt into its wounds, its former MEP, Nessa Childers, retained her seat standing as an independent candidate. She had resigned from the party in protest at what she termed the conservative policies being pursued in government, stating "I no longer want to support a government that is actually hurting people".<sup>29</sup> In a simultaneous local election, Labour won just 7.2% of the vote and lost 81 out of 132 council seats.

The fallout was swift. Labour TD Michael McNamara argued that the results showed that Labour ministers were "tired, bereft, out of ideas and out of touch with the generation that voted for us",<sup>30</sup> while his party colleague – and one of those same ministers – Joan Burton admitted that "the electorate have given the Labour Party a shellacking".<sup>31</sup> Pat Rabbitte, a former leader of the party, acknowledged that Labour had borne the brunt

<sup>28</sup> Ibid, p. 5.

<sup>29</sup> Quoted in RTE, *MEP Nessa Childers resigns from Parliamentary Labour Party.*, RTE News online, 6 April 2013. Available at <http://www.rte.ie/news/2013/0405/379848-nessa-childers/> [accessed 6 September 2014]

<sup>30</sup> Quoted in *The Irish Times*, 26 May 2014.

<sup>31</sup> Quoted in *The Irish Times*, 24 May 2014.

of voter anger at the cut-backs. But while he argued that Gilmore was hardly to blame – noting wryly “I don’t think if John the Baptist was leading the Labour Party into this election that it would have made any difference”<sup>32</sup> – Gilmore himself accepted that it was “a very bad day” for the party and that they “must hear, heed and act” on the results.<sup>33</sup> And his main act was to resign as party leader, noting in his farewell statement that while he felt Labour had put the interests of the country first in a time of deep economic crisis, “it was a course which carried a high political risk, and Labour has paid the price for that”.<sup>34</sup>

## Lessons to Be Learned

The choices facing parties in Ireland has been summarised as being “office, votes and then policy”.<sup>35</sup> This is perhaps a somewhat harsh judgement on the Labour Party. As a perennial junior partner in any coalition, Labour would be particularly vulnerable to losing support when in government, unless “Labour were seen to have a discernible and independent impact on the policies of the coalition”.<sup>36</sup> So “the perennial dilemma of the Labour Party is the unpalatable choice between perpetual ‘socialist opposition’ and loss of its identity within a coalition”.<sup>37</sup>

The most obvious lesson to be learnt is hardly a surprising one. **These are very hard times to be in government.** Ireland provides two examples of this – the implosion of the Fianna Fáil-Green Party coalition government in the 2011 election, which opened the door for Labour to gain power, but then Labour’s disastrous performance in the 2014 elections. This simply mirrors experiences elsewhere. **There are very few instances of incumbent governments – of either left or right – surviving unscathed in elections in EU member states since the onset of the crisis in 2008. Right now, winning office is a bit of a poisoned chalice.**

**There are very few instances of incumbent governments – of either left or right – surviving unscathed in elections in EU member states since the onset of the crisis in 2008. Right now, winning office is a bit of a poisoned chalice.**

32 Quoted in *The Irish Times*, 24 May 2014.

33 Quoted in *The Irish Times*, 27 May 2014.

34 Quoted in *The Irish Times*, 27 May 2014.

35 M. Marsh & P. Mitchell, *Office, votes and then policy: hard choices for political parties in the Republic of Ireland, 1981-1992.*, (in :) W. Müller & K. Strøm (eds) *Policy, office or votes? How political parties in Western Europe make hard decisions.*, Cambridge University Press, 1999, p. 36

36 P. Mair, *The Changing Irish Party System: organisation, ideology and electoral competition.*, Frances Pinter, London 1987, p.57.

37 M. Marsh & P. Mitchell, *Office, votes and then policy.*, p.48

Perhaps more pointedly, **the Irish experience shows that these are particularly hard times for social democratic parties to be in government.** While Fine Gael's support dipped in the EP election, Labour was hammered. The same can be said of their British counterparts in 2010, of the Spanish PSOE in 2011, the Portuguese PS in 2009 and 2011, and Greece's PASOK in 2012. Right now, being in office is a particularly poisonous chalice for social democrats.

The reason brings us to the policy-seeking aspect of the party dilemma. The Irish Labour Party fought the 2011 election on the basis of a very combative manifesto, one which challenged the two centre-right parties that have dominated Irish political history, and which also challenged the neo-liberal direction of the EU bail-outs. But once in office, they were faced with a double problem. First of all, they were still only the junior partner to one of those centre-right parties – Fine Gael – in the coalition. And second, they had to face a reality of contemporary power. A small country in the grip of an economic meltdown had very little leverage in the face of the dominant interests in the EU.

The Irish case illustrates the extent to which control of the core economic policy agenda is held at the European level, especially for countries in the euro-zone and ones that have been required to seek bail-out assistance. While there is a lively political debate about whether austerity and cut-backs are the wisest of strategies, the actual opportunity to adopt any different approach is severely restricted. A combination of features makes it nigh on impossible to redirect EU policy. The opaque democratic structures of the EU have already been noted. The almost wholly non-democratic structures of the ECB have heightened this problem, as “the EMU in its present form does impair the democracy both on the national and the supranational level”.<sup>38</sup> Furthermore, these structures are copper-fastened by EU treaties, making them far harder to amend and alter.

How should social democratic parties respond? One thing that could help them offset the democratic deficits is a strong and united social democratic position in the EU. This would allow far greater coherence across the multiple levels of policy-making and political office. It would result on a more concerted approach to pursuing policy goals. Of course, there are significant obstacles to achieving such a united position. The structures are absent, as the PES does not dare to aspire to a stronger leadership role, and its constituent parties are reluctant to cede power and authority in this fashion. The EU might be a single system, but it is one that is still composed of 28 different sub-systems, with a multiplicity of mini-parties, which jealously guard their local patches.

This is very evident in the Irish case over the past few years. One of the issues on which there could be a strong shared social democratic stance would be harmonisation towards a more equitable and fair taxation structure, particularly in the domain of corporation tax.

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38 S. Dosenrode, *Political implications of the Economic and Monetary Union.*, [in:] Søren Dosenrode (ed.) *Political aspects of the Economic and Monetary Union: the European challenge.*, Ashgate, 2002, p.253.



Yet here, Ireland stands out like a sore thumb for its low tax rate. It has faced mounting criticism for being akin to a tax haven for unscrupulous companies. This would seem to be an easy issue around which social democratic parties could coalesce, and yet the Labour Party has been a defender of Ireland's corporation tax rather than a critic of it. Nor was this a result of a compromise with its centre-right partners. The party's 2011 manifesto included a pledge that "Labour is committed to maintaining Ireland's 12.5% corporation tax, and will oppose any move toward a mandatory Common Consolidated Corporate Tax Base",<sup>39</sup> and Gilmore remained adamant that the 12.5% corporation tax rate should be kept, asserting simply "we are not changing that."<sup>40</sup> His successor as leader of the Labour Party, Joan Burton, is already on record praising "Ireland's enduring attractiveness as a destination for foreign direct investment, underpinned by our 12.5% corporate tax rate."<sup>41</sup>

So **social democratic parties such as Labour are experiencing uncertainty about the best 'office-seeking' strategy to adopt, and the old certainty of 'going to the middle' of the political road no longer seems to work. But at the same time, optimal policy-seeking strategies are uncertain too.** The difficulty lies in parties being able to balance all three components. The transcending nature of EU regulations makes it harder for national parties to achieve their office-seeking and policy-seeking goals on their own. They are no longer framing the discourse on Europe, so therefore it should make sense for them to respond by greater coordination of policies at the European level in order to maximise their ability to influence political office. But the major obstacle comes in terms of being vote-winning, and there is little evidence that voters think in European terms. Indeed, if anything voters are increasingly wary of the EU. Certainly, voters in Ireland have shown limits to their support for the EU, with *No* votes in two referendums and with opinion polls indicating quite a mercenary and increasingly critical approach to the EU. To paraphrase a rather famous Irish-American politician, the attitude is one of 'ask not what you can do for European integration; ask what you can get out of the EU'.

Another Irish-American politician, Tip O'Neill, is often credited with the phrase 'all politics is local'. Perhaps in an EU context this should be amended to 'all politics remains stubbornly national'. So while there is a policy-seeking logic for social democratic parties to pursue greater European cooperation, the major political offices they are trying to win are still at the national level, so there is a countervailing vote-seeking logic. The key to resolving this dilemma is perhaps back at the European level: **the social democratic parties need not only to agree on a set of policies, they also need to construct**

39 Labour Party, *One Ireland*, p. 88.

40 Quoted in *The Irish Times*, 17 March 2011

41 Quoted (in : ) G. Marcial, *Irish stocks are smiling: the Irish government takes action to rekindle investor interest in the nation.*, *MSN Money*, 19 March 2012, available online at <http://money.msn.com/top-stocks/post.aspx?post=6f17e1c3-2c50-43fe-b9b6-87e39a43eb4e> [accessed 6 September 2014]

a strong vision of a fairer, more equal and more progressive European Union which can appeal to voters throughout the member states. But at present, it seems to be that social democracy is struggling to find a comprehensive agenda on the EU that addresses people's moods.

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Matjaz NAHTIGAL

## **The European Union: From an Existential Crisis toward Experimental Federalism (Going beyond Rodrik's Trilemma)**



**Keywords:**

**Bottom Up vs. Top Down Approach - European Varieties of Capitalism  
- Institutional Plurality Within the European Single Market – Dani Rodrik  
– Experimental Federalism**

**Abstract:**

The purpose of this article is to investigate the conceptual possibility of multiple models with multiple outcomes for the European Union (EU). Many EU experts have tried to adjust Rodrik's world economy trilemma to the EU integration to explore future viable EU integration options. This article demonstrates that Rodrik's trilemma has limited explanatory power in illustrating the dilemmas of EU integration. Therefore, in place of three EU governance models (executive federalism, democratic federalization and EMU dissolution), several other models should be envisaged.

To achieve more balanced, inclusive and pluralistic developments across the EU requires substantial redirection from its current path. Redirection is required not only in the area of monetary and fiscal policies, but in establishing strategic coordination between the governments and businesses, which is currently legally and practically restricted. Economic and social reconstruction is necessary not only in the European periphery, but in majority of member states and regions across the EU. Stronger democratic leadership at all levels of European polity, stronger involvement of the civil society and more manoeuvre room for different development strategies at the regional and national levels are essential elements of comprehensive restructuring.

The diversity of the European member states, European regions and local communities requires diverse approaches and development strategies to exploit the real potential of these communities and their citizens. Different recipes and different development strategies could strengthen, rather than jeopardize, the idea of a single market and are consistent with the proclaimed ideals of the social-market economy of the EU. Experimental federalism in this sense can become a vital element of the future European constitutional synthesis.

Emerging consensus among experts appears to be that the current institutional setting of the European integration does not fulfil many of the important goals stated in the third paragraph of Article 3 of the Lisbon Treaty. The goals of achieving full employment and social progress, the combat against social exclusion, promotion of economic, social and territorial cohesion, solidarity among Member States are after years of financial, economic and social crisis further away than they were at the time of adoption of the Lisbon Treaty.

This is one of the most important consequences of the protracting financial, economic and social crisis in many parts of Europe. The institutional setting based on the Lisbon Treaty was not prepared to adequately cope with the magnitude of the financial shocks, followed by the sovereign debt crisis, historical levels of unemployment in many parts of Europe. The inadequate and often counter-productive response to the crisis was due to the ill-prepared European institutional setting, due to the lack of European leadership, due to the lack to mutual trust and lost sense of European solidarity (on the lost sense of European solidarity see more in Hall, 2013, p. 366<sup>1</sup>). As a result, EU as a whole and especially the eurozone countries are underperforming in terms of economic growth, job creation, long-term productive investments more than other regions around the world. In comparative terms, *“the eurozone is underperforming even when compared with the lost decade of Latin America.”*<sup>2</sup>

To make a debate on the future of the European integration and the future of the eurozone even more complicated, the negative impact of the financial crisis has been felt exceptionally strong in certain countries and regions across the European union, while other countries and regions at least for the time being weathered the crisis with relatively more modest social and economic shocks. While some of the countries are facing not only the socio-economic hardships but are even on the verge of a major humanitarian crisis, some other countries and regions remain among the most cohesive and competitive regions in the world. On this basis, the most frequent and not completely unreasonable recommendation from the relatively well off regions and countries throughout the crisis to the suffering countries and regions was that the suffering countries and regions should become more like them. The European institutions mainly adopted

1 P. Hall, *The Economics and Politics of the Euro Crisis*, German Politics., Vol. 21, No. 4, 2013, pp. 355–371.

2 B. Eichengreen, N. Jung, S. Moch & A. Mody, *The Eurozone Crisis: Phoenix Miracle or Lost Decade?*, May 2013. Available at: »[http://behl.berkeley.edu/files/2013/02/WP2013-08\\_eichengreen-et-al.pdf](http://behl.berkeley.edu/files/2013/02/WP2013-08_eichengreen-et-al.pdf)«.

the similar rhetoric and policy responses: if only these countries live within their means, maintain the financial discipline and avoid profligacy, they would be better prepared to cope for the crisis. They have only themselves to blame and therefore they should primarily help themselves. In so doing, we are prepared to help them, but on our terms.

**More subtle discussions, such as the persistent structural imbalances within the eurozone, the fact that moral hazard existed not only in the peripheral countries, but also in the European financial sector, that social exclusion was not a phenomenon of the peripheral countries, but also a phenomenon in many of the core European regions, were almost completely omitted from the European deliberation.** More subtle analysis would also reveal that a multitude of conditions in terms of socio-economic, in the area of education and research, in the area of development of infrastructure, even in the area of development of financial industry, quality of public and private legal institutions would require a multitude of differentiated approaches in order to facilitate comprehensive economic, social and financial restructuring across diverse EU member states and their regions.

**At the conceptual level, the discussion on the future of European integration was not completed with the Lisbon Treaty. Many of the issues, such as the division of competences and responsibilities between the Union and member states, how to organize an institutional framework for the European “social-market” economy, as proclaimed in Article 3 of the Lisbon Treaty, and especially the issue how to approach the stagnating and backward regions across the enlarged Europe, were only provisionally resolved.** In this sense it is possible to accept the application of *Rodrik's trilemma* to unresolved European institutional dilemmas, as succinctly presented by Crum.<sup>3</sup>

The subsequent financial, economic and social crisis showed that the Lisbon Treaty institutional framework was not designed in such a way to provide an adequate, pan-European response to the crisis. Based on institutional fragility and lack of leadership, the EU “failed to take measures that might have prevented the crisis from growing worse...”<sup>4</sup>. In this suboptimal European response to the crisis, different countries adopted different approaches in coping with the crisis. The countries with stronger macroeconomic positions implemented several economic and social measures to help their economy and society weather the crisis. Germany, for example, implemented two stimulus packages in 2008 and 2009.<sup>5</sup> Other countries, mainly the peripheral countries, which were not in a

3 B. Crum, *Saving the Euro at the Cost of Democracy?..*, (in: ) *Journal of Common Market Studies*, Vol. 51, No. 4, 2013, pp. 614–630.

4 N. Bermeo & J. Pontusson, *Coping with Crisis: Government Reactions to the Great Recession*, New York: Russel Sage Foundation, 2012, p. 2.

5 W. Schelkle, *Policy-making in Hard Times: French and German Responses to the Eurozone Crisis.*, (in: ) Bermeo, N. & Pontusson, J. (eds.), *Coping with Crisis: Government Reactions to the Great Recession*, New York, Russel Sage Foundation, 2012, p. 137.

position to adopt counter-cyclical policies and other active measures, were forced to adopt severe cuts in all possible areas at the expense of social, educational, health, infrastructure and all other segments of social and economic life. They were forced to adopt such measures under the pressure of international financial markets and under the pressure of European institutions in the most visible and most painful form the »troika«. In such a way the already wide gap of development between the North and South inevitably widened: "...the data suggest at least that leaving the response to the 2007 to 2009 contraction mostly to the member states accentuated regional divides between member states in northern and southern Europe."<sup>6</sup> The Member States and their regions are left mainly to their own increasingly constrained instruments, measures and resources. Inevitably, the actual developments in the European integration and especially within the eurozone are going in the opposite direction from the declared European goals and ideals as proclaimed in the Lisbon Treaty.

In the given context of unresolved dilemmas at the conceptual, institutional and practical levels several approaches are possible. One possible approach is to recognize that these dilemmas, labelled as *Rodrik's trilemma*, are insoluble and the only thing. According to this line of thinking, there are unavoidable conceptual and practical trade-offs. As suggested by Crum, from the perspective of rescuing the European project and eurozone in particular, it would be possible or even desirable to emphasize the role of the executive federalism and recognizing the value of national self-government. Because this emphasis can threaten to come at a democratic price, Crum suggests adopting the flanking measures to mitigate the effect of a democratic loss.

Such a pragmatic approach in preserving the eurozone and (inevitably a limited version) of national self-government at a democratic price appears to be a very plausible trajectory. Likely it would be complemented with certain, also very limited attempts in establishing certain elements of transfer and fiscal union.

According to this *muddling through* approach, the future of the European Union and the eurozone in particular would most likely deepen the gap between advanced, highly developed and socially cohesive regions on one hand and the stagnating regions on the other hand. The price paid at the cost of democracy could sooner rather than later proved to be too high. Not only in terms of unbalanced development, and in terms of a growing gap between the privileged and masses of excluded population, but especially in the terms of citizens disenfranchisement. It would create the appearance that the technocrats *know better* how to govern European societies. Clinging on one side of *Rodrik's trilemma* for too long while neglecting other important priorities may ultimately undermine the entire European project.

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6 D. Cameron, *European Fiscal Responses to the Great Recession.*, [in: ] N. Bermeo & J. Pontusson (eds.), *Coping with Crisis: Government Reactions to the Great Recession*, New York: Russel Sage Foundation, 2012, pp. 91–129.



The purpose of this article is to show that the European project can not only survive but it can further develop, if the subtle balances between the national self-determination and the supranational coordination for common advancement are maintained. **For the purpose of strengthening the multilayered European polity and democracy, there is no intrinsic trade-off between the national self-determination and Europeanized (in Rodrik's terms globalized) democracy.** The processes of national development strategies are not inconsistent with the processes of democratization on the European level. They are mutually supportive. Analogous to the constitutional synthesis developed by John Erik Fossum and Agustín José Menéndez, where the "already established constitutional states integrate through constitutional law, without losing their institutional structure and identity",<sup>7</sup> the multitude of national social and economic institutions supporting the market economies do not lose their institutional structure and identity by establishing a European single market.

**For the purpose of strengthening the multilayered European polity and democracy, there is no intrinsic trade-off between the national self-determination and Europeanized (in Rodrik's terms globalized) democracy.**

### **Institutional Plurality of the European Single Market**

Dani Rodrik has dedicated a lot of his research focusing on the essential ingredients of securing long-term sustainable economic growth and social development. The scope of his research is not limited only to the developing countries, but also to the challenges of balanced and sustainable development of the advanced countries around the world. His valuable insight from another important book, published prior to *The Globalization Paradox*, is a book titled *One Economics, Many Recipes*. In this book his claim, important also for the purpose of our discussion, is that "*appropriate growth policies are always context specific. This is not because economics works differently in different settings, but because the environments in which households, firms, and investors operate differ in terms of the opportunities and constraints they present*".<sup>8</sup> I believe that this insight about the one economics with many recipes applies also to the European Single Market and that this insight carries with it important implications for the development of the European constitutional synthesis.

7 A. Menéndez, *Reconciling the political economy of the European Constitution*, [in: ] R. Letelier & A. Menéndez (eds), *Reconstituting the Democratic Legitimacy of the Socio-Economic Constitution of the European Union*, *The Sinews of European Peace*, ARENA Report Series 2009. Available at: <http://www.stefancollignon.de/PDF/RECONreport0910.pdf>

8 D. Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth*, Princeton, NJ: Princeton University Press, 2007, Kindle edition, Introduction.

The most important idea of the European constitutional synthesis is to integrate the constitutional states without losing their institutional structure and identity. On the level of socio-economic integration, the similar process of integration could be envisaged: to integrate the market economies into one single market without losing the institutional structure that underpins these markets. In this process, the European single market would not appear as a vehicle with the goal to “simply bulldoze all internal borders”,<sup>9</sup> but as a framework allowing and supporting diverse institutional structures. Not only that “the market is not a source of its own legitimacy”,<sup>10</sup> but there is “no single form of the market, which would have neutral and necessary content.”<sup>11</sup> These theoretical insights could have far-reaching impact on the nature and character of European social-economic and constitutional integration.

One practical consequence of rejecting the idea of neutrality and natural content of a European Single Market is to accept Dani Rodrik’s claim that “*every well-functioning market economy is a mix of state and market, laissez-faire and intervention*”.<sup>12</sup> The conceptual overcoming of the traditional dichotomy of market versus state, as suggested by Rodrik, opens a space for multitude of institutional links between public and private, between state and market. In the context of our analysis, accepting institutional diversity how to organize modern market economies, representative democracy and the free civil society is more important than accepting constraints envisaged by *Rodrik’s trilemma*. He claims that it is possible to envisage one economics with many recipes. In its qualified version it would be possible to bring the argument on one economics with many recipes a step further: it would become possible to envisage a single market with many diverse institutions of market economy and representative democracy. The reason for maintaining and stimulating institutional diversity is based on a claim there is no single, universal and supposedly superior institutional framework for modern societies and economies. Moreover, **in order to create and maintain space for creativity, initiatives and development strategies in all levels of European polity, institutional diversity should not be only tolerated, but even encouraged from bottom-up and top-down perspective. Active, engaged, institutionally imaginative bottom-up and top-down approach can be viewed as a model of experimental federalism. The dynamics of modern knowledge based societies and economies in the context Europeanization and globalization requires constant institutional improvements and innovations to maintain balanced, sustainable and inclusive development.**

The most comprehensive historical legal thinking, which emphasized that market economy, is a social construct, not a product of a natural historical development, came

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9 See note 7, p. 5.

10 See note 7, p. 25.

11 R. Unger, *Democracy Realized*, Verso, London., 1998, p. 23.

12 See note 8, chapter 5.

in the form of American legal realism before and during the New Deal period. It was the period in which “*American society grew unequal and as the spectacular increase in corporate concentration undermined the belief in the naturalness of a decentralized, competitive market economy*”.<sup>13</sup> The legal realist understood that in many ways the Great Depression was a consequence of a belief in naturalness of the market<sup>14</sup>.

The progressive legal thinking emerged as a critique of classical legal thinking and practice, which culminated with the *Lochner* decision (1905) of the American Supreme court. In this case the Supreme court struck down the New York regulation with a maximum hours for bakers as unnecessary interference with freedom of contract. The *Lochner* era ended only after adoption of National Labor Relations Act (Wagner Act) in 1935, which provided basic protection for the private sector workers. The New Deal legislation survived the challenges before the Supreme court, which in a new social, economic context reversed its position stated in the *Lochner* decision.

Legal realists, among them most clearly an economist and lawyer Robert Hale, critically assessed the traditional orthodox legal and economic ideal of self-executing market economy. Contrary to the dominant thinking of their time, Robert Hale claimed that “*all market transactions are affected by the prior distribution of property and entitlements*”.<sup>15</sup> Contrary to the beliefs of classical legal and economic thinking and contrary to the subsequent hypothesis of market efficiency, Hale and other legal realists were convinced that prior distribution of property and entitlements determines the relations and outcomes on the market. Such a prior distribution of property and entitlements cannot be created in neutral and objective manner. Hence are the claims of markets as social constructs, determined by legal institutions, such as property, corporations and others. The interplay between freedom and constrains on the markets require constant creations and innovations in legal institutions. This is the best way to broaden access and opportunities on the markets.

American legal realism and New Deal era came very close to the ideas of European social democracy. The legal thinking about broader social functions and implications of private law were extensively elaborated by the Austrian legal scholar and subsequent president of the Republic of Austria, Karl Renner in his *Private Law and Their Social Function*, originally published in 1929.

**In order to create and maintain space for creativity, initiatives and development strategies in all levels of European polity, institutional diversity should not be only tolerated, but even encouraged from bottom-up and top-down perspective.**

13 M. Horwitz, *The Transformation of American Law 1870-1960*, Oxford University Press., 1992, p. 195.

14 *Ibid.*, pp. 192-193.

15 *Ibid.*, p. 195.

In addition to the claim that markets are social constructs, determined by legal institutions and prior allocation of rights, there is another important legacy of American Legal Realism, as well as the legacy of European social democrats, such as Karl Renner. Their analysis of the property right regime showed that the property right is not a unified, absolute and exclusive right, but it consists of a 'bundles' of rights. Their insight about the possibility to fragment the traditional unified property right into different components can create a variety of rightholders in place of former exclusive property owners. Hence, "*property does not imply any absolute set rights*".<sup>16</sup> This insight could open a space for new, different kinds of rightholders, to enter the market and entrepreneurial activities.

From a historical perspective of European integration it would be possible to claim that the first period allowed more flexibility, more institutional diversity among the Member States than the subsequent creation of the narrow definition of a single market provided by the Maastricht treaty. The subsequent regulatory and practical steps toward limiting the manoeuvre room for institutional innovations, improvements and changes took away the flexibility of the member states and their regions. Narrowed policy space, narrowed room for institutional substantially limited the policy options. The responsibility of the Member States to maintain economic and social security of their citizens remained in their hands. This constitutional asymmetry led to the "joint decision trap", and overall scepticism to maintain the European social model as described by Scharpf.<sup>17</sup> This pessimistic assessment was proved to be correct especially during the Eurozone financial crisis, but the structural imbalances and unresolved issues started to mount in the Eurozone and in the EU even before the financial crisis. The establishment of the European single market resembles the US period of *Lochner* era in theory and practice. There are, of course, important differences, but the belief that there exists a single, neutral, pre-political market economy and institutional framework, are widely shared. Even the recent European jurisprudence in the cases of *Laval*, *Viking* and others resembles the line of thinking espoused in *Lochner* case.<sup>18</sup> On the other hand, in one the recent ECJ decisions, *Commission v Germany* (C-95/12), dealing with the long-term dispute between the Commission and the VW law, which secured a privileged position of two public owners – the German Federal Republic and the Lower Saxony – the ECJ adopted a more pragmatic approach toward partial public ownership of this important German car manufacturer.<sup>19</sup>

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16 Ibid., p. 156.

17 F. Scharpf, *The Asymmetry of European integration, or why the EU cannot be a social market economy.*, [in: ] *Socio-Economic Review*, Vol. 8, No. 2, 2010, pp. 211-250.

18 D. Nicol, *Europe's Lochner Moment.*, [in: ] *Public Law*, 2011, pp. 307-328.

19 See more at European Law Blog: *A More Prudent Approach in the "Golden Shares" Cases*, C. Kaupa, October 31, 2013. Available at <http://europeanlawblog.eu/?p=2015>.

Expectations with the establishment of the European single market after 1992 were immense. They were best captured in the Cecchini Report, which calculated great benefits from its completion:

*"...the completion of the Internal market will provide the economic context for the regeneration of European Industry in both goods and services; and that it will give a permanent boost to the prosperity of the people of Europe."*<sup>20</sup>

It is apparent that this optimistic forecast has not materialized more than two decades after adoption of the Maastricht Treaty. It can be added, however, that the optimistic scenarios in general tend to overestimate benefits and tend to underestimate costs. But this is only one of the problems with the establishment of the European single market. There are several others. Any legal framework for the market economy creates distributional effects. As critical response to the estimates presented in the Cecchini report, Tsoukalis emphasized that a single market inevitably creates »winners« as well as »losers«:

*"Interestingly enough, the Cecchini report had virtually nothing concrete to say about the likely distribution of costs and benefits, apart from acknowledging the problem and expressing the hope that redistributive policies, supported by an active macroeconomic policy, would provide adequate compensation to losers or, even better, help weaker economies and regions to face the strong winds of completion unleashed by the elimination of barriers".*<sup>21</sup>

Through the lens a vision to complete a European single market by primarily "bulldozing internal barriers"<sup>22</sup> to make all participants better off, not only the issue of distributional effects and compensations should be examined, but the idea of a Single Market as a goal in itself should be put forward. **A Single Market should not be viewed as a goal in itself. It should be viewed as a means to an end. A true goal of European integration is proclaimed in par. 3, Article 3 of the Lisbon treaty as pointed out in the Introduction.**

To achieve the proclaimed goals it is not enough to dismantle various barriers, but to equip local, regional, national and supranational authorities to deepen and broaden access to the markets. At this point the comprehensive thinking of Dani Rodrik comes relevant to the claim about plurality and multi-dimensional nature of a single market. His claim about the complex interaction between the state and market in every well-functioning modern market economy goes beyond the prevalent one-dimensional understanding of a single market. Modern economy presupposes a variety of institutions "that maintain productive dynamism and generate resilience to external shock".<sup>23</sup> Local capabilities, local initiatives

20 P. Cecchini, *The European Challenge: 1992.*, Aldershot, Wild-house, 1988. Summary of the report available at: »<http://aei.pitt.edu/3813/>«

21 L. Tsoukalis, *What Kind of Europe?*, Oxford University Press, 2006, Kindle edition, chapter 3.

22 See note 7, p. 5.

23 See note 8, Introduction.

and context specific knowledge can be translated in a variety of institutional support for entrepreneurship and inclusive growth. The deliberate public activities can be combined with the market initiatives in different ways, depending on the local content. Rodrik is therefore supportive not only of the context specific growth policies, but of the institutional diversity to support high-quality growth. A wide variety of institutional possibilities that sustain modern, well-functioning market economies, exists and develops in order to better employ the productive and creative capabilities of various local, regional and national communities. Many recipes, many institutional possibilities of different European localities and regions and many possible interactions between public and private could enhance the possibilities of the excluded parts of population and business on the markets.

The debate on the decentralized institutional diversity, offered by Rodrik, shows one possible way of moving beyond the *trilemma*, offered by the same author. **A Single European Market on its current trajectory, may more likely than not lead to hierarchical market segmentation, concentration of economic, financial and political power and exclusion of a large parts of population and business. To redesign a European Single Market toward institutional diversity and innovations should not be viewed as an exercise that would put a European Single Market into question. On the contrary, it should be viewed as a deliberate effort to improve and broaden access to the Single Market and therefore as an effort in further strengthening rather than suppressing the competitive nature of a Single Market.**

The idea of a constitutional synthesis in the context of institutional plurality of the European single market should not only aim to protect the citizens, local and regional communities against the unfettered markets, but it should aim at empowering citizens, local and regional communities to enter and compete on these markets.

## **North versus South is Not the Only European Divide**

In the introductory part it was already pointed out that the European suboptimal approach to the crisis increased the gap between the European North and South. The overly simplified narrative of the European crisis and its aftermath explains that in absence of any coordinated pan-European active response to the crisis most of the Nordic countries were capable of adopting different measures to help their economy and society, whereas the peripheral countries had to adopt severe cuts. This is obviously an over-simplified narrative, which leaves out the role of structural imbalances on the European single market, it leaves out the role of the oversized and often subservient European financial sector, and it leaves out the weak response of the European institutions to these challenges.

In order to better understand European socio-economic realities, however, a recent report by the European Commission on *Employment and Social Development in Europe*

2013 is very illuminating. The report emphasizes that *"persistent economic and social disparities within the euro area threaten core objectives of the EU"*.<sup>24</sup> More specifically, *"increasing hardship now sees nearly a quarter of the EU population at risk of poverty or exclusion... Growing social distress in employment and poverty are the result of the crisis and the lack of resilience of the labour market and social institutions"*.<sup>25</sup> The report is also clear about any potential future economic growth: *"it is unlikely to be job-rich without sustained policy reforms and more effective public support and investment facilitating the labour reallocation process"*.<sup>26</sup>

The report is particularly important because it presents a comprehensive overview of socio-economic realities with high unemployment, rising poverty and social exclusion. The report also reminds us that *"declining household incomes in several member states reduce aggregate demand and erode confidence throughout the currency union and the EU as a whole"*.<sup>27</sup> From these broader insights it becomes clear that mutual co-dependency within the eurozone and the EU as a whole is stronger than the weak European response to the crisis has taken into account. Social and economic success in one European region or a Member State is also a success of other European regions or Member States; conversely, a failure in one European region or in one member state is also a failure of other European regions or member states.

The divergences that have been growing with the Southern EU Member States being hit particularly hard, are not the only growing divergences in the EU. The report stresses that *"the negative impact on employment and growth took place in the vast majority of EU regions between 2008 and 2012, bringing to a halt the tendency toward declining regional disparities that had previously been observed"*.<sup>28</sup> **The growing divide between vast majority of European regions experiencing stagnation and a small number of prosperous regions is another crucial, albeit largely neglected consequence of the period of crisis and its aftermath. The socio-economic divide is not only between European North and South, but it is much more extensive. Even core European countries, which on average cope with the crisis more successfully, face serious social and economic challenges.**

One such example is Germany. There is no doubt that German response to the crisis was in many aspects more successful than in other eurozone and EU member states. This does not mean, however, that the socio-economic developments in Germany are without any substantial concerns. On the contrary, as the Report put forward is that the

24 European Commission, *Employment and Social Development in Europe 2013.*, Directorate-General for Employment, Social Affairs and Inclusion, Brussels, 2014, p. 14.

25 Ibid., p. 13.

26 Ibid.

27 Ibid.

28 Ibid., p. 85.

core countries, such as Germany, also face substantial socio-economic and development challenges: while the report recognizes that Germany “resisted the macro-economic shock much better than the rest of the euro area”,<sup>29</sup> it has also pointed that “child poverty increased significantly, which may lead to a deterioration of human capital in the long run. In-work poverty has also increased, which may reflect rising inequalities on the labour market”,<sup>30</sup> and Germany “is still characterised by labour market inequalities, with a higher than average gender pay gap”.<sup>31</sup>

This brief overview indicates that the socio-economic challenges are not something pertaining only to the peripheral countries of the EU. They present a substantial challenge also for many countries and regions in the core Europe. The growing divide between North and South in terms of socio-economic development is only one of the more visible consequences of the crisis and its handling. Less visible consequences relate to the growing divides in many other regions and member states in the EU. Unravelling of the European social model is a phenomenon, which does not take place only in the periphery of Europe, but in many core regions and member states. This overall socio-economic development partly explains the lack of European solidarity in the midst of a crisis.

Moreover, it shows the need to rethink the European Single Market framework. In its current form, which is in place for two decades, it leads to economic and social dualism and it leads to concentration of economic and financial power. In its current form it works very well for the established industries and firms, whereas the entry costs for new, emerging businesses, industries and regions are generally too high.<sup>32</sup>

Economic and social dualism (the phenomenon of economic and social dualism, which exists in poor and rich countries, articulated by Unger, 1998, p. 65 and elsewhere) means that the established industries and businesses on the European Single Market are equipped with the state of the art technologies, know-how, managerial skills, skilled and educated labour force, have access to capital and all other necessary resources. Within this relatively privileged, but increasingly insulated advanced sector, the circulation of knowledge, information, skills is taking place. The arrangement is advanced also in organizational terms and in the terms of constant innovations and experiments friendly environment.

The gap between the relatively privileged sectors of established industries and businesses and the excluded businesses and industries is growing on the European Single Market. Start-up businesses, comprehensive development of small and medium size businesses is something difficult to develop even in most of the core regions and countries in the EU, not only in stagnating regions and countries in the EU.

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29 Ibid., p. 25.

30 Ibid., p. 31.

31 Ibid., p. 32.

32 On established industries and entry costs see: R. Gomory & W. Baumol, *Global Trade and Conflicting National Interests.*, Cambridge, MIT Press, 2006, pp. 16-17.



A European Single Market works well for established industries that do not require systemic support and innovative institutional framework conducive to new entrepreneurial initiatives. The primacy of the Single Market is relatively strong in incurring negative measures over the anti-competitive practices, but it has not developed positive measures of deepening and strengthening competition by the systemic support for the start-ups, for the development and advancement of small and medium size companies.

Without a deliberate public support to provide broad access to technologies, know-how, long-term finance and other resources, the entry costs for the new companies and the entry costs for the new entrepreneurs remain too high. In modern, knowledge-based economies it takes time to master technologies, production and its organization. As a consequence, without a deliberate and systemic public support for deepening access to all of the necessary resources for start-ups and for small and medium size enterprise, the established industries benefit from high entry costs. The Single Market in absence of decentralized, coordinated positive means and institutional innovations creates not only strong distributional effect, but more importantly, amounts to the protection of established industries.

**The divide between the relatively privileged economic and social sectors and the excluded parts of society, the divide between insiders and outsiders is less visible, but equally important than the most well-known divide between North and South, between core and periphery. The existence and increase in economic and social dualism throughout the regions and member states of the EU creates a different kind of challenge and requires different kind of overall response than the divide between North and South.**

The effort to overcome economic and social dualism would require the establishment of various forms of strategic coordination between the public and private sectors (Rodrik is supportive of the idea of institutional diversity and he refers specifically to Unger's teaching about the "full range of potential institutional possibilities")<sup>33</sup>. Such a coordination would take place in decentralized, participatory and experimental forms, which would be specific to the local contents. The experimental form of reconstructive efforts throughout the European union presents a distinction with the recommendations to establish a banking, transfer and political Union to overcome the crisis.

There are several problems with the financial transfers within the EU or eurozone: - it is inconceivable that the financial transfers could become sufficiently large to effectively address the needs of vast majority of European regions or the member states and their regions; - the larger the financial transfers would hypothetically become, the bigger source of conflicts among Member States and taxpayers would inevitably become; - the financial transfers could easily overlook the needs of excluded population and businesses in the relatively wealthier European regions.

<sup>33</sup> See note 8, chapter 5.

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Any hypothetical transfer union could also lead to the path dependency in place of economic and social restructuring of the European regions and Member States. **The European regions and Member States should be primarily given an opportunity and support to develop their own long-term development strategies, suitable to their own needs, potential and aspirations. Therefore, many legal and practical restrictions that unnecessarily narrowed the manoeuvre room for institutional innovations, for local initiatives and creativity. They should be removed or kept at the minimum.**

Diversity of institutional models presupposes a diversity of financial institutions. Not all of the financial institutions are equally capable of engaging and providing support for long-term development of local producers and improvements for the local consumers. Variety of financial institutions, such as decentralized public-private venture capital funds, can be foreseen in the context of experimental federalism. Experimental federalism does not mean that we would encourage European regions and member states »beyond their means«, but rather to encourage them to look for their own ideas, initiatives, creativity in a search how to better exploit and further advance the existing productive and development potential.

**Rethinking the existing framework of the European Single Market and searching for the institutional plurality is not the same as fragmentation of the Single Market. By equipping local communities, regions and Member States – especially the vast majority of the stagnating regions, but also the advanced regions – the goal is to strengthen the Single Market by broadening the entrepreneurial and educational opportunities.** Markets are indeed not a source of their own legitimation, as argued by Menéndez. By broadening access and reducing the entry costs the markets can become social constructs much closer to the proclaimed goals of the Lisbon Treaty.

If the balance between the freedoms on the Single Market changes in some imaginative post-Lochner period, if the redistributive effect of the Single Market is taken into account and if co-existence of institutional variety is recognized, the constitutional synthesis becomes an outcome of more pluralistic, more inclusive and more balanced European markets and societies. In this case Rodrik's claim about many recipes for one economy (and for one Single Market) becomes at the forefront of economic and social reconstruction of Europe. It is a claim that goes beyond his trilemma and could fit the proclaimed European ideals much better. Constitutional synthesis should embrace institutional plurality of the European markets, co-existence of different development models within the same European framework and support bottom-up initiatives as well as top-down democratic complements to these initiatives.

## European Institutional Experiments

Creation of a European Single Market was based on the premise that it would work most efficiently without any barriers, distortions and with the very limited room for public – regulatory – interventions at the supranational level. It was also based on the premise, that there is a single, natural and neutral version of the market economy, to which everything else must be adjusted.

Proponents of the existing version of a Single Market also claim that in order to overcome the current protracted economic, financial and social crisis it is necessary to implement more of a Single Market.<sup>34</sup> A Single Market, as a core European activity and a driving force of integration, should be therefore viewed as a guarantor of overall prosperity. If there is a crisis, the answer is wider and broader Single Market by further liberalization and removal of remaining obstacles.

European Single Market is neither an automatic guarantor of overall welfare, nor an obstacle for future prosperity. Because it creates strong distributional effects, it requires institutional mechanisms to adequately offset these distributional effects. **We need more of a Single Market, but a different kind of Single Market: that would become more open, more inclusive and more balanced.** There are many possible outcomes of a Single Market, depending on the overall framework and depending on the balance among the provided freedoms. Single Market is a social, legal and political construct, which determines the outcome is something that escaped proponents of a Single Market and to the large parts of ECJ jurisprudence. Single Market is not a one-dimensional construct.

Another important dimension of a Single Market, not sufficiently taken into account, is the emergence of new types of productions, the emergence of new types of competition (cooperative competition), the emergence of knowledge-based economy and society. These changes have impact on the nature and organization of production. If the traditional style of production in the past decades was mass production to pursue economy of scale, this type of production is not always the most efficient way of production. It is efficient in the circumstances of stable demand. In the circumstances when the demand is not stable, the production called flexible specialization. The insight, put forward by Piore and Sabel is that flexible specialization – *“a strategy of permanent innovation, accommodation to ceaseless change, rather than an effort to control it”*<sup>35</sup> – can be more efficient than mass production of standardized goods.

**Introduction of flexible specialization creates opportunity for comprehensive reorganization of production, the nature of modern enterprises, the relations between employers and employees, the relations among the enterprises and the**

34 J. Pelkmans, *The Case for 'more Single Market*, CEPS Policy Brief no. 234, February 2011.

35 M. Piore and Ch. Sabel, *The Second Industrial Divide – Possibilities for Prosperity.*, New York, Basic Books, 1984, p. 17.

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relations between the enterprises and public institutions. Local networks of small and medium size enterprises, which are competing and cooperating at the same time, are capable of offsetting deficiencies of the large scale production of standardized goods. Instead, small scale of high-value added products with skilful workers, tailored-made for the customers, can in certain circumstances and institutional support present an example of innovative organization of production, firms and public – private relations in some of the advanced and cohesive regions in the EU.

Innovations and improvements in production, cooperation and competition, in education and research, in finance providing long-term support for start-ups, small and medium size companies require innovations in economic, legal and political institutions. For example, in order to sustain a strategy of permanent innovation, a system of cooperative competition of small and medium size enterprises to achieve economy of scale, a system of long-term financial support, a system of education, research and training, new economic, legal, and political institutions are needed. Without such institutional innovations the efforts for economic, social and political reconstruction at the local, regional and national levels is doomed to failure. The essence of experimental federalism is therefore to stimulate the creation of new economic, legal, social and political institutions in different regions across the EU in order to realize their true developmental potential. The current direction of the EU integration imposes regulatory, fiscal and monetary requirements in addition to the prohibition of any traditional coordination between the public and private sector to the extent that the increasing number of European regions and member states cannot cope with. Even the advanced European regions are facing the gap between the relatively privileged economic and social sectors and the excluded parts of economy and society, as observed by the European Commission on *Employment and Social Development in Europe 2013*. The development of the European integration toward the common fiscal, banking and political union, founded on the neutrality of the European Single Market may reinforce the described European divergent trends. A hope that these divergent trends can be ameliorated by some distant and vague transfer Union is an act of economic and social fatalism of the stagnant European regions and member states. **The experimental federalism as a model implies plurality of economic recipes for inclusive economic growth, a diversity of institutions at various levels of European polity, and a variety of content specific policies. The experimental federalism is hospitable to experiments and initiatives from different social groups organized bottom-up. The most important part in the context of our discussion is that experimental federalism transcends the trilemma, as posed by Rodrik. It also transcends the rigidities of the fiscal, banking and transfer Union as foreseen. By empowering local communities, regions and member states it can also help overcome the existing dividing lines between North and South for the mutual benefit and interest.**

The examples of successful experiments at the local and regional level in the EU include the successful Irish local public–private partnerships as vehicles of inclusive rural development, the example of successful and coherent Finnish policies that created a truly knowledge-based society, and the cooperative competition arrangement in Emilia Romagna. They are examples of institutional innovations at the local and regional levels and successful, transparent partnerships between the public and private sectors; they are also examples of decentralized, participatory, democratic, and pluralistic models of development. They represent successful examples, where competitiveness of the regions is combined with high levels of social cohesiveness. They show that, even in the era of globalization and Europeanization, it is possible to maintain high-quality enterprises with high wages and high levels of value added, while maintaining and strengthening the social cohesion in these regions. These regions have successfully escaped from the traditional Fordist-type of mass production that requires low-skilled, low-paid workers producing large quantities of standardized products. In its place, the post-Fordist type of production gradually emerged. Its characteristic is flexible specialization with high value added, with highly skilled teams of workers and experts producing in much more innovative ways than in traditional production schemes. Small and medium-sized enterprises can cooperate and compete at the same time, thereby successfully overcoming the difficulties of the traditional economy of scale. Public supportive institutions - educational, financial, and others - develop and progress together with the private sector.

They escaped the attention of many experts of European integration, because they do not fit easily to the existing conceptual and practical framework of the European single market. They can be viewed as an exception to the general pattern of European integration.<sup>36</sup> In order to advance the European constitutional synthesis, however, we need more not less of such exemptions. These examples show that it is possible to develop models and counter-models across the EU, capable of inclusive and cohesive development.

Legal, economic, and social institutional innovations deviate from the standard model of economy and society, as envisaged by the policy-makers in charge for handling the protracted crisis and stagnation. Let's take for example the model of cooperative competition, which deviates from the standard model of competition and competition laws, articulated by the European competitive laws. Cooperative completion, developed in certain European regions, successfully combines the traditional artisanal craft production with the skills, technology, and innovation of post-Fordist production. Essential characteristic of this production is the production of small quantities of highly specialized goods with high value added that are tailored for customers. The production requires constant improvements and innovations, which requires highly skillful workers, experts, and managers who tend to

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<sup>36</sup> Conceptual and practical possibilities of extended economic democracy presented by Pascal Zwicky in the Next Left Focus Group meeting in Warsaw, dedicated to the discussion on the need for reaching new social consensus in the EU.

work in small groups that promote a high level of collaboration among them. A competition among groups of workers occurs inside the firms as well as among the firms, promoting different methods to achieve best possible results. The experimentalist production, based on constant innovations, cooperation, and competition, is possible because of the strong institutional support from financial and technological spheres.<sup>37</sup> It is not clear, how long can such exemptions from the standardized model of competition persevere in the context of European *acquis*.

Local governments, local financial institutions, professional and commercial associations, trade unions, universities and research centers, and social networks all participate and have a stake in permanent improvements of their regions. They are an example of dynamic, competitive, innovative, and cohesive regions. They also show that it is not possible to overcome the gap between the advanced and backward parts of the economy and society without the deliberate action of public institutions. The crucial issue for the European policy-makers is, whether to encourage or suppress such exemptions to the general, *one size fits all* European economic and social model.

## **Conclusion – toward European Experimental Federalism**

The golden period of the European integration was in the first two decades since its inception. There were many reasons behind it: it was the period of post-war reconstruction, the role of the Marshall plan, the role of Keynesian policy and others. What was also important, was that the diverse institutional models co-existed. They allowed different regions and member states to pursue different trajectories of development, suitable to their own potentials, capabilities and aspirations. Of course, the relative homogeneity of the initial group of member states also played the role, but this is from the viewpoint of arguments presented in this article not the most crucial part of successful period of European integration.

Gradually, the path toward ever-increasing constraints imposed on governments, their regions and localities led to its unsustainability. O'Rourke has summarized this process in the following way:

*“Europe is now defined by the constraints it imposes on governments, not by the possibilities it affords them to improve the lives of their people. This is politically unsustainable. There are two solutions: jump forward to a federal political Europe, on whose stage left and right can compete on equal terms, or return to a European Union without a single currency and let individual countries decide for themselves. The latter option will require capital controls, default in several countries, measures to deal with the ensuing financial crisis, and*

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<sup>37</sup> R. Unger, *Democracy Realized*, Verso, London, 1998 pp. 197-199.

*agreement about how to deal with legacy debt and legacy contracts*".<sup>38</sup>

His analysis is accurate and consistent with the findings presented in this writing. His proposal how to move beyond current unsustainable path of development, is more questionable. It is within the context of *Rodrik's trilemma*. The focus is therefore on strengthening the Union via establishment of a banking Union, transfer Union, and political Union.

As shown in this article, the steps toward (real) banking, transfer and political (in terms of central economic government) Union are neither feasible, not desirable. **The best way to tackle the European path of unsustainability – whose practical failure is reflected in the economic and social dualism across the EU – is to equip local, regional and national governments to help overcome the economic and social dualism. At the same time, the Union should develop and strengthen its key policy, which should be become comprehensive European support for life-learning education, training and re-skilling of workers.** Too much money, time and efforts were dedicated for rescuing the large European financial institutions. These efforts should be redirected to the support for local producers, local banks and entrepreneurs. Institutional diversity, a variety of socio-economic models across the EU should be supported not suppressed by the EU. Many recipes for the Union could not only preserve "legitimate diversity", but a deliberate step of the European Union, its member states and regions beyond the *Rodrik's trilemma*.

A top-down approach of the Union as an effort in empowering, equipping and re-skilling European citizens complemented by the bottom-up approach of local, regional and national governments in broadening access to the markets in a variety of experimental, participatory and inclusive ways can be a step toward genuine European constitutional synthesis.

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**RED**



Patrick DIAMOND

## **Towards Equity and Growth in European Welfare Societies: The Predistribution Agenda**



**Keywords:****Welfare State – Redistribution - Social Security – Equity - Growth****Abstract:**

The pursuit of social justice, of greater equity and solidarity between citizens, has constituted the central thread running through European social democracy since Eduard Bernstein articulated the case for 'reformist socialism' at the dawn of the 20th century. What followed was decades of continuous left of centre reinvention and reform across Western Europe. Since the 1990s, however, the world in which social democratic politics operates has changed profoundly. Not only has the West experienced one of the most severe and destabilising financial crises of the modern era. Capitalism itself is undergoing a phase of major structural change, while the fiscal pressures unleashed by the crisis are putting unprecedented strain on the post-war welfare state. Meanwhile, the international context is undergoing a process of transition given the growing importance of rising economic powers, and the relative decline of the West. This is the time, more than ever, to construct a new governing prospectus forging a renewed political purpose and strategy for the centre-left as examined in this paper.

The pursuit of social justice, of greater equity and solidarity between citizens, has constituted the central thread running through European social democracy since Eduard Bernstein articulated the case for *'reformist socialism'* at the dawn of the 20<sup>th</sup> century. What followed was decades of continuous left of centre reinvention and reform across Western Europe. Since the 1990s, however, the world in which social democratic politics operates has changed profoundly. Not only has the West experienced one of the most severe and destabilising financial crises of the modern era. Capitalism itself is undergoing a phase of major structural change, while the fiscal pressures unleashed by the crisis are putting unprecedented strain on the post-war welfare state. Meanwhile, the international context is undergoing a process of transition given the growing importance of rising economic powers, and the relative decline of the West. This is the time, more than ever, to construct a new governing prospectus forging a renewed political purpose and strategy for the centre-left.

**The central issue for social democracy is that while the world has been transformed, the political agenda of the European centre-left has remained trapped in the doctrines and narratives of the post-war 'golden' age.** Central state social democracy is still deeply ingrained in the ideological 'DNA' of most European Left parties. The assumption since the Second World War has been that as long as the Keynesian welfare state is sufficiently powerful and well resourced, markets should be allowed to produce outcomes which government intervention then compensates for. Between the 1940s and the 1970s, the corporatist social democratic model was largely successful in achieving full employment, rising real wages and living standards, and increased opportunity and security afforded by a universal system of social security.

The strategy in recent decades has, nonetheless, been found wanting: **in most advanced economies, capitalist markets have produced levels of inequality, which the population finds morally and economically unacceptable.** Moreover, there are evident limits to the capacity of states to undertake redistribution given the likelihood of stagnant growth and severe fiscal constraints on governments in the decade ahead<sup>1</sup>. **We have to find new routes to social justice and a more equal society for our own times.**

This is the context in which the debate about *'pre-distribution'* has recently emerged, particularly in the United States and Britain, but increasingly in continental Europe. **Pre-**

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1 A. Gamble, *Crisis Without End.*, Basingstoke: Palgrave Macmillan 2014.

distribution is a concept, which recommends that the state should seek to prevent inequalities from occurring in the first place, rather than using traditional 'tax-and-spend' mechanisms to tackle inequalities after they have occurred.

The last thirty years have witnessed a dramatic rise in income inequality across the advanced capitalist democracies.

However, growing reliance on redistribution has led to a backlash against the 'tax state', fostering resentment towards the poor among those on modest incomes while feeding into the conservative critique of the role of government. States want to pursue a variety of distributive agendas, spending more than they can conceivably raise in taxes adding to the problem of rising public debt<sup>2</sup>. **The aim of predistributive policy is to focus on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits<sup>3</sup>.** As we enter a period of relatively weak growth, alongside demographic and technological change putting increasing strain on traditional models of the welfare state, pre-distribution aims to cultivate effective strategies for restructuring the market economy to ensure long-term growth in which fairer outcomes for all are secured. This is a strategy in which as Matzner and Streek<sup>4</sup> attest, *equality, rather than being wrought from the economy at the expense of efficiency, is built into the organisation of the production process itself.*

Rather than relying on the distributive realm of social policy, the aim of predistribution is to address the quality of work, the allocation of 'good jobs' in the economy, the prevailing framework of employment rights, alongside the extent to which markets work in the public interest by treating all consumers (including the vulnerable) fairly. Of course, the concept of 'pre-distribution' is hardly an election-winning slogan, but it carries important insights about social democratic policy in the post-crisis era.

In the Left's traditional vision, the good society is founded on the commitment to redistribution. Capitalism inevitably creates inequalities; the role of social democracy is to ameliorate injustice by redistributing the fruits of growth to those most in need. This has been the governing strategy of almost all Left parties in Europe since 1945. The goal is to create a virtuous 'cycle' between capitalist production and state-orientated redistribution. Sustained economic growth permits the financing of redistribution, encouraging consumption, and in turn, stimulating faster growth. In Western Europe after the Second World War, this model helped to create significant improvements in

**We have to find new routes to social justice and a more equal society for our own times.**

2 W. Streek, *How will capitalism end?*, [in: ] *New Left Review*, 87 (2014), pp. 35-64.

3 J. Hacker, *The institutional foundations of the middle-class democracy.*, London: Policy Network 2011, [http://www.policy-network.net/pno\\_detail.aspx?ID=3998&title=The-institutional-foundations-of-middle-class-democracy](http://www.policy-network.net/pno_detail.aspx?ID=3998&title=The-institutional-foundations-of-middle-class-democracy)

4 E. Matzner & W. Streek, *Beyond Keynesianism: the socio-economics of production and full employment.*, Brookfield: Elgar 1991, p. 16.

life-chances by narrowing the gap between rich and poor through undertaking transfers from the wealthy to the needy; insuring people against social 'risks' such as sickness, unemployment, and old age; and providing guaranteed access to high-quality public services.

Today, that redistributive model of the state appears to be in crisis. The equilibrium between markets and social justice that characterised the post-war age lies in tatters: the west is experiencing 'a crisis without end' marked by a slow, protracted recovery, interest rates at extraordinary low levels, a major risk of deflation, and a process of fiscal adjustment and austerity<sup>5</sup>. It is increasingly apparent that social and economic inequalities are no longer reversible within any single nation-state. The question is whether a model of 'pre-distribution' can plausibly fill the void. **A new social and economic framework focused on 'pre-distribution' has to address three basic concerns.**

- (1) **It has to provide an active state with a clear rationale and purpose in an era where public spending is severely constrained**, where many states are implementing tough fiscal consolidation regimes, and where fiscal austerity in the light of low growth and secular stagnation is likely to remain for the foreseeable future. Policy interventions such as 'Quantitative Easing' (QE) since the 2008 crisis has arguably further exacerbated inequality by boosting relative asset values as real household incomes have stagnated<sup>6</sup>.
- (2) **'Pre-distribution' has to deal with the fact that the redistributive capacity of the welfare state was diminishing prior to the crisis.** In part, this reflects changes since the 1970s and 1980s, alongside the imposition of neo-liberal regimes that have weakened the egalitarian impact of welfare states. Equally culpable is structural change such as demography and increasing dependency ratios putting greater pressure on health and social care spending – in turn reducing the resources available to boost opportunity through pre-school investment, education, training and re-skilling. Unsurprisingly, many European societies have witnessed declining rates of relative social mobility since the 1960s and 1970s.
- (3) **Markets are producing more inequalities than ever**, as the share of growth absorbed by capital at the expense of labour has increased exponentially. Growth rates have recovered from the depths of the post-2008 recession, but growth remains slow and intermittent; there is no emerging 'growth paradigm' that appears capable of reviving western prosperity; the impact of 'digitisation' in key sectors has so far been uneven; at the same time, lack of effective co-ordination hinders recovery in the liberal world economy<sup>7</sup>. Other commentators have questioned whether a new

5 A. Gamble, *Crisis Without End.*, Basingstoke: Palgrave Macmillan 2014.

6 Ibidem.

7 A. Gamble, *Crisis Without End.*, Basingstoke: Palgrave Macmillan 2014.; P. Mason, *Charleston Lecture on Keynes.*, June 2014.



concept of growth is required that takes account of environmental sustainability and human well-being, while ensuring that GDP does not go to an ever narrower group in the population. As profitability in the corporate sector has declined, real wages have been squeezed<sup>8</sup>. In this context, a model of 'pre-distribution' is necessary given the declining capacity of traditional welfare states to ameliorate growing social and economic inequalities.

## The European Context

With the aftershocks of the financial and economic crisis becoming ever more apparent, European social models are now under great strain. **The greatest challenge that European member-states currently face is the crisis of labour market inactivity and long-term unemployment, particularly youth unemployment.** Despite current challenges to internationally co-ordinated policy-making, the external policy space – especially at the EU level – can still work to shape responses to the impending recession, influencing social and employment policy and tying Member States into commitments on poverty and social protection.

In particular, Member States need to take co-ordinated action to deal with the challenge of joblessness and employment activation. The European Commission has published a White Paper on 'flexicurity', setting out a new agenda for the active labour market across the EU. The *flexicurity* concept is important because although an element of unemployment is cyclical, often originating in inadequate aggregate demand, it also reflects rigidities and poor incentive structures in the labour market that are in need of reform.

Nonetheless, flexicurity is becoming more contested and controversial since it is perceived to weaken employment rights, and is associated with an influx of migrant labour which weakens jobs and wages for indigenous workers. The centre-left stands primarily for security and the social dimension, not the flexibility demanded by the market. **Social democrats have to re-visit the shape of European employment policy at a time when the European social policy framework is critical in preventing slippage on progress in relation to employment and social exclusion.** The centre-left needs to examine how current debates between European governments and within the European Union can contribute to the modernisation of the European Social Model so it is both effective and sustainable for the future.

The financial crisis has been as challenging to the ideological worldview of global progressives as it has to the financiers and speculators who have reaped the whirlwind of global markets over the last two decades. Of course, markets around the world have spectacularly failed and, as a result, the end of the long era of free market fundamentalism is

<sup>8</sup> W. Carlin, *A progressive Economic Strategy*, London: Policy Network 2012.

being triumphantly proclaimed. Indeed, the world recession has exposed the bankruptcy not only of institutions, but of the very ideology of neo-liberalism itself.

Nonetheless, it is quite wrong to assume that the crisis will automatically justify a radical extension of the frontiers of the state into new areas of economic and social activity. In mapping out a coherent response to the crisis, **progressives should remind themselves that social democracy neither exists to promote nor protect the state, but to ensure that the state upholds the public interest rather than the vested interests of an elite. We should echo John Maynard Keynes in arguing that markets and states should be the servants of people, not their masters.** Social democrats need to fashion not larger government, but an effective strategic state that can steer and intervene in the complex networks and institutions of a globalised economy and society.

The 2008 financial crisis has dramatically resurrected the social democratic case for an 'active state'. The active state is needed, not least to attack the scourge of youth unemployment and long-term unemployment addressed in this paper. Nonetheless, we recognise that there must be no retreat from the market economy. Open markets are among the best available means of stimulating innovation and efficiency, and have been strengthened by the shift towards globalisation. This is definitely not the moment for a return to a model based on protectionism and anti-globalisation in Europe.

The progressive choice is not to turn our backs on the dynamic strengths of economic openness. Instead, liberated from past neo-liberal constraints, **we should explicitly recognise that the market has limits and that the inequalities it produces must be better managed in the public interest. The new framework should be one of multi-level governance: through political action at national, European and international level.** Governments must garner the necessary strategic capacity to act in order to positively shape the forces of globalisation and internationalisation.

## Governing the Post-Crisis EU

The European Social Model (ESM) is now under great strain, or even failing, in the wake of the deepest financial crisis since the Great Depression. Although it would be premature to judge the lasting effects of the crisis, it is clear that it will have a profound impact across the economic, political and social spheres.

There is a danger of complacency and inaction. In the present context, European policy-makers are understandably focused on the ramifications of the sovereign debt crisis and the future of the Euro as a viable currency union. There are a few who look further ahead to the prospects for the European single market, and the need to re-energise anaemic European growth rates. What is missing from the agenda of most policy-makers and politicians is the fact that Europe is on the brink of an employment aftershock and a social recession. Many Member States are already witnessing an increased incidence of

poverty and exclusion in the aftermath of the crash. This does not only impair current levels of welfare and living standards. It is storing up problems for the future as long-term poverty and exclusion have inter-generational scarring effects.

There are, of course, significant national variations, with some member states perceived to have more sustainable social models, including the Nordic countries. However, **to varying degrees, all European models are facing similar long-term challenges a decade into the 21<sup>st</sup> century, challenges that go beyond the current crisis, but which are intensified as a result of it.** These include: changes in family structure, demography and the ageing society; the changing status and role of women; industrial re-structuring; and long-term exclusion from the labour market.

### **The External Policy Space**

As Europe faces up to the seismic shock of the financial crisis, there is greater awareness than ever before of how international processes impact on socio-economic developments at home. Within existing debates on social policy and labour markets, this external dimension is often reduced to how international processes such as the globalisation of production or migration affect employment, poverty and disadvantage at home. But the international factors influencing domestic social and labour market policy are wider than this. We also have to understand how the external policy space permits and favours a range of models and policy regimes for labour market reform, for social policy and for combating deprivation and structural disadvantage.

European Member States are currently engaged in a variety of regional and global institutions with direct consequences for social and labour market policy, from the OECD and the World Bank to the G20. But the most important context is the institutions and processes of the European Union. Since 2000, through the Lisbon process, the EU has placed social affairs on the European policy agenda. It has done so by developing hard laws on some common labour and social security standards and, above all, soft laws on employment, social inclusion, pensions and healthcare, along with a process of measurement activities, indicators and benchmarking. In June 2010, the European Council established a poverty target, the first such social target in the history of the European Union.

In the area of social policy, Member States' policy choices need to be understood in the context of Europe-wide debates about common principles, which should guide reforms in poverty and social protection systems. These principles emphasise the preventative rather than compensatory dimension of social protection, while re-orientating employment and social policies towards preparing individuals throughout their lives to compete in an increasingly global marketplace. Radical fiscal consolidation sharpens the need to understand the interrelationship between social and employment policy in

nation-states, and the growing European social policy framework. It is estimated that the proposed austerity policies and public spending cuts will hit people in poverty particularly hard.

Fiscal consolidation poses a challenge in dealing with the poverty aftershock of the crisis and has the potential to lead to setbacks in efforts to tackle poverty. The paper will analyse whether and how best practice across the European Union could be used to mitigate these effects. In confronting years of low or stagnating growth, there is a very real danger that governments will resort to desperate measures or a 'low road' in social and employment policy. This paper will examine the ways in which the EU and international dialogue can shape national decisions and potentially prevent slippage on progress in social and employment policy.

In employment, there has been a particular emphasis on the idea of flexicurity: increasing labour market flexibility while at the same time providing adequate social protection is one of the main policy challenges of the EU's 2020 Agenda. Flexicurity views flexibility and security as complementary and mutually enhancing, increasing the functional adaptability of the workforce, facilitating job transition and shifting from subsidising exclusion to subsidising the hiring of workers. The European Commission presented the first results of a 'Mission for Flexicurity' in December 2008 on national-level implementation of flexicurity policies and has recently launched informal consultations to contribute to an employment package that will be presented by mid-2012.

The Open Method of Coordination (OMC) was a first attempt to structure norm-setting activities and the effect of peer-pressure in the European Union, but the dynamics of policy emulation and transfer reach beyond it through institutional constraint and opportunity-setting structures. The paper will examine how EU social policy influences social and employment policy and practice in the member-states of the EU. It will analyse how EU norm-setting and benchmarking frameworks, while not directly impinging on areas that remain national competencies, may affect the choices that governments make in the area of social and employment policy.

## The New Policy Agenda

In today's economy, austerity programmes and the financial crisis are hitting those most in need hardest, together with the burden of rising unemployment in Europe, especially youth unemployment. The emphasis on reducing inequalities by reforming systems of capitalist production rather than relying on *post-hoc* intervention through the welfare state are more necessary than ever. The aim is to redraw the framework in which capitalist markets operate strengthening both equity *and* efficiency, rather than compensating the 'losers' for the adverse outcomes markets produce. Examples of policy interventions include:

- Tougher regulation of financial markets to mitigate 'moral hazard' ensuring that taxpayers are not required to bail-out failing banks and financial institutions;
- Limiting executive pay awards by giving shareholders and employees the right to veto excessive pay claims and bonuses;
- Busting monopolies and cartels across product and capital markets supporting start-ups and SME formation;
- A system of corporate governance for large companies that gives workers a genuine 'voice' in the management of the firm;
- Measures to boost the national minimum wage and 'living wage' to help the lowest paid strengthening the relative position of labour market 'outsiders' and encouraging unionisation in traditionally casualised sectors;
- Labour market reforms that improve 'flexibility' for workers as well as firms: the purpose is not to outlaw dismissal exacerbating 'insider-outsider' cleavages, but to ensure marginalised groups such as single parents and disabled people can have sustained contact with the labour market;
- Systematic training and skills policies which invest in the 50 per cent who do not attend university;
- Redesigning procurement rules to ensure fair employment in the public and private sectors which deliver public goods and services;
- Defining social norms and rules of the game that combat the culture of low pay in the corporate sector reinforcing legal regulations and rules;
- Regulatory interventions in markets that modify the rising cost of goods and services for the poorest groups, especially energy, transport and food;
- A 'property-owning democracy' giving the majority a share in the wealth and capital of the nation, tackling inherited concentrations of wealth among the privileged<sup>9</sup>: this should include a proportion of wages being paid in shares.

**Predistributive policies aim to raise the underlying growth rate of the economy, as well as advancing equality, integral to a new social contract for the knowledge economy<sup>10</sup>. The effort to widen social justice is not achieved at the expense of economic efficiency, but ought to be treated as complimentary to it.** Improving long-run economic performance in Western Europe ought to be enhanced by greater equality of opportunity and outcome. For example, constraining low-wage adjustment strategies should help to improve productivity, as well as strengthening efficiency in labour and product markets<sup>11</sup>. The objective should be to breakout from the low-wage, low productivity

9 M. O'Neill & T. Williamson, [http://www.policy-network.net/pno\\_detail.aspx?ID=4262&title=The-promise-of-pre-distribution](http://www.policy-network.net/pno_detail.aspx?ID=4262&title=The-promise-of-pre-distribution) 2012.

10 P. Hall, *The New Social Contract*, London: Policy Network, August 2014.

11 E. Matzner & W. Streek, Op. cit., 1991.

'disequilibrium' which has been especially embedded in the 'Anglo-liberal' economies in order to improve skill-levels, productivity and living standards.

This is not to imply that social democrats should simply give up on the traditional welfare state and attendant mechanisms of redistribution. On the contrary, markets will always produce imperfect outcomes; particular citizens will simply be unable to participate advantageously in the market, relying on traditional state provision to ensure opportunity and security throughout their lives. Moreover, **greater equality of economic outcomes in the advanced capitalist democracies is necessary to ensure a more stable and cohesive society. The lesson of the last thirty years is that both predistributive and redistributive agendas are necessary to build a fairer, more equal society. Redistribution and predistribution are two sides of the same coin.**

**Redistribution and predistribution are two sides of the same coin.**

Alongside measures to ensure the framework in which capitalist markets operate leads to fairer outcomes, predistribution should focus on how to improve equality of life-chances through targeted early intervention. Over the last decade, most Western European countries have sought to shift the focus of the welfare state correcting inequalities *a priori* and investing in the earliest years of citizen's lives. Nonetheless, more needs to be done to advance a '*social investment state*'. There is a danger that in the light of the crisis and the demand for additional fiscal consolidation, states focus on protecting 'traditional' welfare transfers and services, rather than underwriting 'equality-boosting' programmes such as pre-school education, parenting support, high quality childcare from nought to adolescence, extra tutorial provision at school for those from low income households, and asset policies (such as New Labour's Child Trust Fund), giving the poorest children a capital stake.

The contributors to this volume address the predistribution agenda from a range of comparative perspectives across disciplines and countries. The focus throughout is on fashioning credible policy responses while addressing the *politics* of predistribution. Fashioning an active state for the post-crisis age will require a centre-left prepared to confront the agendas of sectional interests, to shift resources not only across the income distribution, but across generations and across regions. A concerted strategy of 'pre-distribution' will require a new way of practising social democratic politics in Europe – no longer promising to reward every voter 'interest group' – but instead recognising that only a coherent philosophical vision of societal fairness based on 'shared sacrifice' can ensure our societies make the transition from the current crisis to a stable social and economic settlement beyond.

**It is still important to identify the historical agents and institutions that might create the momentum for radical pre-distributive policies, forging new coalitions of interest.** Welfare states historically have been the product of particular patterns

of class relationships<sup>12</sup>. Among the most significant challenges for social democratic parties since the 1970s has been rising scepticism about what states can accomplish imposing fiscal limits alongside declining trust in the role of government<sup>13</sup>. Nonetheless, the centre-left should not be excessively pessimistic about its prospects: there are enormous obstacles and constraints, but there are always fresh strategic opportunities to be seized.

The remainder of this chapter addresses the framework of a pre-distribution agenda with reference to the development of the 'social investment state'. It is important to maintain a distinction between 'predistribution' and 'social investment': predistributive policies focus on regulatory interventions designed to alter the rules of the game in which markets operate; social investment is predominantly concerned with the allocation of public spending to maximise equity and efficiency<sup>14</sup>. Nonetheless, both approaches focus on equipping individuals for change in dynamic market economies, instead of 'repairing' adverse outcomes that have already been inflicted. **Predistribution and social investment are complimentary strategies: predistribution relies on raising the underlying rate of productivity in the economy in order to improve real wages and relative living standards, alongside changing how markets operate.** Improving productivity entails 'social investment' focused in particular on children in low income households in the early years of the life-cycle.

### **Predistribution and the Social Investment State**

Rising inequality and lower earnings mobility in capitalist democracies are unlikely to be addressed without more effective strategic intervention by governments, boosting the relative position of children and young people from low income households. The evolving body of work around the concept of 'pre-distribution' has framed an important debate about the strategic role of the state in promoting social justice. In the pre-distribution literature, government action is envisaged less as a mechanism for compensating individuals for disadvantage that has already occurred, more as a means of reducing the damage inflicted by markets, using instruments of anticipatory intervention and positively promoting equal opportunity. Pre-distribution, as its originator Professor Jacob Hacker<sup>15</sup> from Yale University attests, involves: *A focus on market outcomes that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits.*

12 G. Esping-Andersen, *Social Foundations of post-industrial economies.*, Oxford: Oxford University Press, 1999.

13 P. Hall, *The New Social Contract.*, London: Policy Network, August 2014.

14 Ibidem.

15 J. Hacker, Op.Cit., 2011.

As such, the pre-distribution agenda is not limited merely to reducing poverty and social disadvantage: the test for pre-distribution is whether it can reverse what the Canadian economist, Miles Corak, refers to as '*The Great Gatsby curve*'<sup>16</sup>: the tendency in industrialised societies for a child's life-chances to be determined by their parents' material circumstances. According to Lynch<sup>17</sup>, since the crisis poverty and unemployment have not been distributed evenly among social groups: children are at highest risk of poverty, especially those with a low skilled single parent. This has given rise across Western Europe to a process of 'dualisation'<sup>18</sup>. More unequal societies, according to Corak, are less likely to be characterised by higher levels of inter-generational mobility. The purpose of shifting the role of the state from 'remedial' compensatory approaches to a 'pre-emptive' strategy of investing in the human and social capital of disadvantaged groups is to get opportunity and social mobility flowing again. This necessitates a fundamental shift combining income redistribution with pro-active investment throughout the life-course.

These strategies underline the vital importance of education policy, in particular measures that are designed to shift the balance of human capital acquisition towards children from highly disadvantaged households. Surprisingly perhaps, education policy appears to have slipped down the political agenda in recent years. In Britain, the education reforms undertaken by the Blair and Brown governments have been politically controversial giving a major role to private educational providers, encouraging internal divisions within the Labour party. Moreover, the claim that education policy was the only effective lever available to off-set the inequalities generated by globalisation, a hallmark of third way ideas, was exposed as problematic. Rising public investment in education and skills had not stemmed the tide of social and economic inequality in the industrialised countries.

Of course, the politics of pro-active social investment in education, pre-school, family support, and adult skills is seldom straightforward. Many voters do not have children, and might resent extra support being given to families in an era of belt-tightening and austerity. In the New Labour years, low income adults in households without children fared poorly in relation to poverty alleviation. Furthermore, in public attitude surveys, education, early intervention and childcare do not register as major issues of concern for most voters; comparative data suggests that in many European countries, voters are more concerned about 'old' social risks, notably unemployment, pension adequacy, and fear of losing their home. Many welfare systems are characterised by a growing 'elderly bias' given the ageing population. There is a danger of unbalanced welfare coverage

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16 M. Corak, *Income Inequality, Equality of Opportunity, and Intergenerational Mobility*, [in:] *Journal of Economic Perspectives*, 27(3), 2013, pp. 79-102.

17 J. Lynch – see: <https://scholar.google.com/citations?user=r7LFjiAAAAAJ&hl=en>

18 P. Emmenegger et. al., *The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies*, New York: Oxford University Press 2012.



further disadvantaging younger families with children: the risk is that governments will continue to support older citizens while neglecting the imperative of investing in the young.

## The Nature of Economic and Social Inequality

In the debate about what determines inequality in contemporary capitalist economies, various factors have invariably been cited in a burgeoning literature. Rising levels of immigration is one driver, while declining rates of unionisation is another. Both are believed to have weakened the bargaining power of low skilled workers, accompanied by a fall in the relative value of the minimum wage. Another factor is the growth of international trade and the globalisation of labour, product and capital markets since the 1980s. As the balance of economic advantage shifts to the east, many manufacturing and service sector jobs in western economies become uncompetitive or increasingly obsolete<sup>19</sup>. Each of these explanations has received considerable attention from politicians and policy-makers. This is unsurprising since there is evidence that these factors have each contributed to rising inequality of primary incomes in countries such as the United States and the United Kingdom.

According to research by Professor Alan Krueger, one of President Obama's economic advisers, the most important driver of economic inequality remains 'skill-biased' technological change, as table 1 below makes clear. This increases the number of relatively skilled jobs at the top of the labour market, while skewing the wage distribution towards those with the highest levels of human capital. There is considerable debate within the economics profession about the impact of technological change, but it is unquestionably a potent driver of inequality mediated by the level of education and skills. The OECD has recently predicted that jobs requiring 'highly educated' workers will rise by 20 per cent in the next decade; low skilled jobs are likely to fall more than 10 per cent.

Moreover, low skilled workers are increasingly vulnerable to the threat of redundancy and unemployment in a period of intense economic restructuring. In the EU28 countries, 84% of working age adults with 'higher' (tertiary level) skills are currently working compared to less than half of those with low skills. Downward pressure on wages and fear of unemployment is leading to heightened economic insecurity for those on lower and middle incomes. Across the OECD, median income households have experienced a much sharper decline in incomes than was the case thirty years ago.

Nonetheless, **the recent focus on income inequality in the aftermath of the financial crisis and 'great recession' may have distracted attention from the central issue of equality of opportunity, in particular how far children and young people from low income households and disadvantaged neighbourhoods have opportunities to realise their potential.** This issue is addressed in Jeremy Fishkin's

<sup>19</sup> A. Wren, *The Political Economy of the Service Transition.*, Oxford: Oxford University Press 2014.

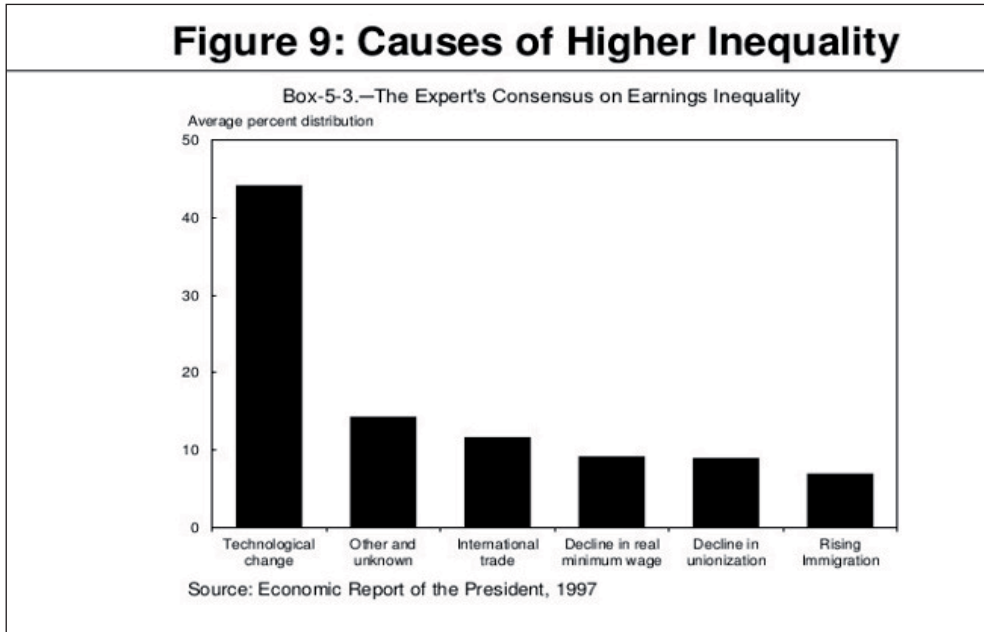


Table 1: The drivers of economic inequality

powerful book on *Bottlenecks* which analyses how economic and educational structures act often surreptitiously to reduce the availability of opportunities for all. Fishkin argues that public policy should focus not on narrow goals such as pursuing a particular definition of academic excellence, but on how government interventions can maximise the ability of every individual to fashion a fulfilling and autonomous life. This insight should be at the core of the redistributive agenda.

## Educational Performance

Nickell<sup>20</sup> argues that despite growing scepticism towards education policy, human capital effects are underestimated in the production of inequality. The recent OECD report comparing educational performance between countries has provided a 'wake-up call' for policy-makers. According to the OECD, 'England is the only country in the world where the generation approaching retirement is more literate and numerate than the youngest'<sup>21</sup>. Out of 24 industrialised countries, English 16-24 year olds rank 22nd in literacy and 21st in numeracy. More worryingly still, young people in England have among the lowest levels of proficiency in Information and Communications Technology (ICT). As a consequence, 'the

20 S. Nickell, *Poverty and joblessness in Britain.*, [in: ] *The Economic Journal*, Vol. 114 (494) pp. C 1 – C25, 2004.

21 OECD, *Education at a glance.*, Paris: OECD, 9<sup>th</sup> September 2013.

talent pool of highly skilled adults in England and Northern Ireland is likely to shrink relative to other countries'<sup>22</sup>.

It is striking that the OECD report has been ignored by each of the political parties. The Conservatives sought to blame the previous Labour government for the UK's comparative weakness in school attainment. Nonetheless, the last Coalition government appeared to have no credible agenda for addressing the central driver of low performance – that too many pupils from low income households are only able to access 'low-performing' schools<sup>23</sup>. Moreover, Labour has been oddly reticent about the OECD's findings, presumably because the report emphasises the need for bold reforms of the English school system.

Policy makers have understandably focused on the role that formal educational institutions, most importantly schools, play in addressing the educational challenge underlined by the OECD report. The debate about how schools are organised so as to maximise the potential for continuous educational improvement remains important. However, it ought to be remembered that most learning occurs outside school hours, particularly the crucial first four years of life which set the framework for later human capital acquisition. Research by Dearden et. al.<sup>24</sup> shows that by the age of three, a 23 per cent gap in cognitive outcomes has opened up between children from the richest and poorest households.

According to Professor Anne West<sup>25</sup> of the LSE, 'There is an achievement gap between children from poor family backgrounds and others. This is not unique to the UK, but found in all countries of the OECD'. A combination of 'monetary' and 'non-monetary' variables – the quality of the home-learning environment, family background, parental education, resources within the household – are all crucial factors in explaining these differences. This poses a key challenge for policy makers who want to make the initial distribution of endowments more equitable in accordance with the key tenets of pre-distribution theory.

## Capability and 'Character'

The research underlines that parental 'confidence' and peer effects have a crucial impact on children's life-chances. Traditionally, policy has tended to emphasise the importance of formal institutions, understating the role paid by informal networks, including

22 Ibidem.

23 R. Allen & S. Burgess, *Can school league tables help parents choose schools?*, [in: ] *Fiscal Studies*, Vol. 32, 2, 2001, pp. 245-261.

24 L. Daerden et al., *Economics of Education Research: A review and future prospects.*, [in: ] *Oxford Review of Education.*, Vol. 35, 5, 2009, pp. 617 – 632.

25 A. West, *Poverty and educational achievement: why do children from low-income families tend to do less well at school?*, Bristol: The Policy Press 2009.

family and friends, on children's outcomes. **Predistribution is not only concerned with economic reforms alongside investment in the education and skills system, but with reinforcing the capabilities, resilience, and well-being of individuals, especially the most disadvantaged giving them more power in relation to the market**<sup>26</sup>. It is essential to focus support on the most deprived households where parents are more likely to be 'disengaged', as the impact of child poverty is mediated by the reduced availability of parental resources<sup>27</sup>.

Low aspirations are a further critical factor in structural disadvantage: there is evidence that parents in low income households have lower 'self-efficacy' – less self-confidence and belief in their own capabilities. Recent research in the social sciences has focused on the importance of 'character' in shaping cognitive outcomes: 'character' alludes to the individual's ability to exhibit drive, agency and determination, all of which are attributes of later success in life<sup>28</sup>.

## Policy Implications

As such, this chapter makes the argument that **a credible pre-distribution strategy should focus on boosting the education, skills and human capital of the entire population, especially the most disadvantaged groups, alongside reform of capitalist markets**. The key insight for policy-makers in future governments is that what occurs outside formal institutions through the home environment, with parents, and among peers is as significant as what takes place in schools and learning institutions, although the two are often self-reinforcing. In that context, the following policy measures ought to be enacted:

- **Refocus Early Intervention Strategies**

Additional interventions in the early years have been a priority for policy-makers across the political spectrum. Although the previous Labour administration invested heavily in nursery provision, the early years have never received the concerted attention given to schools and the NHS. Childcare is now more expensive in the UK than most comparable economies; there are growing concerns about the adequacy of coverage, 'postcode lotteries', and lower quality. As a consequence, the UK has a relatively low rate of female employment, ranking 15th in the OECD league table. There are two crucial aspects of the policy that should not be allowed to slip down the agenda. First, ensure that resources and infrastructure are weighted towards the most disadvantaged groups within a universal

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26 K. Ussher, *What is pre-distribution?*, London: Policy Network, 22<sup>nd</sup> October 2012.

27 G. Esping-Andersen, Op. cit., 1999.

28 J. Lexmond & R. Reeves, *Building Character.*, London: Demos 2009.

delivery model. Second, Sure Start was initially orientated towards parental involvement, not only in the settings themselves, but in the management and governance of Sure Start centres. This dimension of parental empowerment has been weakened, and ought to be re-activated.

- **Boost Parenting Support**

In a challenging economic environment with a number of pervasive social stress factors, parents need effective support. Mentoring has proven beneficial effects, where more experienced parents support those facing difficulties. Formal parenting programmes can be useful, but often more informal support built around Sure Start, early years' provision, and schools and youth centres is necessary. Initiatives such as Nurse-Family Partnerships where nurses support parents in disadvantaged households from the pre-natal stage through to early childhood are crucial.

- **Improve the Quality of Parenting**

There is an extensive public policy literature on the potential of behavioural change strategies to improve parenting outcomes. How parents interact with their children can have a significant impact on later achievement. For example, parents who regularly read to their children significantly improve their cognitive outcomes; responding appropriately to misbehaviour can also help to prevent later conduct disorders<sup>29</sup>. It is important to remember that parenting is not always provided by biological parents, but a range of care-givers, including grandparents and family friends.

- **Parental Responsibilities**

Parents have the right to support and to be able to access state-funded services, but parents also have reciprocal obligations including ensuring good school attendance and behaviour. Where responsibilities are breached, mechanisms such as 'home-school contracts' and parenting orders might be necessary to ensure that the underlying causes of negative behaviour are addressed.

- **Extend the 'Pupil Premium' and Reform the System of School Choice**

The pupil premium in England has provided schools who accept pupils from disadvantaged households with an additional £900 per child in 2013-14. Nonetheless, the evidence is that children from low income households continue to access the most poorly performing schools<sup>30</sup>. This needs to be addressed by boosting the premium available for pupils from disadvantaged backgrounds, while opening up the school selection process to

29 L. Dearden et. al, Op. cit., 2009.

30 R. Allen & S. Burgess, Op. Cit., 2011.

avoid residential segregation. At the same time, highly performing schools need additional incentives to expand.

- **Promote Multi-Agency Working across Public Services**

Improving the situation facing the most disadvantaged children and young people requires not only input from schools and Sure Start centres, but public services locally and nationally. The impact of health inequalities on human capital acquisition and relative social mobility, for example, is now well documented. In New York, a hub ‘children’s zone’ model has been used to provide intensive support to disadvantaged families in low income neighbourhoods.

Moreover, expanding social investment to focus on pupils from income households will reap long-term rewards. For example, the *Institute for Public Policy Research* (IPPR) has estimated that provision of universal affordable childcare across the UK will significantly boost the female employment rate and government tax revenues: an initial, up-front investment achieves average returns of £20,050 over four years. Over the long-term, predistributive policies have the potential to pay for themselves, and engaging women in the labour market more effectively through maternity benefits and childcare provision has been among the most successful social policy interventions of the last thirty years.

Future governments will, nevertheless, have to demonstrate how this is to be paid for. IPPR propose to rationalise tax credits and childcare subsidies into increased supply-side funding for early years’ provision. Alternative options include rationalising benefits to relatively well-off pensioners such as free travel and the Winter Fuel Allowance, as well as taxing capital, property, wealth and inheritance more efficiently. For example, a lifetime gifts tax could raise £1 billion; abolishing higher rate tax relief on pensions would generate a further £7 billion; a property-based ‘mansion tax’ could raise a further £3 billion for the UK Exchequer.

Raising the burden of taxation is never popular. This belies the notion that ‘predistribution’ does not necessitate hard choices, making it instantly attractive to ‘preference-accommodating’ politicians. Two principles ought to be enunciated in the public debate about taxation. Firstly, additional ‘wealth’ taxes ought to be ‘hypothecated’: pooled into a specific fund designed to off-set adverse ‘social inheritance’, boosting opportunities for those from disadvantaged backgrounds. Secondly, the ‘better-off’ older generations acknowledge that younger people and families increasingly need support: modest tax rises and benefit rationalisation is necessary to ensure inter-generational reciprocity. The American political scientist Harold Lasswell famously argued that politics is about ‘who gets what, when and how’: it is vital to bridge the inter-generational gap. According to Barnes<sup>31</sup>, support for progressive taxation has risen markedly since the crisis: many voters

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31 L. Barnes, *The size and shape of government: preferences over redistributive tax policy.*, [in: ] *Socio-Econom-*

do not believe that the rich pay enough tax, although there is little appetite for any return to 'big' government.

### **Conclusion: Improving pre-distributive outcomes**

Early intervention, family support and education are evidently not a solution to every social and economic problem. Nonetheless, it is difficult to imagine that rising inequality and lower earnings mobility can be addressed without more effective intervention that boosts the relative position of children and young people from low income households, alongside reforms of capitalist markets. There is little purpose in improving the relative position of the most disadvantaged groups early in the life-course if they then confront highly inequalitarian markets which foster permanent reliance on the traditional welfare state.

**Preventing the inter-generational transmission of disadvantage is an urgent moral and political imperative.**

As support for the welfare state has declined among the highly skilled in a service-orientated knowledge economy<sup>32</sup>, a strategy of 'inter-generational redistribution' provides a renewed rationale which also directly benefits those on higher incomes through universal delivery models in childcare, education, family support, and so on. The expansion of service employment among high skilled women workers is a major political opportunity for the centre-left<sup>33</sup>, providing further opportunities to bridge the 'winners' and the 'losers' of economic and social change.

**Preventing the inter-generational transmission of disadvantage is an urgent moral and political imperative.**

Until recently, the political dimension has been missing or underplayed in much of the literature on 'pre-distribution'. **The strategic aim must be to ensure a decent minimum income for all, to provide access to social investment and services, alongside a fair distribution of assets and wealth identifying new means to provide collective security – the *sine qua non* of social democracy.** As such, it is vital to fully integrate the social investment approach into future strategies designed to improve pre-distributive outcomes in the UK and beyond.

*ic Review*, 27<sup>th</sup> March, see: <http://ser.oxfordjournals.org/content/early/2014/03/26/ser.mwu007>, 2014.

32 A. Wren, Op. Cit. 2014.

33 *Ibidem*.

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**DELIVERING  
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André KROUWEL & Yordan KUTIYSKI

# **Why Do Social Democrats Switch to the Radical Left: Evidence from Germany, Sweden, Denmark and the Netherlands**



**Keywords:**

**Public Opinion - Social Democracy - Electoral Volatility - Radical Left Parties - 2014 European Elections**

**Abstract:**

The electoral decline of social democratic parties often coincides with an improved performance of their radical left challengers, especially in second order elections. By using individual level data collected during the month preceding the 2014 European parliament elections via the voting advice application (VAA) EUvox, we aim to reveal the determinants of social democratic voters' defection to the radical left. This study offers comparative analyses of four western European countries in which social democratic and radical left parties are relevant political actors in both the national and the European arena: the Netherlands, Sweden, Germany and Denmark. We propose three hypotheses to explain why voters who supported a social democratic party in a previous national election decided to vote for a radical left party in 2014: they oppose neo-liberal economic policy and welfare state retrenchment; they have negative attitudes towards European integration and they have more conservative social values than voters who remained loyal to the centre-left. Our findings indicate that unfavourable opinion towards the EU is the main explanatory factor for this vote migration.

Even though the results of the 2014 European elections did not cause major shifts in the seat distribution in the European Parliament, they demonstrated a clear downward trend for the three main party families – Christian Democrats, Liberals and Social Democrats. All three groups declined in their vote and seat share, despite large internal variation due to national factors. In particular the PES, who hoped to win a majority and nominate a social-democratic president of the European Commission, was dealt a major blow. Compared to the already bad electoral result in 2009<sup>1</sup>, the 2014 election proved not much better: support for the European social democrats got stuck at a little over 25 per cent.

With the onset of the global financial and economic crisis since 2007, many European citizens are experiencing economic hardships, resulting in dissatisfaction with European integration and withdrawal of support for the political establishment and the broad centrist consensus<sup>2</sup>. While previously radical, anti-EU parties were to a large extent marginalized in the European parliament, the 2014 election brought them a resounding victory in several countries: the Front National (FN) and the UK Independence Party (UKIP) were victorious in France and England. **The overall vote share of anti-EU forces on the right increased, despite the fact that in several countries these radical anti-immigration parties saw their support decline.**

**Parties on the radical left also improved their electoral performance: the anti-austerity Coalition of the Radical Left (SYRIZA) won in Greece, while in the Netherlands the Socialist Party (SP) received more votes than the Labour party (PvdA) for the first time in Dutch electoral history.** Thus, these 'protest' parties have successfully politicised issue-dimensions, with radical left-wing parties reinforcing the market-state antagonism by opposing welfare state retrenchment and defending the protection of workers' rights, whereas radical right parties are opposed to (labour) immigration and increasing European integration.

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1 S. Hix & M. Marsh, *Second-order effects plus pan-European political swings: An analysis of European Parliament elections across time.*, [in: ] *Electoral Studies*, 2011, 30(1), pp. 4-15..

2 W. van der Brug, M. Fennema, M. & J. Tillie, *Anti-immigrant parties in Europe: Ideological or protest vote?*, [in: ] *European Journal of Political Research*, vol. 37, issue 1, 2000 pp. 77-102.

A. Krouwel, *Anti-immigrant parties in Europe: Ideological or protest vote?*, SUNY Press 2012.

D. Kselman & E. Niou, *Protest voting in plurality elections: a theory of voter signaling*, [in: ] *Public Choice*, vol. 148, issue 3-4, 2011, pp. 395-41.

N. Stratin & A. Krouwel, *Euroscepticism Re-galvanized: The Consequences of the 2005 French and Dutch Rejections of the EU Constitution*, [in: ] *Journal of Common Market Studies*, vol. 51, issue 1, 2013, pp. 65-84.

Both of these opposing political fringes improved their results in 2014, at the expense of mainstream parties. In spite of the growing anti-EU sentiments across the political spectrum<sup>3</sup>, political elites continued to be more pro-EU than their voters, which had a negative impact on the three largest European party families. In addition, voters are more likely to express their genuine party preference in a second-order election since tactical considerations regarding national government formation do not come into play. Together with lower turnout levels, this usually benefits radical, smaller and non-incumbent parties, rather than the mainstream parties that bear national governmental responsibility. In addition, many of the mainstream parties – also on the centre left – are associated with the austerity measures taken by governments in which they participate.

In second-order elections, voters tend to give higher saliency to issues that do not benefit mainstream, incumbent parties (such as unemployment, austerity measures, rising costs) and which they tend to downplay, (e.g. welfare state retrenchment, the environment or immigration)<sup>4</sup>. **Broad dissatisfaction with the political establishment, coupled with the increasing convergence of policy platforms of moderate, centre-left and centre-right mainstream parties, has driven many previous supporters of centrist parties to the political fringes**<sup>5</sup>. This is one of the elements explaining the standstill of social democratic parties in the European Parliament - a substantial proportion of voters, who previously cast their votes for a centre-left party in a national election, often switch their allegiance to radical-left competitors in second order elections<sup>6</sup>.

**The purpose of this study is to reveal the determinants of shifts in party choice, particularly zooming in on those who switched from voting for a social democratic party in the previous national election to supporting a radical left party in the 2014 EP elections.** As the European election studies are not yet available, we use unique datasets collected through the pan-European Voting Advice Application (VAA) EUvox 2014 for this study. The larger number of users of such VAA websites, compared to traditional probability samples of opinion polls or national elections studies, allows for in-depth analyses on large sections of specific voter groups – in this case (former) left-of-centre voters.

3 De Vries, C. E., and E. E. Edwards, *Taking Europe To Its Extremes Extremist Parties and Public Euroscepticism*, Party Politics, vol. 15, issue 1, 2009, pp. 5-28.

4 K. Reif, *National election cycles and European elections, 1979 and 1984*, [in: ] *Electoral Studies*, vol. 3, issue 3, 1984, pp. 244-255.

C. Van der Eijk & M. Van Egmond, *Political effects of low turnout in national and European elections*, [in: ] *Electoral Studies*, vol. 26, issue 3, 2007, pp. 561-573.

M. Marsh, *Testing the Second-order election model after four European elections*, [in: ] *British Journal of Political Science*, vol. 28, issue 4, 1998, pp. 591-607.

5 J. Karreth, J. J. T. Polk, & C. S. Allen, *Catchall or Catch and Release? The Electoral Consequences of Social Democratic Parties' March to the Middle in Western Europe*, [in: ] *Comparative Political Studies*, vol. 46 issue 7, 2013, pp. 791-822.

6 T., Bale, A.P.M. Krouwel, C. Green-Pedersen, K. R.Luther, & N. Sitter, *If You Can't Beat Them, Join Them? Explaining Social Democratic Responses to the Challenge from the Populist Radical Right in Western Europe*, [in: ] *Political Studies*, vol. 58, issue 3, 2010, pp. 410-426.

We utilize data collected online in Sweden, Germany, Denmark and the Netherlands to provide possible explanations for what drove these switchers to change their electoral preference. These four cases represent different and distinct arenas of competition, in which moderate social democrats compete against different sets of centre-right competitors: conservative, liberal and 'centre' parties in Sweden and Denmark, and Christian democrats and liberals in Germany and the Netherlands. Furthermore, in these four party systems, social democratic parties face challenges from radical left-wing parties with a long history of representation nationally, as well as in the European Parliament.

**Three reasons for defection of former social democratic voters are proposed: those that switch to the radical left oppose neo-liberal economic policy and welfare state retrenchment; they are not in favour of (further) European integration and/or they have more conservative social values than voters who remained loyal to the centre-left.**

## The Challenge from the Radical Left

Pursuing policy moderation, most European social democratic parties shifted their ideological positions to the centre during the late 1980s and early 1990s, following what Kirchheimer described as a 'catchall' strategy<sup>7</sup>. Although this strategy proved initially successful – many social democratic parties were rewarded with electoral victories and long stretches of government participation – they were unable to sustain a loyal following, and with levels of core support gradually declining, the centre-right became a dominant force nationally in numerous countries and on the European level by the mid-2000s. Some argue that, by adopting centrist positions, social democratic parties "undermined [their] continued viability... as a distinct, ideologically coherent political organization"<sup>8</sup> driving core voters into the hands of radical left challengers. Parties on the radical left are increasingly eroding the electoral performance of social democratic parties<sup>9</sup>. Where the former are improving their electoral performance, one can witness a setback for the latter.

Radical left parties have transformed as well: by shedding some of their original extreme-left Marxist, Leninist and Maoist tendencies and by incorporating policy positions that traditionally belonged to mainstream social democratic parties, such as the defence

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7 A., Krouwel, *Het CDA als catch-all partij?*, [in: ] K. van Kersbergen, P. Lucardie & H. Martien Ten Napel (eds.), *Geloven in macht, de christendemocratie in Nederland*, Het Spinhuis 1993, Amsterdam, pp. 61-77.

A. P. M. Krouwel, *The catch-all party in Western Europe 1945-1990. a study in arrested development: A study in arrested development*, PhD dissertation, VU University Amsterdam 1999.

8 J., Karreth, J. T. Polk & C. S. Allen, *Catchall or Catch and Release? The Electoral Consequences of Social Democratic Parties' March to the Middle in Western Europe*, [in: ] *Comparative Political Studies*, vol. 46 issue 7, 2013, p. 814.

9 L., March, *Contemporary Far Left Parties in Europe. From Marxism to the Mainstream*, Bonn/Berlin: Friedrich Ebert Stiftung, 2008.

of the welfare state and opposition to austerity policies, the radical left has become more acceptable to larger numbers of left-wing voters. In addition, the radical left also aligned itself with the broader left political convictions, adopting an eco-socialist strategy (especially in Scandinavia) and engaged into a populist, anti-elitist rhetoric blaming the social democrats for abandoning the “working man”. While the social democrats tried to appeal to the broader middle class by walking the “Third Way”, the radical left could easily accuse social democrats of betraying their traditional ideas, policies and supporters. One should note that the radical left – socialists, communists, pacifists – have challenged the centrist social democrats from the early inception of the moderate left, and that accusations of such betrayal have been part and parcel of the discourse on the left.

Nevertheless, recent critics argue that this attack now resonates more because social democrats in order to achieve or maintain coalition potential, embraced much of the pro-capitalist, neo-liberal agenda over the 1980s and this diluted their defence of welfare state provisions, trade unionism, social equality and justice, redistribution of wealth and knowledge, as well as abandoning the protection of workers’ rights through policies of flexible labour markets<sup>10</sup>. These policy shifts provided their left-wing challengers with an opportunity to move in on the traditional social democratic electoral turf.

Moreover, **radical left parties courted traditional social democratic voters by maintaining their union and neighbourhood activism, defending public ownership of crucial industries, full employment and Keynesian macro-economic policies.** This strategy proved successful as in many countries social democrats are electorally weakened while the radical left enjoys increasing voter support, albeit that many voters oscillate within the left-wing party block.

**Apart from the fact that the radical-left was able to position itself in the social democratic heartland on economic issues, they have an electoral edge over social democrats in that they can be more critical towards the process of European integration. Most politicians on the radical left portray the nature of the EU as a mere ‘capitalist project’, and decry the elitist, bureaucratic way in which decisions at the EU level are taken<sup>11</sup> .**

Furthermore, despite substantial ideological differences, radical left and radical right parties have similar preferences for national self-rule and (economic) self-determination<sup>12</sup>,

10 T. Bale, A.P.M. Krouwel, C. Green-Pedersen, K. R.Luther, & N. Sitter, *If You Can't Beat Them, Join Them? Explaining Social Democratic Responses to the Challenge from the Populist Radical Right in Western Europe*, [in: ] *Political Studies*, vol. 58, issue 3, 2010, pp. 410-426.

11 N. Startin, & A. Krouwel, *Euroscepticism Re-galvanized: The Consequences of the 2005 French and Dutch Rejections of the EU Constitution*, [in: ] *Journal of Common Market Studies*, vol. 51 issue 1, 2013, pp. 65-84.  
Morris, M. *European leaders must be wary of rising Eurosceptic populism from both the right and the left*. LSE European Politics and Policy (EUROPP) Blog., 2012

12 D. Halikiopoulou, K., Nanou, & S. Vasilopoulou, *The paradox of nationalism: The common denominator of radical right and radical left euroscepticism*, [in: ] *European journal of political research*, vol. 51 issue 4, 2012, pp. 504-539.

## ←NEXT LEFT→

which intensifies their opposition to (economic) globalization<sup>13</sup>. **Contrary to the libertarian core of social democracy, radical left parties and voters tend to hold more conservative and nativist cultural values.** Some radical left parties, such as the Dutch SP in the 1980s also voiced anti-immigration policies, arguing immigrant workers that have to choose between adopting the Dutch nationality and culture or to return to their country of origin<sup>14</sup>.

**In our study we examine to what extent economic as well as cultural issues (in particular immigration and European integration) can explain voter shifts from social democratic parties to the radical left. We test three possible explanations for this shift:**

**H1:** Former social democratic voters switched to the radical-left because they have more consistent and traditional left-wing economic positions than those that remained loyal to the centre-left.

**H2:** Former social democratic voters have switched to the radical-left because of their anxiety with on-going European integration.

**H3:** Former social democratic voters have switched to the radical-left because they have more socially conservative values compared to voters that remained loyal to social democracy.

## Data and Method

To analyse voters who switched from the social democrats voters to the radical left, we utilize large N opt-in data from the pan-European VAA EUvox. Through online VAAs, prospective voters were able to compare their own policy preferences with the stated policy positions of parties running in an election. This online questionnaire allows for asking more specific and larger set of substantive policy positions of respondents, compared to the fewer and very general items included in conventional questionnaires of national election studies. Due to the 'instant reward' of a personalized voting advice, VAAs allow us to ask respondents a wide range of policy positions and a larger number of items than traditional election surveys. We collected responses from European voters on economic issues, matters of European integration, and the way society functions. On a battery of 30 questions, voters could position themselves over a 5-point Likert scale with the following answer categories: "totally disagree", "somewhat disagree", "neutral", "somewhat agree", "totally agree". In addition, we asked respondents for their likelihood to vote for all of the relevant parties. Another advantage is that the collected data are available immediately,

13 Burgoon, B., *Inequality and anti-globalization backlash by political parties*, European Union Politics, vol. 14, issue 3, pp. 408-435.

14 P. Van Der Steen, *De doorbraak van de 'gewone mensen'-partij. De SP en de Tweede-Kamerverkiezingen van 1994*, [in:] *Jaarboek DNPP 1994*, pp. 172-189. Groningen: DNPP.



while national elections surveys based on probability sampling often take months to be compiled.

Online VAA opt-in surveys generate non-probability samples, so results cannot be generalized to the total population. Datasets collected online generally suffer from problems of under-coverage and self-selection that can potentially bias estimates<sup>15</sup>. However, there are also benefits to opt-in web surveys. First, the VAA for the 2014 EP election allowed us to gather unparalleled amounts of data from more than 2 million voters across Europe, combining wide-ranging information about their political behaviour, opinions and background characteristics. The large amount of information from each respondent allows us to delve deeper into the electoral determinants of particular voter groups. Another benefit is that computerized self-administration reduces measurement error relative to other modes of data collection, increasing both the level of reporting and the report accuracy of opinions and attitudes compared to more “conventional” surveys<sup>16</sup>. Moreover, online survey questions are answered more accurately since they are answered in private, and thus, free of peer pressure introduced by interviewers<sup>17</sup>. This combination of self-selection and self-administration leads to a pool of respondents less likely to misreport their preferences and behaviour, and thus measurement errors should be smaller<sup>18</sup>. EUvox offered users an instant ‘reward’ in the form of an ‘advice’ of which candidate most closely represents the users’ own preferences, which intensified the incentive to be truthful and accurate.

Here we only analyse those voters who recalled voting for a social democratic party in the previous national elections in the Netherlands, Germany, Sweden and Denmark. These are four crucial West European cases in which both social democratic and radical left parties have long co-existed and consolidated their positions as relevant actors in their countries’ party system: the Labour Party (*Partij van de Arbeid*, PvdA) and the Socialist (*Socialistische Partij*, SP) party in the Netherlands; the Social Democrats (*Sveriges socialdemokratiska arbetareparti*, SAP) and the Left party (*Vänsterpartiet*, V) in Sweden; the Social Democrats (*Socialdemokraterne*) and the Socialist People’s Party (*Socialistisk Folkeparti*, SF) in Denmark and the Social Democrats (*Sozialdemokratische Partei Deutschlands*, SPD)

15 J. Bethlehem, *Selection Bias in Web Surveys*, [in: ] *International Statistical Review*, vol. 78, issue 2, 2010, pp. 161–88.

M. Hooghe & W. Teepe, *Party Profiles on the Web: An Analysis of the Logfiles of Nonpartisan Interactive Political Internet Sites in the 2003 and 2004 Election Campaigns in Belgium*, [in: ] *New Media & Society*, vol. 9, issue 6, 2007, pp. 965–85.

16 F. Kreuter, S. Presser & R. Tourangeau, *Social Desirability Bias in CATI, IVR, and Web Surveys: The Effects of Mode and Question of Sensitivity*, [in: ] *Public Opinion Quarterly*, vol. 72, issue 5, 2008, pp. 847–65.

J. W., Sakshaug, T. Yan, & R. Tourangeau, *Nonresponse Error, Measurement Error, and Mode of Data Collection*, [in: ] *Public Opinion Quarterly*, vol. 74, issue 5, 2010, pp. 907–33.

17 K. Olson, *Survey Participation, Nonresponse Bias, Measurement Error Bias, and Total Bias*, [in: ] *Public Opinion Quarterly*, vol. 70, issue 5, 2010, pp. 737–58.

18 J. W. Sakshaug, T. Yan, and R. Tourangeau, *Nonresponse Error, Measurement Error, and Mode of Data Collection*, [in: ] *Public Opinion Quarterly*, vol. 74, issue 5, 2010, pp. 907–33.

and the Left (*Die Linke*) in Germany. We run logistic regression analyses to test three separate models containing items that capture the substance of the three aforementioned hypotheses to see which most plausibly explains the vote shifts in favour of the radical left. Each model contains independent variables pertaining to attitudes towards economic policies (Model 1), towards European integration (Model 2) and towards cultural/moral values (Model 3). We also run a full model (Model 4) containing all independent variables from the three models, along with background items such as age, education and gender, to control for structural effects. We use the 2014 European Parliament vote intention of Dutch, German, Danish and Swedish respondents that voted for a social democratic party in the previous national election (Social democratic party=0; Radical left party=1) as the dependent variable.

## Results

First, table 1 shows the vote intention in the European election of those who voted for a social democratic party in the previous national election. As can be clearly seen, many voters that supported the social democratic party in national elections now intend to switch allegiance. While the SPD still holds on to 65 per cent of their voters, the SAP almost 58 per cent, and the Danish SD 56 per cent, only 35 per cent of voters that supported the PvdA in the parliamentary election of 2012 now say they remain loyal. Note, however, that less than 10 per cent of the switchers intend to support the Socialist Party, while most move to other parties. In Sweden, Denmark and Germany these percentages are somewhat higher, but only in Sweden the largest proportion of defectors migrate to the radical left. Overall, between 10 and 13 per cent of those who supported social democracy in the previous national elections, switched to the radical-left in the European election.”

To reveal what issues drove former social democratic voters to switch to the radical left, we present logistic regressions in Tables 2, 3 and 4. Table 2 clearly shows that what drove former Swedish social democratic voters in the arms of the radical left challenger Vänsterpartiet: they oppose free market policies, are in favour of higher taxation of the rich and against spending cuts by the government. They believe that banks that are rescued with public money should be in the hands of the state. Switchers to the radical left have a clear economically left-wing opinion structure. In addition, these switchers believe that EU membership is bad for Sweden, oppose Sweden joining the Eurozone and believe that European integration has gone too far. We find that in Sweden there is a substantial effect from the items related to European integration, indicating that the differences in issue positions between SAP and Vänsterpartiet on Europe had a considerable explanatory effect.

Our third hypothesis does not hold in Sweden: switchers from SAP to Vänsterpartiet are not more socially conservative than those who remained loyal. We find mixed results with our

**Table 1. 2014 EP elections vote intention of voters who supported a social democratic party in previous national election**

Sweden			Germany			Netherlands			Denmark		
Party	N	Percent	Party	N	Percent	Party	N	Percent	Party	N	Percent
SAP	5426	57,7%	SPD	661	65,3%	PvdA		35,9%	SD		56,2%
V	1260	13,4%	Die Linke	108	10,7%	SP		9,7%	SF		10,4%
C	51	0,5%	CDU/ CSU	19	1,9%	CDA		2,5%	RV		5,9%
FP	103	1,1%	Grünen	115	11,4%	PVV		2%	KF		1,6%
M	38	0,4%	FDP	15	1,5%	VVD		0,6%	LA		1%
KD	50	0,5%	AfD	39	3,9%	D66		17%	DF		15%
Greens	938	10,0%	Pirate	25	2,5%	GL		24,3%	V		1,6%
SD	715	7,6%	Other	30	3%	CU-SGP		1,2%	FmodEU		7,6%
Pirate	167	1,8%				50PLUS		2,5%	Other		0,7%
FI	590	6,3%				PvdD		3%			
J	34	0,4%				Other		1,3%			
Other	26	0,3%									
Total	9398	100%	Total	1012	100%	Total	2099	100%	Total	10315	100%

Source: EUvox, 2014

cultural model: on the one hand switchers are more favourable, than those who continued voting for SAP, to progressive policies such as adoption rights for same sex couples, minor punishments for less serious crimes and gender quotas in large companies' boards. Yet on the other hand, they are less likely to approve of multiculturalism. Previous centre-left voters who switched to Vänsterpartiet are also more favourable towards allowing the downloading of copyright protected material. The overall model reveals that background variables have very little explanatory power, with the exception of age: younger voters were more likely to switch from SAP to Vansterpartiet compared to older generations of voters. This is a fairly common pattern, as young voters are often far less attached to a specific political party and thus more prone to switching electoral allegiance. In the overall model the effect the economic variables declines, as both loyal SAP voters and switchers have largely similar economic preferences, yet the items related to European integration remains the same. This is good news for those who believe that European elections should be driven by European issues, but it is bad news for SAP, as many left-wing voters felt closer to the radical left Vansterpartiet on these issues. To paraphrase: it was not the economy, it was Europe!

For Germany we find a similar pattern (see table 3). The opinions of voters (and parties) on European integration drove the voter exchange between SPD and Die Linke. Although switchers from social democracy to the radical left are not anti-EU, they are more likely to

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favour Germany's exit from the Eurozone and more in favour of organizing referendums to decide on EU treaties (rather than parliament ratifying them). They are also in opposition to more active international interventionism in that they do not favour imposing more stringent economic sanctions on Putin's Russia. As model 1 shows, switchers from SPD to Die Linke are clearly left-leaning: they strongly oppose a more flexible labour-market by making it easier to fire workers, they oppose IMF loans to solve the crisis, are against free market in healthcare and favour redistribution of wealth. Interestingly, these switchers do not all strongly oppose cutting government spending to resolve the crisis and are also in favour of downsizing government by reducing the number of public sector employees. Our test of conservatism versus libertarianism generates a (perhaps confusing) pattern where switchers from SPD to Die Linke oppose privacy restrictions for the purpose of combatting crime, yet they seem to also be against same sex marriage. Contrary to Sweden, it seems that in Germany older SDP voters and those with lower educational attainment are more likely to switch to Die Linke than younger generations and people with higher education. This – somewhat different - pattern in opinions and background variables might be explained by the fact that the electoral dynamic between the SPD and Die Linke is primarily situated in the East of Germany, where social, demographic and opinion patterns differ from the West.

For the Netherlands we find that switchers from the moderate PvdA to the more radical SP are also driven to do so by their economic preferences, yet there are stronger effects from items related to opposition to (further) European integration. Those who switched to the radical left are in favour of the Netherlands leaving the Eurozone (but not the EU) and restricting labour migration from newer Eastern European member-states. They believe that EU membership has been bad for the Netherlands and that support for financially weaker EU states should stop. They oppose redistribution through European institutions and want the EU to allow members states to run higher deficits. As in Sweden and Germany, switchers from the moderate to the radical left are also more left-wing than those who remain loyal to the centre-left. Switchers from PvdA to SP favour higher taxation on those with higher incomes; they oppose free market mechanisms in healthcare and fiercely resist flexibilisation of the labour market by making it easier to fire employees. Dutch switchers to the radical left are also more conservative on the moral-cultural dimension than loyal social democratic voters: they are more likely to view Islam as a threat and to oppose multiculturalism. Additionally, defectors to the radical left are less eager to support granting adoption rights to same-sex couples. However, in the overall model the effect of these cultural issues largely disappears and what remains significant is opposition to free market forces (in the labour market and health care) and opposition to European integration.

In Denmark, we see economic determinants as the most important factor explaining the shift of support of former social democratic voters to the radical left (see Table 5). Again, we find that those who remained loyal to the social democrats are less likely to oppose

neoliberal economic policy such as free market mechanisms in healthcare, limiting state intervention in the economy, making it easier for companies to fire people and borrowing from the IMF. Conversely, former social democratic voters who switched to the SF are more left-wing and more in favour of socio-economic redistribution. With regard to European issues, we see a somewhat erratic pattern that nevertheless fits with our expectations. Switchers are more likely to see the European Union unfavourably; they think Denmark should never adopt the Euro and that EU membership has generally been a bad thing for the country. Interestingly, loyal social democratic voters want more restrictive (labour) immigration and are also less supportive of providing Danish welfare to European migrants than those that switched to the radical left. Those with radical left tendencies simply show more solidarity with and generosity towards labour immigrants. With regard to cultural issues, we find that switchers to the radical left have a much more libertarian outlook than loyal social democratic voters. Those who shifted their support to SF in 2014 are less likely to agree with the statement that immigrants should adapt to Danish values. They also disagree, to a much larger extent than loyal social democratic voters, that privacy can be restricted in order to combat crime. Switchers are also much more likely to favour the decriminalization of cannabis. In short, they have a much more libertarian and progressive outlook. The full model confirms the general thrust of these analyses, but additionally reveals that education is also relevant: highly educated voters were more likely to switch to the SF than lower educated voters. Interestingly, men were more likely to switch to the radical left than women.

In sum, **all four cases show that voters who switch from centrist social democratic parties to the radical left are driven by strong sentiments against neo-liberal, free-market capitalism. Nevertheless, because we are examining shifts within the left, we also see strong non-economic drivers of party choice. In all cases we find that most voters who switch over to the radical left are more strongly opposed to European integration (which they may see as a free-market project) and want the Eurozone to be dismantled.** The single currency – and the stricter financial budget regulation from Brussels - is highly unpopular on the radical left in Northern Europe as it clearly weakens national governments to implement national macro-economic policies to combat the economic crisis and in particular unemployment. Radical left voters would be very happy to see an increase of taxes for the rich and running up higher budget deficits, in order to maintain welfare state arrangements and government spending on social services. That said, it was not only economics: opposition to (further) European integration is a strong driver for voters to switch from a social democratic party to a more radical left-wing alternative. Apart from the Dutch case, we find very low effects of cultural issues and generally of attitudes on the general progressive-conservative conflict dimension. Thus, we cannot confirm with certainty, that those who switch to the radical left have more conservative or libertarian outlook for society, as the results differ across cases.

## Conclusion

Moderate social democratic parties are clearly facing electoral challenges and competition on multiple fronts, from Green, radical left as well as centre right parties. While some observers and journalists might assume that the main challenge for social democratic parties comes from the radical left, we showed that only in Sweden these radical left parties constitute the most important haemorrhage in popular support. In Germany and the Netherlands, most social democratic voters opted for Green competitors, while in Denmark it was surprisingly the anti-immigrant People's party which attracted the largest proportion of defecting social democrats.

More generally, this paper addressed the question whether and to what extent left-wing voters are radicalising under an on-going economic crisis. **Contrary to a widespread misconception we found that – when all factors are taken into account - the migration of social democratic voters to the radical left is not only driven by economic preferences concerning the conservation welfare provisions and state-interventionists policies of socio-economic redistribution.** Opposition against neo-liberal, pro-market austerity policies to combat the crisis are also visible among those who remain loyal to social democratic parties. This relatively high level of similarity of loyal centre-left voters and those who shift to the radical left on economic issues, allowed us to capture the effect of issues of (labour) immigration and European integration on electoral volatility among left-wing parties in four countries. **Our findings reveal a far more complex pattern where economic grievances only explain part of this vote migration and that – at least in the 2014 European election - the main driver of switching to the radical left appears to be opposition to (further) European integration.**

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Table 2. Determinants Explaining the vote intention for Vänstrepartiet of Those Who Voted for Socialdemokraterna in 2010: Logistic Regression Estimates (Dependent variable: vote for SAP=0; vote for Vänsterpartiet =1)

	Economy		European Union		Social Values		Overall	
	B	SE	B	SE	B	SE	B	SE
(Constant)	-4,95***	0,42	-3,06***	0,19	-1,84***	0,14	-6,24***	0,73
Age							-0,59**	0,22
Education							0,26	0,16
Gender (Male=0)							-0,03	0,11
Free market makes healthcare system function better	-0,74**	0,25					-0,83*	0,36
Increase taxes for highest incomes	0,77***	0,19					0,66*	0,29
Restrict private schools' profits	1,40***	0,37					1,40*	0,56
Lower taxes stimulate work and entrepreneurship	-0,58***	0,14					-0,27	0,21
State should not intervene in economy	-0,18	0,14					-0,25	0,22
It is better to raise taxes than to cut spending	0,54**	0,19					0,27	0,27
Employers should be able to make exceptions from LAS when downsizing	0,32**	0,11					0	0,17
Banks rescued by the state should become state-property	1,38***	0,18					0,94***	0,28
Sweden should adopt the Euro			-1,04***	0,19			-0,84**	0,28
EU membership is bad for Sweden			2,38***	0,15			2,10***	0,22
European integration has gone too far			0,96***	0,18			0,87***	0,24
The EU should impose economic sanctions on Russia			-0,53***	0,12			-0,53**	0,17
Restrict labour rights of EU citizens			-0,29*	0,12			-0,04	0,19
EU should allow countries to have higher budget deficits			0,79***	0,14			0,70***	0,20
The EU should redistribute resources			-0,1	0,13			-0,28	0,19
Downloading copyright material should be allowed					0,80***	0,10	0,69***	0,15
Adoption rights for homosexual couples					0,31**	0,12	0,17	0,18
Gender quotas in company boards					0,22*	0,10	0,29	0,17
Multiculturalism is good for Sweden					-0,90***	0,12	-0,03	0,22
Minor crimes punished with community service					0,40***	0,12	0,50**	0,18
N	6153		5685		6300		2996	
Model Chi Square	265,57		775,54		138,88		513,06	
***p < .001 **p < .01 *p < .05								
Source: 2014 Euvox								



Table 3. Determinants Explaining the vote intention for Linke of Those Who Voted for SPD in 2013: Logistic Regression Estimates (Dependent variable: vote for SPD=0; vote for Die Linke=1)

	Economy		European Union		Social Values		Overall	
	B	SE	B	SE	B	SE	B	SE
(Constant)	-0,89	0,52	-0,32	0,41			1,51	1,18
Age							1,43**	0,54
Education							-1,50*	0,72
Gender (Male=0)							-0,07	0,41
Free market makes healthcare system function better	-1,32**	0,51					-1,56*	0,68
Reduce number of public sector employees	1,43***	0,45					1,30*	0,59
State should not intervene into economy	-0,83	0,51					-1,74**	0,65
Wealth should be redistributed	0,3	0,47					0,88	0,66
Cutting government spending to solve economic crisis	0,17	0,45					-0,08	0,57
It should be easy for companies to fire people	-1,35*	0,70					-0,82	0,89
IMF loans to solve crises	-1,98***	0,49					-0,76	0,64
Germany should leave the Eurozone			1,50*	0,62			1,82*	0,90
Restrict labour rights of EU citizens			-0,43	0,48			0	0,72
EU should distribute resources			-0,08	0,46			-0,41	0,72
EU membership is bad for Germany			-0,05	0,69			-0,37	1,01
EU treaties decided by parliament, not in a referendum			-1,66***	0,42			-1,21*	0,53
EU should impose economic sanctions on Russia			-2,07***	0,37			-1,83***	0,50
Immigrants must adapt to German values					0,24	0,40	-0,45	0,62
Restrict privacy to combat crime					-1,17**	0,40	-0,88	0,59
Same sex couples should be able to marry					-1,30***	0,37	-0,49	0,58
Women should decide on matters of abortion					0,03	0,48	-0,77	0,69
Legalize cannabis					0,45	0,35	0,72	0,52
N	678		743		739		519	
Model Chi Square	50,31		87,01		25,01		116,9	
***p < .001 **p < .01 *p < .05 Source: 2014 Euvox								

Table 4. Determinants Explaining the vote intention for SP of Those Who Voted for PvdA in 2012: Logistic Regression Estimates (Dependent variable: vote for PvdA=0; vote for SP=1)

	Economy		European Union		Social Values		Overall	
	B	SE	B	SE	B	SE	B	SE
(Constant)	-1,71	0,47	-2,26***	0,5	0,92***	0,55	-0,82	1,31
Age							0,82	0,56
Education							-0,93	0,59
Gender (Male=0)							0,38	0,27
It should be easy for companies to fire people	-2,37***	0,48					-1,65*	0,66
Free market makes healthcare system function better	-1,59***	0,44					-2,01**	0,66
State should not intervene into economy	0,71	0,41					-0,72	0,67
Wealth should be redistributed	-0,54	0,38					1,38*	0,69
Banks in financial difficulties, should be nationalized	0,09	0,35					1,12	0,57
Increase taxes for highest incomes	1,93***	0,47					0,87	0,67
Cutting government spending to solve economic crisis	-0,08	0,36					-0,89	0,58
Netherlands should leave the Eurozone			2,91***	0,74			2,95***	0,92
Close borders for Eastern EU workers			1,98***	0,46			2,00***	0,60
EU should distribute resources			-0,66	0,47			-1,45*	0,62
EU membership is bad for Netherlands			1,98***	0,61			1,62*	0,77
Netherlands should leave the EU			-0,48	0,78			-0,69	0,99
EU should allow countries to have higher budget deficits			1,25**	0,44			1,12*	0,52
it is good that NL supported financially weak countries			-2,23***	0,53			-2,65***	0,67
Multiculturalism is good for Netherlands					-2,27***	0,47	-0,45	0,72
Restrict privacy to combat crime					-0,27	0,32	-0,57	0,49
Adoption rights for homosexual couples					-1,02**	0,38	-1,03	0,58
Protecting environment more important than economic growth					-0,86*	0,37	-0,76	0,58
Islam is a threat to Dutch values					2,11***	0,37	1,01	0,56
N	896		915		937		806	
Model Chi Square	78,13		348,87		142,9		388,49	

\*\*\*p < .001 \*\*p < .01 \*p < .05 Source: 2014 Euvox

Table 5. Determinants Explaining the vote intention for Socialist People's Party of Those Who Voted for SD in 2010: Logistic Regression Estimates (Dependent variable: vote for SD=0; vote for Socialist People's Party=1)

	Economy		European Union		Social Values		Overall	
	B	SE	B	SE	B	SE	B	SE
(Constant)	-1,23***	0,16	-2,58***	0,18	-1,81***	0,25	-3,33***	0,48
Age							-0,22	0,17
Education							1,12***	0,26
Gender (Male=0)							-0,29**	0,09
Free market makes healthcare system function better	-0,47***	0,13					-0,42*	0,17
Reduce number of public sector employees	-0,28	0,16					-0,09	0,19
State should not intervene into economy	-0,58***	0,15					-0,53**	0,19
Wealth should be redistributed	0,68***	0,16					0,63**	0,21
Cutting government spending to solve economic crisis	-0,31	0,17					-0,16	0,21
It should be easy for companies to fire people	-0,26*	0,12					-0,23	0,15
IMF loans good to solve crises	-0,87***	0,14					-0,55**	0,18
Denmark should never adopt the euro			0,52***	0,10			0,71***	0,13
Restrict labour rights of EU citizens			-0,28*	0,14			-0,12	0,18
The EU should redistribute resources			0,23	0,13			0,11	0,17
EU membership is a bad thing for Denmark			0,73***	0,16			0,80***	0,20
EU integration has gone too far			-0,09	0,14			0,05	0,19
EU citizens should be entitled to welfare			0,39**	0,12			0,35*	0,16
Eastern EU immigration weakening economy			0	0,14			0,17	0,18
EU should help southern countries in crisis			0,29	0,16			0,17	0,21
Immigrants must adapt to Danish values					-0,55***	0,12	-0,32	0,18
Restrict privacy to combat crime					-0,56***	0,11	-0,43**	0,15
Same sex couples should be able to marry					0,19	0,12	-0,08	0,16
Women should decide on matters of abortion					0,42	0,24	0,64*	0,32
Legalize cannabis					0,44***	0,09	0,58***	0,12
N	6123		6540		6706		4467	
Model Chi Square	146,89		77,83		106,45		243,59	
***p < .001 **p < .01 *p < .05								

Source: 2014 Euvox



Oriol BARTOMEUS

## **The Emergence of the New Politics: *Podemos***



**Keywords:**

**Podemos - Leftist Movements - New Politics – Crisis - Social Democracy**

**Abstract:**

Podemos has shaken the Spanish political arena since it was able to win 1.2 million votes and 5 seats at the European elections last May. It appeared to be the most important opponent of PSOE on its left side, able to gain the leftist voters disenchanted with the Socialists after the Zapatero last government. But Podemos is not a traditional leftist party. It is part of the new political movements that has spread in almost all the European countries after the crisis began in 2008. What started as an economic crisis has evolved into a political challenge, which has redefined the society and the democratic system. In this context, social democrats has failed to propose an answer to the middle and working class voters, and the active part of them (young, employed, urban) seemed to see in Podemos (as similar organizations in other countries) a way to express their discontent with the traditional forces, not only on the left, but from left to centre right.

## 1. The “Invisible” Left

Since the beginning of the democratic period, in the mid-1970s, the (radical) left has never been a real competitor to the Socialist Party. That is despite the numeric importance of leftist voters within the Spanish partisan system, where a steady 10% of voters places themselves on the far left of the left-right scale<sup>1</sup>. Historically it has been the Communist Party (PCE) that remained the major party on the left from PSOE. It had been the principal opponent to Franco dictatorship.

Despite the ideological evolution of the Spanish Communists since the 1950s, and its important role on the transition to democracy, the PCE did not become the first leftist party on the 1977 first general election after dictatorship. PSOE appear surprisingly as the biggest force on the left side, although (or maybe because of) it was a young party, with young leaders. By contrast, PCE was seen as an *old* 1930's party, linked to the memory of the Civil War and the Franco's period. In those first democratic elections since 1936, the Socialist won 5.3 million votes, and the Communists 1.7 million. **Spanish leftist voters clearly support the new over the old, the future over the past.**

**Spanish leftist voters clearly support the new over the old, the future over the past.**

Two years after, the second general elections gave almost the same result for the leftist forces: 5.4 million for PSOE, 1.9 for PCE. The Communists only were capable of over-winning the PSOE at the local level in some important cities. Despite of this, the bad results on the national level and the impossibility of fulfilling the expectations of becoming the first party on the left, caused a major internal crisis in the Communist party and a deep split between the leadership (linked to the *Eurocommunism* movement) and the *hard* side of the party (what was called then the “pro-soviet”).

The situation for the Communists worsened after the attempt of *coup d'Etat* of 1981 and the implosion of the centrist party, which has been ruling Spain since the transition. That is because it created a wave of confluence to the Socialist party, which was seen

<sup>1</sup> Positions 1 and 2 of a 1 to 10 scale.

the only capable force of preserving the *newborn* democratic system. The 1982 general election produced the greatest majority of PSOE in Congress ever, with 10 million votes (47% of valid vote) casted in their favour and the falling of Communist vote. They lost more than half the vote collected only three years ago.

On the left, Socialist got 57% of the vote, while PCE got only 15%. This was due to a very specific context, linked to the survival of democratic system against the forces (military mainly) that tried to go back to an authoritarian regime. Despite of this, it is true that the 1982 election marked clearly the relationship between majority and minority on the left side of the party system, and at the same time established the priority of PSOE on the centre side of its political space.

The centre has always been numerically more important than the left in the Spanish electorate. **While 10% of the voters places themselves on the left, more than double places on the centre, so strategically it has been more important for the Socialists to move to the centre instead of moving to the left, despite this movement can cause some problems on this side, as it has happened sometimes during the 1980's.**

The centrist policies of PSOE first governments give some political air to its leftist competitors. The 1986 general election was held months after the referendum for the full integration of Spain in the NATO military organization, a question that set the left on fire. A consequence of the mobilization for the “no” at the referendum was the transformation of the old Communist party into a fresh coalition of leftist forces, which include pacifist, ecologist, feminist and some former Communist who had abandoned the party at the beginning of the eighties. The new United Left (IU, *Izquierda Unida*) got better results and was able to recover some positions lost in 1982 and in the 1989 elections was able to dispute the primacy of Socialists on the left vote. For the first time, the leftist force got more support than PSOE, although both parties were very close (38 to 30% of the left vote).

The 1989 general election represented a major shift on the electoral behaviour of the left, and it was coherent with the degradation of PSOE support on this area and the growth of IU vote. At the same time, the far right party *Alianza Popular* transforms itself into a centre-right party (PP, *Partido Popular*) with the aim to win the centre, as a necessary step prior to electoral victory.

This movement on the other end of the left-right scale has a clear repercussion on the left, by pumping up the Socialist vote and put an end to the progression of IU support.

## **2. Strategic Vote: Trying to Stop the Right**

The progressive weakening of the support to PSOE amongst left voters, linked to the performance of Socialists governments from 1982 on, quite surprisingly stopped and saw

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the reverse turn in the beginning of the 1990s. If on 1989 election IU scored better than PSOE by seven points, four years later, without a major change in the government policies, the Socialist vote came as first with five points ahead of the IU.

Why did this happen? Mainly because the rise of the right and the real possibility of a victory by the new PP. This option made a significant part of the left voters, who had support IU in the past, choose the Socialists in order to avoid PP's victory. Following the CIS survey after the election, an impressive 8% of PSOE voters declare they have supported Socialist to avoid a right wing government. So, the Socialist victory in the 1993 general election is mainly due to this strategic approach presented by the majority of the leftist vote. PSOE overcame PP in less than a million votes on that election.

The 1993 is the first of a series of elections in which PSOE was recovering the left vote, but again only because the Socialists were seen as the only party capable to stop a PP victory. To that end, it is essential to mention the specificity of the Spanish electoral system, which is a proportional one, but with strong majority effects. **The members of the Spanish Congress are elected on a base of lists in provincial circumscriptions, like in many other proportional systems. The difference with Spain is that there are many provinces with very few populations that consequently elect many few deputies. In those cases, the majority rule plays a big role, favouring the biggest parties and disfavouring the little ones. The output is an almost bipartisan system, in which only PSOE or PP have had a real chance to win a seat.**

This has a direct impact in the support of the other parties, like IU, because a portion of their supporters votes for the bigger left party (PSOE in this case) in order to avoid a conservative victory. This mechanism takes place only when the result is close and unpredictable, as it happened in 1993 and 1996. In this year, the PSOE vote to avoid PP's victory climbs to 18% of the whole support to Socialists (1.6 million PSOE voters who declare they vote to stop a government by PP).

The strategic vote in the left did not work in the 2000 general election, because it was clear that PP will keep in office. So, surveys detect a rise in abstention among left voters.

In 2004, though, the scenario has changed after a last mandate of José María Aznar as the Prime Minister. The involvement of Spain in the war on Iraq, the wreck of a petrol ship in front of Galicia and the subsequent ecological disaster, the infamous Aznar's daughter wedding, as also finally the terrorist attack on the trains in Madrid four days before Election Day and the governmental attempt to distract attention from the radical Muslim terrorists authorship - these factors created the environment for a enormous mobilization of the left. The support to PSOE grew eight points, thanks to the strategic vote. 15% of the voters who choose Socialist declare they vote to quick out PP from government, and 9% say so because of the terrorist attacks and PP's later behaviour. Together, 2.7 million voters, when the final distance between PSOE and PP was only of 1.2 million. A significant part of this strategic vote corresponded then also to left voters.



Four years later, the possibility of a return of PP to office pumped the Socialist vote among leftist voters to a 58%, a number only seen in 1982. Again, a differently from then, the vote against PP is a very significant part of PSOE's support. 12% of Socialist vote declared that they decided to vote for PSOE in order to avoid a new PP government. This translated to 1.3 million votes, - which was more that the PSOE final advantage over PP.

To conclude, **it seems fair to think that the recovering of Socialist support among the leftist voters during the 1990s and the first decade of the century has an "a-typical" nature, in the sense that it is a recover of resistance against the possibility of having a right wing government more than a shift of ideological connection with PSOE. This nature is important to understand what would come next.**

### 3. 2011: Crisis and Elections

The 2011 general election was carried on under the shadow of the financial crisis of 2008 and the difficulties of the Socialist government to moderate the free falling of the Spanish economy. All the surveys previous to the election pointed to a wide victory of PP, similar to the 2000 one, when the right obtained an absolute majority in Parliament.

On that same year there were local elections on May. **A week before Election Day 2011 a movement called 15M (because of the day it started, May 15<sup>th</sup>) appeared, claiming for a regeneration of democracy and politics. It was the first movement of a new left, born outside of the traditional parties and personalities.** The media impact of the movement was enormous, as they occupy the major squares in Madrid and Barcelona (an example for the later Occupy Wall Street). Despite of it, after some weeks of occupation, the movement faded away without evolving into the political sphere as an organized body.

Electorally, the 15M movement did not have any greater impact on the left, apparently. The Socialists lost 1.5 million votes and loose the important council of Barcelona. IU took advantage of the downside of PSOE, but it only grew in 0.4 million votes. The discontent produced a record in blank and null vote. Six months later, on the general elections, the Socialists lost 4.3 million votes, what means a 38% of their 2008 support. On the left, that meant going back to the 1989 vote (31%), but with a significant difference: IU was thirteen points below its 1989 result. Apparently, they stayed at home on Election Day.

On a CIS survey after the elections it is possible to see an important rise of answers like *"I did not vote to show my discontent"* or *"Voting is useless"* among the left voters, who stayed at home. This sounds similar to the more typical *"there is not an alternative that satisfies me"*.

Two crises were behind the demobilization of the left voter in 2011. The economic meltdown of the Spanish apparently flourishing economy and the inability of the Socialist government to handle it caused the escape of centre voters and left voters on the same

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time. The first ones, because they search on the right an option of “good” government, the second ones, because they thought there were no differences between left and right in the way to face the crisis. The first ones turn to PP (1.6 million following the postelection CIS poll), the left ones stayed home (difficult to say, but more than one million).

The second crisis is a Spanish one, and it is related to the democratic regime started in 1975. On the last years it has been possible to observe a growing criticism on the way institutions work in Spain. Of course, this is related on the way economic crisis has affected people, but on the same time it has something to do with the ageing of the Spanish democratic system and the estrangement with new generations, people who were not alive during democratic transition and who feel strange to some aspects of the period and claim for a change of some aspects related to how democracy work in Spain. This deep-rooted feeling is one of the catalysts of the 15M movement.

This is not a trend you only see in Spain but all over Europe, and I would say the world. Traditional parties are falling in support, while the *new* forces claim to speak up for a *better democracy* and for a *bigger implication of regular citizens in politics*. It is related to the crisis (15M, Occupy Wall Street, riots in Brazil and Turkey) but it goes further and has had different outputs, not all of them moving to the left, but also pushing nationalist movements in (say FN in France, AfD in Germany or the older Tea Party in USA).

**In Spain, although it has been one of the countries more hit by the economic crisis, discontent seemed not to generate a new political product, as it had happened in Greece or in Italy, where brand new forces (sometimes with less than a year of life) took the place of old traditional ones.**

**This was true until 2014 European elections, when the six-month old party *Podemos* won 1.2 million votes and five seats on the European Parliament. *Podemos* occupied the space that PSOE and IU left in the 2011 elections and did not get back on the three years in between. On the CIS survey it is possible to see where those voters come from. 30% of *Podemos* voters voted for PSOE on the 2009 European elections, while 16% voted for IU, 50% did not vote, some of them because they were under eighteen.**

The latest polls show that *Podemos* does not seem a short-lived option, but it has a strong support behind. On a July CIS survey it has an estimated vote of 15%, nearly double of IU's and only six points less than PSOE. Among leftist voters, *Podemos* is the first option, with three times more vote than the Socialists, who receive less than 10%.

**The idea of that as an overtaking on the left is even more real if we see the characteristics of *Podemos* supporter. They are significantly younger than the Socialists voters, more urban, with high levels of education and users of new technologies.** They look like the natural heirs of PSOE, but they perceive the Socialists are a traditional party (“*la casta*”, as *Podemos* leader call it), too tied up to *statu quo* interests to develop a policy in favour of citizens' interest.

#### 4. It's Not the Left, it's The New!

After the European Elections *surprise*, the surveys has shown a great penetration of *Podemos* support on the Spanish electorate, even at the regional level in those regions where they do not have organization or leader. An example of that is the Catalan case, where surveys put a possible *Podemos* candidacy on the third place in a regional election. The two last surveys of the major newspapers<sup>2</sup> show that *Podemos* could be the winner of the general elections if they were held right now, with around 28% of the vote (one point over the second, PSOE or PP).

**This puts *Podemos* in another dimension. It's not just a leftist party that attracts Socialist voters on its left side. It's is a party able to collect support in a wide ideological area, coming from the far left but going further than the socialist space alone. *Podemos* does not compete with PSOE for the leftist voters, it competes for victory.**

The last CIS survey<sup>3</sup>, held in October, shows the extraordinary diversity of origins of the vote to *Podemos*. Only half of its vote comes from left parties (30% are voters of PSOE in 2011, 17% of IU). The rest comes principally from non voters (abstention, young voters and blank voters, 24%), but also from a centrist Spanish nationalist party (UPyD, 5%) and from PP voters (7.4%). In summary, *Podemos* takes its support from almost all the parties, from far left to right.

It could be said that those, who voted for PP in the 2011 general elections and now declares his intention to support *Podemos* are in fact Socialist voters from the centre, who were attracted by the "better" management of economy by conservative parties. It's possible, although it is not demonstrable. In any case, if it is this way, it shows a significant capacity of *Podemos* to penetrate in moderate electorates.

Within the same survey it is possible to see the wide ideological range that covers *Podemos*. Of course, it is the first option of the voters placed on the far left, but it is also the first (closer to PSOE) on the centre-left, and it is the first also on the centre, collecting nearly double of support than PSOE or PP among centrist voters. *Podemos* collects in this space a significant 16% of its total amount of support. Part of this comes from PP voters of 2011, and part of UPyD voters.

So, **the emergence of *Podemos* cannot be understood only in terms of left and right. *Podemos* expresses a new conflict, linked to the economic crisis and the lack of response from the traditional politics.** The movement behind *Podemos* is the "*indignados*", but it is also the movement behind all the changes in the party systems all over Europe.

<sup>2</sup> *El Pais* (December 6<sup>th</sup> 2014) and *El Mundo* (November 24<sup>th</sup> 2014).

<sup>3</sup> 2.480 personal interviews conducted between 1<sup>st</sup> and 13<sup>th</sup> of October.

**The emergence of Podemos cannot be understood only in terms of left and right. Podemos expresses a new conflict, linked to the economic crisis and the lack of response from the traditional politics.**

In that sense, *Podemos* has based its offer on attacks against the traditional parties that have controlled the Spanish political system for the last decades. Its discourse also stresses the aging of the Spanish democratic regime and the incapacity of the elites to reform it. By doing this, it appeals to the generations who have not participated in the building of this regime in 1978, who represent more than 70% of the Spanish electorate. It is a generational change, not only a response to the economic crisis.

Following this, *Podemos* do not offer only a typical leftist program, but a complete revision of the Spanish political system with the aim of ending with the dysfunctions that are at the base of the corruption scandals. And by doing that, *Podemos* connects with a large majority of the electorate, who wants a major change of the political system, and not only in a "leftist" sense. The same CIS survey 42% of respondents said that "corruption and fraud" was one of the most important problems of the country (three years ago, a month before the general elections, it was just 5% who said so).

Even on the economic sphere, *Podemos* has moderated its discourse by adopting a more "social democrat" view in questions like public debt or taxes. The result of all this is that *Podemos* has captured a major portion of the disenchanted voters observed on the previous surveys.

From 2011 general elections on it was possible to see a growing disillusionment on the PSOE and on the PP electorate. In April 2014, two years after the election, the fidelity rate in both PSOE and PP was around 50%. So, five out of ten of those voters who have vote for them declared their intention to do different. But only a little fraction would like to vote for another party (11% of the PP vote, 17% of the PSOE, mainly to IU), the majority declares they would not vote or vote blank (18% on PP, 15% on PSOE) or they just showed undecided (nearly 20% on both). In general terms, one out of every five Spanish voters did not declare an electoral preference.

And then, *Podemos* gave them an option for reconnecting to politics. If we take the CIS survey of last October, we can see the faithful voter of PSOE and PP remains more or less the same, or even it has grown (each party would maintain 47% of their 2011 vote). But a significant piece of their disenchanted voter has just disappeared and now stays with *Podemos*.

*Podemos* also conquers the swingers. The amount of Socialist voters who declared their intention to vote for IU has dropped to almost disappear, the same with the PP voters who showed their intention to vote for UPyD. Apparently, *Podemos* has not affect the core voter of PSOE or PP, but it has attracted the votes around them, those who were waiting after falling apart.

For the Socialist that is not good news at all, since they need to win those voters to shorten the distance with PP. They even need the voters who support PP in 2011 after voting PSOE on previous elections, or those who did not turn out to vote. Now, the biggest part of them have found a place to stay in *Podemos*, after spending three years with no option to support.

It is true that *Podemos* affects also the possibilities of PP, and all the surveys suppose a very fragmented parliament after the elections that have to be held on the autumn of 2015 (or beginning of 2016). The scenario is a tie between PP, PSOE and *Podemos*, but whereas PP has a stronghold on the right voters, PSOE is facing competition on its traditional monopoly of the centre-left.

The October survey again is useful to see how *Podemos* is taking the dynamic part of the PSOE space, leaving to it the older generations. These are more faithful, but their future is well known: they are supposed to disappear in the next decade or so, and their natural replacement is exactly those who have shifted to *Podemos*.

PSOE only leads the vote intention between those who are more than sixty-five years old. Among those who are between thirty-five and fifty-four, there is a 1.5 voter of *Podemos* for each PSOE voter. The Socialist voters only overcome *Podemos* on small villages (less than two thousand citizens). In big cities there is 1.6 *Podemos* for each PSOE. The same tendency on academic levels: the vote for PSOE is majority only among less educated, while *Podemos* has more than 20% of the vote among secondary school degrees and university<sup>4</sup>. Finally, PSOE voters are majoritarian among peasants and retired, whereas the vote for *Podemos* overcomes 20% among students and professionals, but also unemployed and qualified workers.

*Podemos* requires an answer from the political system. It is a shout of thousands and thousands of voters who have waited for an answer and have not got one. *Podemos* (like UKIP, FN, Siryza, AfD, True Finns or Sweden Democrats) is not just a bluff that will vanish in a couple of months. They have come to stay among us for a long long time, because they are born of an unsolved political conflict.

**The appearance of this kind of movements affects all the parties, from left to right. But it draws a big question mark in front of social democrats, because they have always been the party of the future, and now they are noted as a conservative force of the past, part of the *statu quo* these movements want to overcome.**

The first reaction of PSOE to the growth of *Podemos* in the polls has been a typical reaction of an establishment party: underestimate them. When the surveys have revealed the persistence of *Podemos*, PSOE has change and it has started to attack, to identifying *Podemos* with the far left and the populist wave that extends all over Europe. PSOE has tried to defend its territory, the centre left, by pushing *Podemos* out. They have not gone

4 40% of all those who declare that they would vote for PSOE have primary degrees or less.

to the causes; they have not question why *Podemos* has appeared and why it has this significant success.

Due to the strength of *Podemos* vote, if the Socialists want to fight them they will have to understand what is on the basis of it, understand why an important amount of voters, a lot of them former PSOE supporters, have left them to go to *Podemos*. And they will find that this is not a movement of today, but something whose roots go far in time, at least to 2011 or 2010, when PSOE could not appear as the option to shelter the losers of the crisis, to bring hope to working and middle class voters, who have been the centre of its support for the last three decades.

## 5. And So, What?

It is not an easy question to solve, because there are lots of factors that explain the emergence of these new political organizations all over Europe. And to these different factors there is a new one particular for Spain, which is the generational gap between those who build the democratic regime in the late seventies and those who have born after democracy was established.

To concrete the factors, first we have the economic crisis, which is the crisis of coexistence of an ultraliberal globalized economy and national welfare states. Since the beginning of the century it is been clear that global economy deserves global governance if we do not want to end up in a world where the "real" government is ruled by big global corporations. The system of checks and balances between the state and the market at the national level has not its correspondence at the global level. There are no rules in this global sphere, no limits to the actors, although their acts impact on national, "real" economies.

**On the aftermath of the crisis it is been difficult for the national (or even the regional, like the Europeans) governments to impulse agenda for limitation of the global finance traffic.**

One of the major impacts of the collision at the global level has been the weakening of the state's capacity to control the economic fluxes. States have no longer the monopoly of the force, in the sense that there are lots of things that scape their control, because they are placed at the "global" level. Even the European Union has problems in controlling at a regional level. Not to talk at the global, where conferences and meeting have shown a very weak capacity to regulate thing like the climate.

The weakness of the state is related to its incapacity to finance itself, due in part to the impossibility to tax global finance transferences. Fiscal paradises, fiscal dumping (even among European partners), tax evaders, fiscal refugees; there are lots of ways to avoid taxation by individuals or companies. And the capacity of the states to cut them is lower than ever, even in a regional level like the European. One of the consequences of this is

the unbalance in the burdens of public spending. There is a segment of society who is free of this burden; meanwhile others have to support all the weight. A weight that is harder in a situation of crisis, when demands for social spending grow.

This unbalanced load, and the apparent impossibility to correct it, creates a major fracture in society. On one side, the ones that free from the state yoke, the global ones, released from their social duties; on another, the ones who want to scape but cannot, the employees, the small and medium companies, the public servants, with which salaries and revenues the state is financed; finally, those who do not have an income and depend of the public spending to survive, the old, the unemployed, the immigrants.

The emancipation of the “globals” leaves the social burden exclusively on the shoulders of the middle and working class, and the fiscal crisis of the states (the enormous public debt, not only in the PIGS countries) left nothing for them. The middle and working classes are net contributors to the state, not like in the last four decades, when they profit of public budget. The net beneficiary of the welfare state now is the lower part of society, the infraclass of unemployed, immigrants and poor in general. Then, is surprising that the middle class defends a weakening of the welfare state policies? Because this is what is behind the rising of policies to restrict the access to subsidies (even against European nationals) discussed in Great Britain or Germany, or the uprising against immigrants in Rome, as in Greece before, or even the growing of political options like the Progress parties in Scandinavia or Alternative for Germany (not to talk about Front National, UKIP and all the populist, anti-Europe parties).

The crisis has also created a necessity of belonging in a great part of the society who has felt left aside. This psychological effect is on the basis of the renationalization movements, that has a clear anti-European slant. But also this can be seen in group movements, sectarian, related to nationalistic or ethnic belongings, or even the anti-Muslim movements, like the German Pegida, who are able to mobilize a significant part of the working class against a so-called “islamization” of Europe. These movements are a way to fight isolation in a world that has lost its traditional guides, like the social class. We live in a society that oscillates between ultra-individualism and return to the tribe, between the individual in his bubble with all his need satisfied technologically, and the ones that search for a brother to whom lean on in a world that has left him aside.

**Between individuals and “tribals”, like between “globals” and “nationals”, there is not a single point of connection. One of the aspects of our days is the disappearance of the shared spaces, the places (not only physicals) where the different parts of the society met and discuss, and sometimes agree. The growing individualization of living (in work, but also in leisure) has led to a fading of the links that kept together the society. Even the traditional role of the middle class as the axis of the system is been eroding as the middle class slide down the slope of proletarianization.**

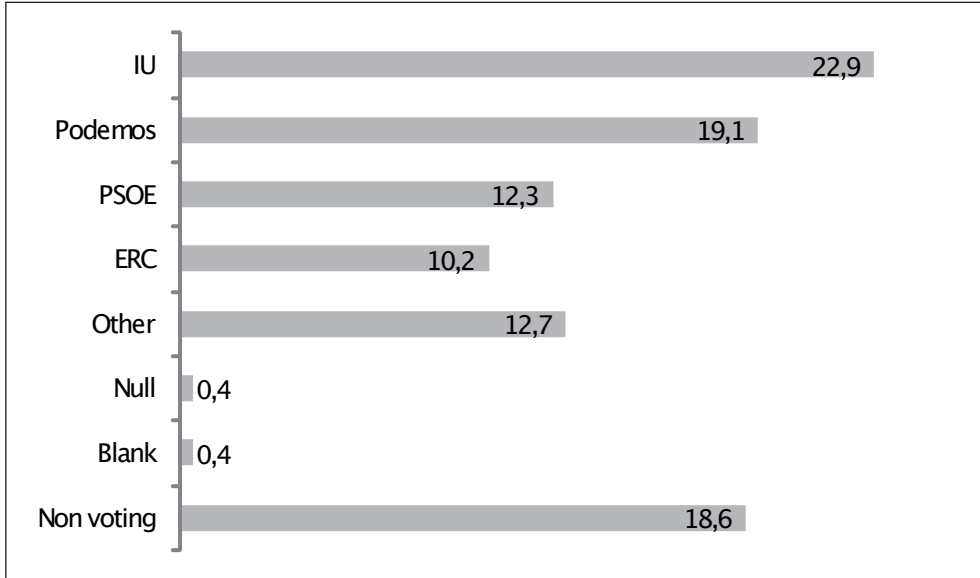
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This tendency has an effect on politics and the capacity of compromise and agreement, so a direct effect on democracy. **The growing polarization of political positions is not but a reflex of social polarization. There are winners and losers, believers of one side or the other incapable of compromise. This tightening of political positions not only expresses the fading of shared spaces (and shared language and experiences) but the incapacity of politics to change things effectively.** This led to a confrontation between what people wants and what the “system” can bring to them. So, there is a significant part of the electorate who try to find an answer outside the traditional forces “of the system”, and this answer is given by the new parties. They are simplistic, populist, even radical answers, or attempts to answer, but they work among those who are left aside. These new parties are occupying the space left by the economic and political crisis, but they grow through the silence of traditional parties. It is not the crisis what feeds the support of parties like *Podemos*, it is the paralysis of social democrats and conservatives, their inability to find solutions.

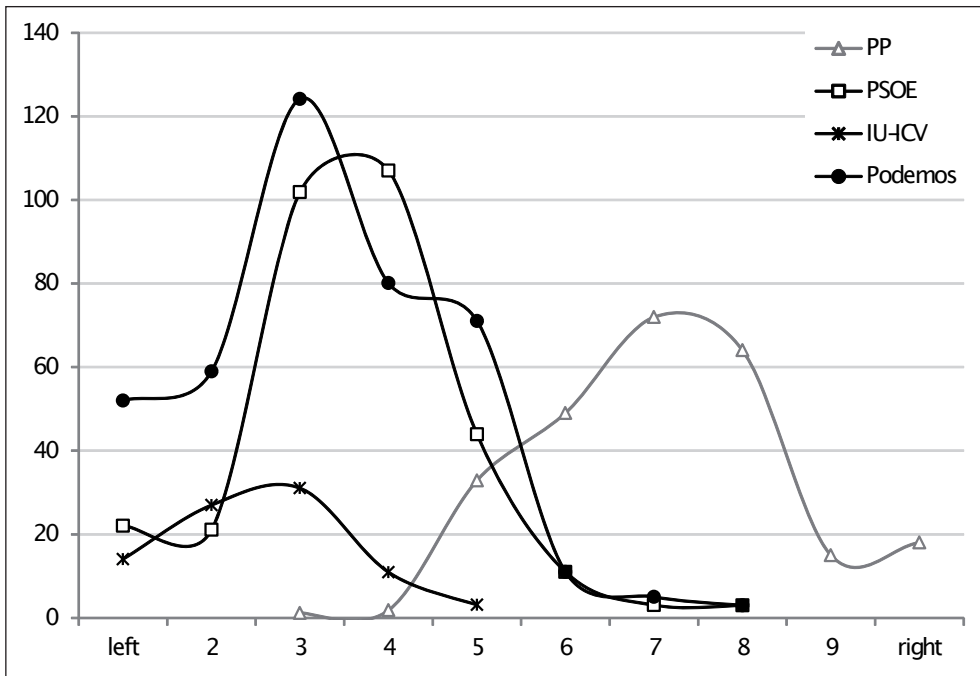
Social democrats have not come with an attractive (and effective) plan before all these problems, before the deregulation of global finance system, before the fiscal emancipation of rich and corporations, before the failure of the state, before the break of the social contract and the welfare state, before the war between poor, before the weakening of democracy. While social democrats are the party of “no, that is not possible”, the new are the parties of “why not?”; social democrats are the party of the “system” while they are the parties of the “citizens”; social democrats are the party of “policies” while they are the parties of “politics”; social democrats are the party of “stability” while they are the parties of “excited”; social democrats are the party of “management” while they are the parties of “values” .

**The emergence of new politics is not only an electoral competitor to social democracy. They are a symptom of the failure of social democrats to build an answer to an economic crisis that has evolved to a political one. New politics are a challenge to social democrats, a spur to reinvent the idea of social democracy in a new era. And by doing it, to answer who are social democrats working for and who do they want to work with.**





Vote among left voters at 2014 European elections. CIS post-electoral survey



Vote intention by left-right axis. CIS survey October 2014

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Vote intention of the PSOE voters. CIS surveys April-October 2014

	April	October	
PP	0,4	0,4	=
PSOE	48,7	47,7	-1,0
IU	7,9	1,1	-6,8
UPyD	4,7	1,1	-3,6
others	4,4	1,5	-2,9
<b>Podemos</b>	-	<b>23,4</b>	<b>+23,4</b>
blank	3,9	1,5	-2,4
don't vote	11,1	6,3	-4,8
don't know	18,1	16,9	-1,2



**DELIVERING  
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Gerassimos MOSCHONAS

## **The Greek Debt Crisis, “Superficial” Social Democracy and PASOK: Lessons for European Social Democracy<sup>1</sup>**



<sup>1</sup> Some of the arguments formulated here have been presented in an early, very rudimentary form in a non-academic paper by G. Moschonas 2013, notably pp. 33-35. In particular, the argument in the section entitled “Historic Framework: Greek contradictions” is largely taken from Moschonas and Papanagnou, 2007, primarily pp. 49-53.

**Keywords:**

**PASOK - Greek Debt Crisis - Social Democracy - Socialist Solidarity - EU Crisis**

**Abstract:**

PASOK's contribution to Greece's debt crisis was decisive, not due to the implementation of a social-democratic strategy that failed but because it did not promote a coherent social-democratic economic model, either left-wing (during the Andreas Papandreou period: 1981-1989) or social-liberal (in the more coherent period of K. Simitis: 1996-2004). It will be argued that PASOK, which did not come out of the ideological and organizational tradition of the Left, represented a 'superficial' and fundamentally incoherent social democracy. Undoubtedly, the Greek debt crisis bears a strong domestic dimension. However, PASOK failed for the same reasons that the social-democratic Third Way also did. It considered plausible to build a society of prosperity and a comprehensive welfare state without an efficient tax system, a reliable strategy for the redistribution of wealth and without the sufficient control of either big or small private players within the economic system. The base as well as the common denominator of all the previous is the absence of a set of collective values that would provide social-democratic actions with meaningful left consistency. The contemporary European Left has many things to learn from the successes of PASOK as well as much more from its grandiose failures.

## Historic Framework: Greek Contradictions

Greece is a strange, a contradictory country. Such contradictory country, which is currently on the verge of bankruptcy, constitutes a real success story from an economic point of view. Originating from extreme poverty and despite a civil and a half-civil war (1946-49 and 1915 respectively) it ranked among the thirty richest countries in the world during the 2000s decade. In the longest part of its history (the modern Greek state was founded in the early 1830s) parliamentarism represented the main form of polity. Shortly after France and Switzerland, it pioneered in institutionalizing universal suffrage. According to Nikos Alivizatos, Professor of Constitutional Law, at the turning point from the 19<sup>th</sup> to the 20<sup>th</sup> century, Greece '... counted among the close circle of constitutionally developed countries in Europe, while it exceeded the Balkans to a great extent. This occurred not only due to the quality of the conducted elections and the proper function of parliamentarism but also owing to the respect for individual freedoms'<sup>1</sup>. Although - today - Greece is often compared to Latin America, it hardly resembles what Carlos De La Torre has described as 'the incredible economic, social, ethnic and status inequalities in Latin America'<sup>2</sup>. Furthermore, never was a group of population excluded from the political game after the foundation of the Greek state<sup>3</sup>.

Never? Not exactly the case. The civil war of 1946-49 led to the creation of a 'grey zone' within the political system: parliamentarism was indeed functioning but the communists, the defeated part of the civil war, were excluded from the political system (although only partly). This decisive defeat put a violent end to an era marked by the impressive strength of the resistance movement EAM (National Liberation Front) and by the extraordinary influence of the Communist Party of Greece, the driving force of the EAM. The outcome of this "conflict of conflicts" laid the foundations for political life after the war. The military defeat of the left was followed, after a brief centrist interlude, by a long and uninterrupted reign of right-leaning governments from 1952-1963. The new regime, one of "limited democracy", combined political and electoral pluralism (a strong difference between the

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1 N. Alivizatos, *The Constitution and its Enemies in Greek Modern History (1800-2010)*., Athens: Polis 2011, p. 25 (in Greek).

2 C. De La Torre, *Populist Seduction in Latin America*. Second Edition Ohio University Press, Center for International Studies 2010, p. XXIII.

3 C. Kostis, *The Spoiled Children of History. The Formation of the Modern Greek State, 18th - 21st century.*, Athens: Polis (in Greek), 2013, p. 862.

political system of Greece and the systems of Spain and Portugal in the same time period) with widespread recourse to instruments of repression.

The less-than-democratic exercise of power after the civil war, the zero-sum mentality of the political culture, the right's ultra-conservatism, both political and cultural, and the exclusion of entire segments of the population from all access to the state and its resources, gradually put democracy at the heart of the political competition. The symbolic identification of the right with the regime of "limited democracy" in the 1950s and '60s brought about, notably in the 1960s, a widespread anti-right feeling. Based on the realities of this new regime, a new cleavage emerged, becoming most evident during the 1960s: the divide between the "right" and the "democratic forces", between the "right" and the "anti-right" (the centre and the communists)<sup>4</sup>.

After the fall of the seven-year dictatorship (1967–74), the collapse of the dominant "national" ideology, considered by a large part of public opinion to be responsible for the coup d'état in 1967 and the «national catastrophe» in Cyprus, made the right/anti-right cleavage stronger than ever. The past - or better, the prevailing "reading" of the past - became a formidable tactical weapon used against the right by the so-called democratic forces. Everyone, centrists, socialists, and communists of all creeds and colors, continued to describe themselves as "democratic" - which also showed the cultural atmosphere of the period. And for everyone, the New Democracy party, in spite of its undisputed modernization, represented "the right": a force considered by the "democratic bloc» to be responsible for all the ills since the civil war, and perhaps even before.

The PASOK (Panhellenic Socialist Movement), which was established in 1974, brought a brand-new agenda of policies and programs largely based on the left-right cleavage (in the European sense of the term). Simultaneously, this same PASOK systematically built its rhetoric and founded its symbolism on the image of the 1960s "democratic battles". The Greek socialists, by reviving in this way the "memories of the defeated", found a fertile ground for devaluing and delegitimizing the politics of the ND. This strategy has shown itself to be effective, in spite of the fact that the right undertook, with the creation of the ND in 1974, a traumatic rupture with its royalist and authoritarian past<sup>5</sup>. The socialists thus attracted both a segment of the left-wing voters (the part of the population most affected by discrimination after the civil war) and, at the same time, the majority of the centrist electorate, notably after the rapid collapse of the centrist pole in 1977.

This created a field of forces that was curious by European electoral standards: the ND, an electorally influential and solid party (amongst the strongest within the European

4 G. Moschonas, *The Right/Anti-Right Cleavage in the Greek Political System.*, (in: ) N. Demertzis (ed.), *The Greek Political Culture*, Athens: Odisseas (in Greek), 1994.

5 G. Mavrogordatos, *The Rise of the Greek Sun; The Greek Election of 1981*, London: Centre of Contemporary Greek Studies, King's College, Occasional Paper no. 1, 1983, p. 7. The principal executives of the ND, although drawn mainly from the right-wing political staff preceding the dictatorship, did not collaborate with the military, which was not the case for either the party of Suarez or the Popular Alliance in Spain.

right), a party at least more powerful than, for example, the Popular Alliance in Spain, suffered, like the latter but not to the same degree, from a position of ideological inferiority in comparison to its socialist rival. In addition, the communist left had kept a large part of its historical electoral base (around and above 10% of the vote). Given the «three-bloc structure»<sup>6</sup> of the Greek political system, PASOK had regularly to fight on two fronts - on the left and on the right.

This important double pressure exerted on PASOK (from left and right) greatly influenced its ideological and programmatic profile, its rhetoric and style and, since 1981, the governmental politics of Greek socialism. The frequent dramatization of political competition, the overuse of “double-speak” and verbal violence, the over-playing of the old anti-right card, the coexistence of an uncompromising rhetoric and moderate practice (which made Greek socialism look ideologically inconsistent) are in part because of this double pressure. Moreover, the gulf between the anti-right public rhetoric and the Leftist intra-party discourse emerged as a perennial feature of PASOK of the Andreas Papandreou period (1974-1996), generating chronic ambiguity in the party’s political profile and a kind of double consciousness in its members<sup>7</sup>. PASOK’s strategy was simultaneously one of “oligopolistic competition,” aimed at reducing the influence of the communist left, and of “vote maximization” which aimed to make PASOK the country’s majority party<sup>8</sup>.

Overall, the ideological center of gravity of the electorate (the existence of a majority of voters in the centre and centre-left of the political-ideological spectrum) and the lack of ideological credibility of the ND party, a deficit linked to the black pages of the Greek history, were two favorable - and profoundly interrelated - factors allowing the socialists to benefit from the opportunities created within the Greek political system to assume the role of majority political force. In reality, “*the Junta’s downfall [...] produced a sense of liberation far out of proportion to their seven-year tenure*”<sup>9</sup>. **In 1981, PASOK was riding the crest of a great electoral and social wave that had carried it from just 13.58% of the vote in 1974 to 25.33% in 1977 up to the 48.7% that it received in October 1981. At that time, PASOK became *par excellence* the governmental party of the country (it remained in power forming single majority governments for twenty-two out of thirty-one years of the period 1981-2012) and the most powerful party (along**

6 Chr. Lyrintzis, *The Changing Party System: Stable Democracy, Contested Modernization.*, [in: ] *West European Politics*, vol. 28, no. 2, 2005, p. 242.

7 Y. Voulgaris, *Post-Dictatorship Greece 1974-2009.*, Athens, Editions *Polis* (in Greek), 2013, pp. 304-5.

8 G. Moschonas, “The Path of Modernization: PASOK and European Integration.”, [in: ] *Journal of Southern Europe and the Balkans*, Vol 3, No 1 (2001).

9 S. Kouvelakis, *The Greek Cauldron.*, [in: ] *The New Left Review*, No 72, 2011, p. 19. According to Stathis Kouvelakis, “*the period known as metapolitefsi was one of particular effervescence and radicalization in Greek society, a cathartic moment quite different to the post-Franco ‘transition’ in Spain - or, indeed, the Carnation Revolution in Portugal*”.



with the PSOE) of the European social-democratic family<sup>10</sup>. PASOK, amid great expectations and in a climate of dominant left-wing and democratic values, largely converted the “Greek problem” into an affair of the Left<sup>11</sup>.

### **PASOK Changes the Fiscal Paradigm (1981–89)**

PASOK, with a Keynesian program for expanding overall demand, attempted to revitalize economic growth and to implement what it called “the Third Way to socialism.” A central element in PASOK’s economic and social strategy, which was also central to the party’s political image, was a policy of redistribution in favor of lower classes. Nothing demonstrates better the state of mind of PASOK’s first term in government (1981–85) than its incomes policy. In January 1982, the newly elected government announced a 46.4% average increase in the basic wage, and a more than doubling of farmers’ pensions. As noted perceptively by the economist Chrisafis Iordanoglou “*the pay increases [...] were unexpectedly large even for the recipients themselves. The objective was that they should be engraved in people’s memory for years*”<sup>12</sup>. There was a steep overall rise in social expenditures from a modest 10.2% of GDP in 1980 to 16% in 1985 (the end of PASOK’s first term) and stabilizing at 15.5% in 1989 (the end of the party’s second term). Pensions were the principle factor in this increase, but the establishment of the National Health System in 1983 was the crowning point of this process of constructing a genuine welfare state—and a further, highly symbolic move towards strengthening the party’s left-wing image. Health expenditures doubled from 3.4% of GNP in 1980 to 5% in 1984 and 7% in 1989.

However, PASOK’s Keynesian program, like that of the French socialists, did not have the anticipated results. I will not analyze that failure here, nor investigate the twists and turns in the party’s macro-economic policies during its first two terms in office (1981–83: aggressively expansionist fiscal policies, 1985–87: restrictive policies, 1988–89: mildly expansionist policies). I intend to place emphasis only on the fiscal aspects of PASOK’s economic policy. The key fact of the 1981–89 period can be summarized in a single short phrase: a change in the fiscal paradigm. The overall governmental deficit more than tripled in 1981, PASOK’s first year in office (from 2.3% of GDP in 1980 to 7.8% in 1981), climbing to stratospheric heights in 1985 (10.4% of GDP) and 1989 (12%), the closing years of PASOK’s first and second term in office (see table 1).

10 G. Moschonas, *Historical Decline or Change of Scale? The Electoral Dynamics of European Social Democratic Parties, 1950-2009.*, [in: ] J. Cronin, G. Ross and J. Shoch (eds.), *What’s Left of the Left, Democrats and Social Democrats in Challenging Times*. Durham, N. C.: Duke University Press, 2011.

11 For a really comprehensive analysis of the PASOK phenomenon see: D. Sotiropoulos, *Greece.*, [in: ] J.-M. De Waele., Escalona F. and Vieira M. (eds), *The Palgrave Handbook of Social Democracy in the European Union*, London: Palgrave Macmillan, 2013.

12 Author’s emphasis; Chr. Iordanoglou, *Economic Crises in the 1980.s*, Unpublished paper, Athens: OPEK Conference, 17.02.2010 (in Greek), 2010.

Table 1. Greece 1970-1993: General Government surplus or deficit (% GDP)

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
0,6	0,1	-	-	-1,2	-2,6	-1,5	-2,2	-2,6	-2,1	-2,3	-7,8
1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
-6,5	-6,7	-7,6	-10,4	-8,6	-8,6	-10,3	-12,1	-14	-9,9	-10,9	-11,9

OECD Factbook 2010: Economic, Environmental and Social Statistics

The evolution of the national debt follows this dynamic of high deficits. General government debt (28.6% of GDP in 1980) nearly doubled by 1985 (54.7%), at the end of PASOK's first term in office, and had almost tripled in 1990 (80.7%).

The prevailing view that the Greek state has always been wasteful is one of the more objectionable myths circulating on the international ideas market. Until 1980, with the exception of the mild relaxation of the first democratic period (1974–80), postwar Greek governments had pursued - with "German," as it were, assiduity and success - policies of fiscal discipline<sup>13</sup>. PASOK's first period in government (1981–89) represented a decisive break with the totality of postwar economic policy. It was a watershed. A long tradition of balanced (or approximately balanced) budgets was abandoned. And, indeed, abandoned in an active and aggressive manner. From that time onward, Greece entered a high-risk zone from which it has never succeeded in extracting itself.

## Modernization and PASOK's Incomplete Fiscal Rationalization

The path of economic realism and European convergence began for PASOK in 1993 under the leadership of Andreas Papandreou, and accelerated from 1996 onward with Costas Simitis's accession to the party's leadership and the assumption of the reins of government by the "modernizers." Throughout this modernizing period, marked by PASOK's victories in the elections of 1993, 1996, and 2000, reducing inflation and fiscal deficits, along with liberalization of markets, replaced income redistribution as the party's great priority. These 'second generation' reforms "sought to roll back the state, to release the market from its tentacles in order to serve a different set of overarching political objectives under the rubric of Europeanization, modernization, and integration into a globalizing political economy"<sup>14</sup>. Inflation was drastically reduced from 14.4% in 1993 to 2.9% in 2004. Moreover, from 1996 to 2001 - the year of entry into the euro - there was

<sup>13</sup> G. Moschonas, *A New Left in Greece, PASOK's Fall and SYRIZA's Rise.*, *Dissent*, Fall 2013, p. 34.

<sup>14</sup> G. Pagoulatos, *The political Economy of forced reform and the 2010 Greek Economic Adjustment programme.*, [in: ] S. Kalyvas, G. Pagoulatos & H. Tsoukas (eds), *From Stagnation to Forced Adjustment, Reforms in Greece, 1974–2010*, London, Hurst and Company, 2012, p. 263.

a systematic reduction in deficits. Indeed, according to European Commission data, the country registered a primary surplus in the years 2000, 2001, and 2002. Most significant of all was the growth in GDP. The entry of Greece into a period of high growth rates (clearly higher than those for the eurozone as a whole) marks the third great wave of expansion in the Greek economy (after those that began in 1930 and 1960).

But not everything was rosy. The balance of trade underwent significant deterioration throughout the Simitis period. It became the second highest in the EU, after Cyprus, and in any case was much higher than in comparable countries such as Spain and Portugal. Notwithstanding the dynamic of growth, the Greek economy appeared to be, in the felicitous formulation of Giannis Kalogirou, “strategically trapped” between the low-labor-cost economies (Greek products are more expensive than similar products from those countries) and high-labor-cost high-innovation economies (Greek products are inferior to, or not sufficiently cheaper than, their counterparts from more technologically advanced countries). Undoubtedly globalization and the entry of the Greek economy into a hard-currency zone have contributed to the loss of comparative advantage that Greece enjoyed with low- and low-to-medium-technology products; the worsening of the balance of trade deficit has been attributable exclusively to products of this type<sup>15</sup>. Moreover, the size of the sovereign debt is another indicator that the government has been essentially unable to turn around. With debt fluctuating at levels of around 100% of GDP (101.1% in 1995, 103.4% in 2000, 98.9% in 2004) for all the high-growth rates, the country appeared - in terms of this indicator too - to be *strategically trapped* inside the high-risk zone in which the fiscal management of the 1980s landed it.

Moreover, during Costas Simitis's second term (2000–2004) there was again an obvious relaxation of fiscal discipline. The goal of entering the eurozone was fueling significant increases in tax receipts (14.9% in 1997, 16.3% in 1998, 12% in 1999), which, particularly for the years 1998 and 1999, amounted to almost twice the increase in the nominal GDP. There was a phenomenon of “catching-up” at this time. But immediately after the decision in favor of Greek entry (Greece joined the eurozone on the basis of 1999 figures), the rate of increase of tax receipts fell impressively (*Governmental Budget Report*, Ministry of Finance, 2011).

For all its great successes at the level of European politics, improvement in the macro-economic indicators, and shaping of a more modern and culturally more liberal Greece, the PASOK of Costas Simitis failed to implement radical changes in state structures and a strategy of sectoral restructuring of the economy, which within the eurozone's single market was rapidly losing competitiveness<sup>16</sup>. In particular, contrary to all the teachings of Keynes,

15 T. Giannitsis, *Technology and Competitiveness*, [in: ] T. Giannitsis (ed.), *Greek Economy: Critical Issues of Economic Policy*, Athens: Alpha Bank (in Greek), 2008, pp. 398–99.

16 C. Lapavistas, *Eurozone Crisis: Beggar Thyself and the Neighbour*, RMF occasional report, March 2010; Chr. Lyrantzis, *The Changing Party System: Stable Democracy, Contested Modernization*, [in: ] *West European Politics*, vol. 28, no. 2, 2005, p. 251.

the opportunity to carry out a radical fiscal adjustment in favorable conditions of economic growth and low interest rates, was missed. The rationalization was left incomplete. The countdown towards bankruptcy had begun.

## Living Dangerously: The Scandal of Tax Evasion

The above account puts us in a position to summarize the problem of Greek debt. Historically the Greek public sector has been limited in size. In 1960, total public expenditures came to 20.6% of GDP, as against 30.4% for the countries of the future eurozone, and in 1980 29% (as against 45%). It is evident from what has been said that, in contrast to the situation in the majority of European countries, where there was some variety of social democratic compromise, this did not happen in Greece because of the Civil War. The extraordinary electoral dynamic of PASOK in the 1980s was a direct corollary of this historical vacuum.

The increase in state expenditures after 1980 was not only rapid but was also more rapid than the corresponding increase in Portugal and, above all, in Spain (where state expenditures increased from 31.5% in 1980 to 41.5% in 2008, as against Greece's rise in the same period from 29% to 50.6%; Eurostat, 2011). Indeed, between 1980 and 2004, the Greek public sector expanded so remarkably that it came close to equaling the eurozone average. But it was still lower (In 2004: 45% of GDP as against 47.5%; see Table 2).

Table 2. Greece and Eurozone: General Government Expenditure (in % of GDP)

	1960	1980	2004	2005	2006	2007	2008	2009	2010
Greece	20,6	29,0	45,5	44,6	45,2	47,6	50,6	53,8	50,2
Eurozone	30,4	45,0	47,5	47,3	46,7	46	47,1	51,1	50,9

Source: For the years 1960 & 1980, Chardouvelis 2008:103. For the years 2004-2010, Eurostat, 2011 <http://epp.eurostat.ec.europa.eu>,

On the other hand, there is a chronic, systematic, and particularly extensive shortfall in tax receipts compared with the eurozone average (Table 3), though it is admittedly diminishing (8 units of GDP in 1998, 7.4 in 2004, 5.4 in 2008). The reduction is however not due to any improvement in the efficiency of tax collection in Greece but to a fall in the amount of tax revenue in consequence of the neoliberal policies being pursued throughout the eurozone.

The logic of numbers does not allow any hesitation in diagnosis. **The Greek debt is the product of thirty years of deficit budgets driven by the proportionately low level of tax receipts. This is the “fatal deficit.”** Despite neoliberal certainties and

Table 3. Greece and Eurozone: Tax Receipts (in % of GDP)

	1998	1999	2004	2008
Greece	34,3	35,4	33,3	35,1
Eurozone	42,3	42,8	40,7	40,9

Source: Eurostat, Statistics in focus — 23/2010. Economy and finance, Author: Alessandro LUPI

affirmations, Greece's fiscal catastrophe cannot be attributed to the size of the state, which nevertheless ceased being small a long time ago. What does explain it is the inefficiency of the state, a key aspect of which is the inadequacy of the tax administration.

Are Greek political elites lured by the attractions of living dangerously? Are there extenuating circumstances? The low level of taxation receipts cannot be explained just by the perennial deficiencies in public administration or by the absence of political will. Peculiarities of the Greek economy erect "important" obstacles to any project for increasing tax revenues.

Historically, big Greek capital, concentrated in international shipping and banking, had always had a "diasporic-mercantile character"<sup>17</sup>. Shipping is Greece's heavy industry. Particularly if we take into account the size of the country, Greece is a superpower in this field (it occupies a leading position in the sector of international marine transport - first in the world in 2010)<sup>18</sup>. International shipping is an exceptionally competitive branch of the economy, which was globalized even prior to globalization. The approximately 2,500 shipowning families "are an economic elite owning by far the largest part of the wealth and profits of Greek 'big capital'"<sup>19</sup>. But the globalized character of the sector means that it is taxed very little (better, the level of taxation is extremely low, verging on the ridiculous), either because many Greek-owned companies have their headquarters outside Greece or because numerous important tax concessions are made available to shipowners. This greatly reduces their contribution to revenues from direct taxation as a proportion of GDP.

Another central factor tending to diminish direct tax revenues is the exceptionally high proportion of small businesses and self-employed professionals in the economically active population. A country of small businesses with a high proportion of self-employed (according to OECD figures for 2007, 96.5% of Greek businesses employ fewer than ten employees), is an ideal environment for flourishing tax evasion. The constellation of small and medium-size businesses is more than a match for the generally limited technical

17 S. Kouvelakis, *The Greek Cauldron*, [in: ] *The New Left Review*, No 72, 2011, p. 19; also: A. Doxiadis, *The Invisible Rupture. Institutions and Conducts in Greek Economy*, Athens: Ikaros (in Greek), 2013, pp. 71-72.

18 IOVE 2013, p. 5.

19 A. Doxiadis, op. cit. 2013, p. 80.

capacities of the Greek regulatory agencies. And in any case, owing to their electoral clout, they can paralyze the best-intentioned, would-be political reformer.

The social groups engaged in quasi-legal tax avoidance (primarily shipowning capital and farmers) and the groups involved in aggressive tax evasion and fraud (primarily small and medium-sized businesses, a section of big business and the great mass of liberal professions) emerged not under PASOK but a considerable time before. This in no way diminishes the responsibilities of a movement that wished to present itself as a radical left party in the Andreas Papandreu period and a modernizing party in the Costas Simitis period. On the contrary, it highlights the significance of political agency, the importance of a long-term political strategy for reducing tax evasion, tax avoidance and evasion of payment of insurance contributions. For a political system with a stable electoral dominance by the broader Left (PASOK and the Communist Left usually received more than 50% of the vote) and with governmental dominance by the Socialists, the prevalence of tax evasion constitutes a major political and economic scandal. The term “scandal” is not a matter of polemics. It is chosen with absolute respect for the Weberian principle of value-neutrality. What kind of social-democratic party was this that based its taxation policy primarily on the tax-paying capacity of wage-earners?

## Reinterpreting PASOK: “Superficial” Social Democracy

We have argued elsewhere<sup>20</sup> that over the long term there have been three policy factors, apart from the historical ideological weaknesses of the parliamentary right in Greece, that explain PASOK’s decades-long electoral supremacy:

- a) its implementation of more advanced social policies than in the past;
- b) its democratization and political liberalization measures; and
- c) its implementation of “progressive” reforms affecting private life and relations in civil society (cultural liberalism measures). **PASOK created a new mainstream in terms of social policy, and also in terms of democratic and cultural modernity, which was subsequently accepted and broadly legitimated by the totality of Greek political forces. Additionally, in a later phase (notably: 1996–2004), PASOK’s primacy in promoting the European perspective gave it a new lease of life and prolonged its time in government. The success of PASOK was the result of the cumulative impact of these “three plus one” factors.** As Christos Lyrintzis pointed out already in 1993, PASOK’s history was not simply one of “patronage, scandals, profiteering and the bankruptcy of the economy”<sup>21</sup>. The

20 G. Moschonas & G. Papanagnou, *Posséder une longueur d’avance sur la droite: Expliquer la durée gouvernementale du PSOE (1982-96) et du PASOK (1981-2004).*, *Pôle Sud*, no 27 (2007).

21 Chr. Lyrintzis, *PASOK in power: from ‘change’ to disenchantment.*, [in: ] R. Clogg (ed.), *Greece 1981-89, The Populist Decade.*, New York: St. Martin’s Press 1993, p. 36.

electoral predominance of PASOK is indissolubly linked to its noteworthy reform work, different in each separate phase. This created a *composite* political cycle wherein the economy was a central issue, but not necessarily - or always - determinant.

By adopting different personas and roles, PASOK often gave the impression of being a political chameleon. The diversity of academic approaches (populism, Left social-democracy, social-liberalism, charismatic party) reflected the critical moments and salient features of this complex, internally contradictory, politically cynical but highly adaptable and innovative party. It also served to overshadow one important, permanent characteristic: PASOK has represented a “superficial,” fundamentally incoherent social democracy.

Over time, depending on the period, the key features of this “superficial” social democracy have been:

- a) The expansionist incomes policy; extension and deepening of the welfare state; relatively friendly relations with trade-unions and promotion of their participation (however fragmentary) in policy making; policies of democratization and cultural modernization; and even the failed endeavor to promote supply-side reforms in the 1980s - these all situate PASOK within the broader social-democratic family as it has been defined and redefined over time. The rhetoric (central or sectoral) that at different points in its historical trajectory has supported these options has also been, to a great extent, social democratic. PASOK belongs to the world of social democracy, however true it is that it entered this world – historically - through the back door<sup>22</sup>.
- b) The perennial and, for a Leftist party, scandalous tolerance of tax evasion; the comprehensive entanglement of entire sectors of the state with capitalist interests, particularly during the Simitis period<sup>23</sup>; the systematic character of clientelistic relations (whose importance has however been overestimated<sup>24</sup>); the state budget as a malleable instrument, amenable to abuse<sup>25</sup>; the relative indifference towards the

**in a later phase (notably: 1996–2004), PASOK’s primacy in promoting the European perspective gave it a new lease of life and prolonged its time in government. The success of PASOK was the result of the cumulative impact of these “three plus one” factors.**

22 Th. Diamantopoulos, *The Greek Political Life in the Twentieth Century*, Athens: Papazissis (in Greek), 1997, p. 295.

23 M. Spourdalakis & Chr. Tassis, *Party Change in Greece and the Vanguard Role of PASOK.*, [in: ] *South European Society and Politics*, vol. 11. no. 3-4, 2006, p. 500.

24 See two excellent analyses on this: Chr. Iordanoglou, *State and Interest Groups*, Athens: Polis (in Greek), 2013; and Y. Voulgaris, *State and civil society in Greece reconsidered.*, (in: ) *Greek Political Science Review*, No 2, November 2006.

25 D. Sotiropoulos, *Greece.*, [in: ] J. – M. De Waele, F. Escalona & M. Vieira (eds.), *The Palgrave Handbook of Social Democracy in the European Union*, London: Palgrave Macmillan 2013, p. 202.

condition of social outsiders (e.g. the unemployed); the underfunding of education<sup>26</sup>; the lack of serious support strategies for a competitive and outward-looking private sector of the economy—these are aspects that fall more or less outside the run-of-the-mill social-democratic logic (both the classic social-democracy and the neoliberal social-democracy of the 1990s and 2000s). Moreover, the lack of wage restraint in the trade unions affiliated with PASOK; the prevailing anarchy in wage setting, with large discrepancies between wage-earners (particularly in the public sector, where every interest group takes what it can get away with); the multitude of exceptions to general rules in numerous professional sectors (in terms of subsidies, tax breaks, pensions, regulations for entry into the profession); the undermining of the traditional work ethic of the Greek population --- all these practices, taken as a whole, not individually, fall more or less outside the boundaries of the social-democratic “cultural field,” however broadly defined.

Through all its phases and metamorphoses, PASOK has lacked coherency, and has been largely inconsistent with its objectives and vision. “Incoherent” of course denotes something much deeper than the tendency to establish catch-all parties, lacking in principles or a solid program (there is nothing particularly Greek about governing parties’ tendency to be “catch-all” in character). “Incoherent,” however, suggests contradictions so glaring and profound as to be flagrantly discordant with the key objectives outlined in the party’s ideological and/or programmatic discourse.

## Lessons for European Social Democracy

### 1. Taxation and the Welfare State

Contrary to the general European tendency towards contraction of the welfare state, PASOK sought to establish in the 1980s a relatively strong social state. This social policy could be characterized as bold because the economic conditions for it were unfavorable. As policy it was however necessary: it involved catching up after a historical lag.

The policy of reorganizing and extending the social state in Greece was in fact undermined by PASOK itself through an absence of rigorous planning, through errors of implementation, and through PASOK’s compromise with vested interests; it was undermined above all, however, by

- a) a failure to upgrade the tax administration, with the result that increased expenditures were not counterbalanced by corresponding increases in revenues, and

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26 K. Featherstone & D. Papadimitriou, *The Limits of Europeanization. Reform Capacity and Policy Conflict in Greece.*, London: Palgrave Macmillan 2008, p. 203; Chr. Laskos & E. Tsakalotos, *Crucible of Resistance. Greece, the Eurozone and the World Economic Crisis*, London: Pluto Press 2013, p. 98.



b) a reduction of tax rates, in a second phase, in accordance with neo-liberal ideas on taxation<sup>27</sup>.

Greece suffered from an amalgam of its own traditional handicaps (ineffective tax mechanisms, economic structures facilitating tax evasion) and the handicaps of neo-liberalism and globalization (reduction in tax rates, tax havens, the difficulty of taxing “nomadic” capital). The combination of Greek specificities and capitalist modernity was catastrophic for Greece. Greek peculiarities injected an exponential element into the tendencies operating on the Greek social state. They hastened the arrival, and magnified the dimensions, of the collapse.

But this is the extent of the influence of Greek peculiarities - the tendencies are pan-European. The greater the difficulties of taxing national and international capital, the less the social state can be buttressed through policies of redistribution (via effective progressive taxation) and the weaker becomes the fiscal basis of the European social policies. **Taxation and growth are the cornerstones of a modern welfare state. In this light, Greece is at once an exception and a precursor.** It is a precursor in the sense that it foreshadows in the most extreme form tendencies that are unfolding to a milder degree in all of Europe. It would be a mistake for the European Left to see Greece as an instance of something that does not affect them. Though being a “special” case, nevertheless, PASOK remained within the social-democratic mainstream. It was in no way alien to such mainstream.

## 2. What social-democratic ethos?

What is the secret of PASOK’s great internal contradictions? Why had this exceptional programmatic and electoral player lost its prestige and authority even before the advent of the debt crisis (and despite the electoral victory of 2009)?

PASOK may have had a master narrative - left-populist under Andreas Papandreou, modernizing under Costas Simitis - but it did not have a history. In retrospect, it is possible to surmise that this lack of coherence, this inconsistency, was built into PASOK from its foundation, part of its genetic code. Its Leftist discourse was always lacking in depth, in part because it was never anchored in a Leftist and working-class tradition. Organizationally, PASOK never participated in the collective democratic culture that – historically - gave rise to the workers’ movement and social democracy. On the contrary, PASOK was excessively dependent on the organizational culture of the strong leader, a trait characteristic of Greece’s old centrist-liberal milieu (from which emerged the nucleus of the first parliamentary group, the one resulting from the elections of 1974). Within this newly constituted party a variety of historical traditions intermingled, without shedding their initial identities. In this context, the political culture of the party’s founder

<sup>27</sup> Chr. Laskos & E. Tsakalotos, *Crucible of Resistance. Greece, the Eurozone and the World Economic Crisis.*, London: Pluto Press, 2013, pp. 28-29.

(Andreas Papandreu was historically on the left of the centre party, espousing later, in the 1970s, more radical analyses) exerted a significant, if not decisive, influence on it. The charismatic Papandreu set his seal not only on the party's mainstream political discourse, with its strongly populist style, but also on the organizational structure and the organizational culture and mental maps of cadres.

PASOK gradually acquired the traits, and the political style, of social democracy. Particularly after 1996 its official discourse in no way differed from that of the other parties of the European social-democratic family. It acquired the manner and style, less the substance of social democracy. Traditional characteristics of social-democratic culture that in Europe were shaped through the interpenetration of powerful social movements, workers' organizations, and socialist ideology were absent from PASOK. The values of the manual labouring class - mutual assistance, self-education, full participation in goal-oriented communities, reciprocal trust<sup>28</sup> - did not characterize PASOK, even the leftist PASOK of the 1970s. The party's 1996 about-face exacerbated the lack of value-based cohesion.

Within social democracy, as Jenny Andersson has aptly put it, "*there is an important element of intertextuality and interdependency between periods of revisionism, as modernizers lean on and reread the modernizers who preceded them. Even archmodernizers are anchored in rereadings of past ideologies*"<sup>29</sup>. PASOK's revisionism of the 1990s did amount to an "anti-populist" modernization, precisely because it was framed in opposition to the populism of PASOK's first period. In that respect, the Simitis modernization was more "combative" than that of the Swedish social democrats or the French socialists, and in a way even more combative than Tony Blair's modernization. But the modernizing current within PASOK did not seek legitimation in a Greek social-democratic tradition of the past, because such a tradition was simply nonexistent.

Lacking as it was in deep-rooted tradition, PASOK very quickly - in fact as early as its first governmental term - lost the battle for *ethos*. We are not here referring just to the (nevertheless significant) fact that PASOK was a party that cultivated unsuitable links with wide sectors of capital, or just to the clientelistic relations that by their nature undermine the ethical dimension of a party's activity. We are referring to the absence of a set of core values that, however reinterpreted according to new circumstances, lend a greater continuity to the thought and action of a party. These values serve a regulatory function: they establish an atmosphere of ideas, define mentalities, set *internal* limits that a party should not overstep. PASOK did not respect limits, did not observe unwritten rules, did not see any "red lines". Inside it everything was permissible. From disinterested devotion to the struggle for a more just society, to extremes of corruption.

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28 J. Andersson, *The Library and the Workshop, Social Democracy and Capitalism in the Knowledge Age*, Stanford: Stanford University Press 2010, pp. 51-52.

29 *Ibid.*, pp. 10-11.

Given the brevity and peculiarity of PASOK's history it would be easy to conclude that, in this respect too, PASOK expresses Greek exceptionalism. To a great extent it in fact does. But today all the European social-democratic parties without exception have lost the core of relatively stable values that lent ethical significance to their actions. Neo-liberalization, moderate or less moderate, of analyses and policies, has broken the continuity with the old cohesive core values (which were, however, specific for every national party). PASOK, for reasons to do with Greek political history, is a precursor here as well. The gloomy picture presented by today's PASOK is set to become, at least partially, a picture of the future of European social democracy, if the latter does not find the way to renew its *ethos* and historical mission.

### 3. 'You'll Never Walk Alone': The Limits of Socialist Solidarity

Europe functions as a structure that is solid enough to constitute an obstacle to national policies (if they go beyond the European mainstream) but too weak to generate or accelerate an alternative European policy. In the case of the debt crisis, because of its participation in the eurozone, Greece has not been in a position to deal with it in the traditional way (through devaluation of the currency, issuance of new money, tariffs as a response to the balance of payments, or state subsidization of export industries). But by the same token the European Union itself has not been in a position to provide an effective solution to Greece's economic problems, a solution that would take into account both Greek and European interests.

Undoubtedly, there has been a rational component in European policy, even if not the product of a planned strategy. The core of rationality manifests itself in four ways:

- a) dealing with the crisis through adjustment to the logic of the international markets,
- b) giving absolute priority to fiscal orthodoxy irrespective of cost to the population of the overindebted states,
- c) developing a strategy of strengthening competitiveness of national economies through internal devaluation, similarly irrespective of cost to the population, and
- d) offering protection and rescue of countries in crisis in exchange for acceptance of the above.

Such strategy proved effective, at least for the time being. The predictions for a dissolution of the Eurozone (at least the hasty predictions of an immanent disintegration) have not been corroborated thus far.

Nevertheless, the tragic mistakes of the stabilization program of the Greek economy are now recognized by all experts. All the initial optimistic predictions by the EU, the IMF, and the Greek government were proven wrong. They were crushingly refuted. The punitive irrationality of the initial European policy choices (for example the 5% interest rate on the first bailout package could only in jest be described as rational) is also seen by all to have been a mistake. The systematic threats to evict Greece from the eurozone (at least up

until November 2012) undermined the very economic policy that had been chosen by the troika. Instead of declaring that the eurozone is irreversible, high-ranking European and German officials with their almost daily references to the probability of Greece leaving the euro aggravated the recessionary shock that was being experienced by the Greek economy and the flight of Greek capital abroad. This irrational policy is not to be explained in technocratic or narrowly economic terms. It is explicable only politically, in terms of the powerful effect of influences arising out of the internal situation in each member country.

In the course of the crisis a new behavioral model made its appearance, transcending the norms of European partnership relations. In all - or almost all - phases of Greece's negotiations with the troika, the latter pushed matters almost to the zero point of suspension of payments (all of the agreements were signed, and the installments deposited, virtually at the last moment). This approximation to the zero point, when it is pursued by the stronger party, amounts to a strategy of naked coercion. Precisely because the Greek case is extreme and indefensible as an economic model (even by Greeks themselves), the example of Greece has opened up grim prospects: devaluation for the weaker player and discredit for the rules that made Europe an admittedly harsh terrain of intergovernmental negotiation but at the same time an arena including some respect for the other, however small and weak. Germany more than any other country (but not only Germany) changed the value climate inherited from the European Community, and also its own postwar culture of moderation.

European social democracy has been notably absent from all the above, notwithstanding the praiseworthy and significant exertions of the PES leadership<sup>30</sup>. And the PASOK government (2009-2012), whatever its great errors of management, has been left almost entirely alone. **The inadequacy of social democratic support highlighted the limitations of contemporary socialist internationalism. In the past, the great crises occurred at the “crossroads of tension” that shattered solidarity between socialists, as seen by the paralysis of the Socialist International prior to the two world wars. Though lacking in dramatic tension, the Greek debt crisis has not functioned - and did not function, particularly in the crisis’s opening phase - as a factor strengthening the cohesion of the European socialist family. Quite the opposite.** The anthem of Liverpool Football Club ‘You’ll Never Walk Alone’ has not yet found the proper appeal in the socialist family. Perhaps there are lessons for socialists to learn from this.

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30 G. Moschonas, *Reforming Europe, Renewing Social Democracy? The Party of European Socialists, the Debt Crisis, and the Europarties.*, [in: ] D. Bailey J.-M. De Waele, F. Escalona & M. Vieira (eds.), *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester: Manchester University Press, 2014.

## Conclusions

1. PASOK promoted novel policies throughout its time in government. They were policies largely in keeping with European social democratic tradition. The long electoral and governmental ascendancy of PASOK was inextricably linked to the implementation of a reformist project, chiefly in the fields of democratization and cultural modernization and in relation to the welfare state (primarily during the 1981-89 period) but also, in part, in relation to economic modernization (1996-2004 period). To a significant extent PASOK did indeed adopt ideas and pursue policies of a social democratic type.

2. But - and this is the argument of the present paper - at every point in this trajectory PASOK was a party both lacking in coherence and less than loyal to the objectives and vision that in each phase it sought to embody. This *superficial* social-democratic politics tended systematically to increase public expenditure, to hinder improvement in generating public revenue and to undermine (or, to be more precise, not sufficiently sustain) the competitiveness of the Greek economy. Taken as a whole, neither the PASOK of Andreas Papandreou (1981-1996) nor the PASOK of Costas Simitis (1996-2004) embodied a coherent social-democratic *modus operandi* in accordance with the model of classical or, later, 'neoliberal' social-democracy.

3. Naturally not only Greece but also other southern countries in the eurozone have had to face great contraction in their competitiveness<sup>31</sup>. But the threefold – and for that reason catastrophic – combination of *high levels of public debt, massive state deficits and low rates of competitiveness* has appeared only in Greece. And it is not attributable only to the entry of the Greek economy into a hard-currency zone. The soaring deficits and debt are largely symptomatic of Greece's historical failure to establish a viable state. The dysfunctional state – and secondarily the “hypertrophic” state (for those who have greater confidence in statistics than in their own neo-liberal predilections) - is at the root of the Greek debt crisis. The main responsibility for this lies at the door of PASOK, but much of the blame must also be assigned to the centre-right New Democracy, which imitated it. In the Greece of the post-dictatorship period a “governance problem” was created in the sense that state was an institution with only a limited capacity to implement reforms<sup>32</sup>. The shortfall in tax revenue has been one of the key factors in this governance problem. The absence of strategy for a reorganization of the productive model that would be conducive to Greek economic competitiveness is another significant component of the state's failure. The restrictions on the capacity for exercising independent state policy that were imposed by the European Union further exacerbated the – in any case already existing – governance

31 C. Lapavistas et al., *Eurozone Crisis: Beggar Thyself and the Neighbour.*, RMF occasional report, March 2010.

32 See the excellent analysis of: K. Featherstone & D. Papadimitriou, *The Limits of Europeanization. Reform Capacity and Policy Conflict in Greece.*, London: Palgrave Macmillan 2008.

problem in Greece. As Kevin Featherstone and Dimitris Papadimitriou prophetically wrote, “the problem of governance questions Greece’s ability to remain part of the EU’s core”<sup>33</sup>. In the same vein, Dimitris Haralambis wrote, as early as 1996, that not having the structure and culture to accept the logic of globalization, into which it has nevertheless been inserted, Greece “is going to face an intensifying economic and political crisis”<sup>34</sup>. The pertinence of these analyses has been confirmed by subsequent developments.

4. PASOK constructed its historical identity on the basis of an anti-right-wing discourse and culture and on the basis of promoting the interests of society’s popular strata. For the last two years it has been participating in coalition governments with the New Democracy party and on the other hand pioneering violent reductions in the income of wage-earners and dismantling of the social state. Its actions are in total contradiction to its historical legacy and identity. PASOK obtained just 12% of the vote in the elections of June 2012. Of course, according to public opinion surveys, about 60% of the population would like to see the establishment of a strong political party between New Democracy and SYRIZA. But the once potent and arrogant PASOK cannot, at least for the moment, fill today’s void in the centre-left of the political spectrum. “Trapped” in the strategy of bailing out the country, it is paying a huge – and perhaps justified – political price. The Greece of the years 2009-2013 relived the interwar Great Depression, alone (the repercussions of the debt crisis were much worse for Greece than for other countries in a similar situation [Ireland, Portugal, Spain, Italy]). Four years of exercising the politics of the memorandum in Greece has ravaged PASOK. The Greek case illustrates how exceptionally difficult it is for a centre-left party to sell austerity.

5. At the moment of writing, Greece is perceived by a significant section of the international public opinion as a “maverick country”<sup>35</sup>. Developments in present-day capitalism have hit Greeks - “history’s spoilt children”, to cite the pertinent formulation of the historian Costas Kostis - with extreme violence<sup>36</sup>. But they are not leaving more “prudent” societies unscathed. Undoubtedly, the Greek debt crisis has a strong domestic dimension to it. However, PASOK failed for the same reasons that the social-democratic Third Way also did. It considered plausible to build a society of prosperity and a strong welfare state without an efficient tax system, a reliable strategy for the redistribution of wealth and without the decreasing of inequalities and the sufficient control of either big or small private players within the economic system. The base as well as the common denominator of all the previous is a lack of a set of collective values that would provide

33 K. Featherstone & D. Papadimitriou, op. cit. 2008, p. 205.

34 D. Charalambis, *Irrational contents of a formal rational system.*, [in: ] Chr. Lyrintzis., El. Nikolakopoulos, D. Sotiropoulos (eds.), *Society and Politics*. Athens: Themelio (in Greek), p. 309.

35 D. Sotiropoulos, *Greece.*, [in: ] J. – M. De Waele, F. Escalona & M. Vieira (eds.), *The Palgrave Handbook of Social Democracy in the European Union*, London: Palgrave Macmillan, 2013, p. 197.

36 C. Kostis, *The Spoiled Children of History. The Formation of the Modern Greek State, 18th - 21st century.*, Athens: Polis (in Greek), 2013.

social democratic actions with meaningful left consistency. The contemporary European Left has many things to learn from the successes of PASOK as well as much more from its grandiose failures. "Greek exceptionalism" makes it possible to see, as if from a privileged observatory, tendencies that embrace less extreme and more 'normal' cases.

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**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Kristian WEISE

## **Empowering the People: Social Democracy and the Future of the Welfare Society**



**Keywords:**

**Relational Welfare – Empowerment – Competition State - Social  
Democracy – Visions**

**Abstract:**

Social Democratic parties live and die with the welfare society. Hence, if the welfare society becomes part of history it is likely that that many Social Democratic parties will so too. Though the welfare society encapsulates many of the progressive ideals, progressives have failed to develop new visions for its future. Europe's welfare societies are changing and increasingly becoming what some have called 'competition states'. This transformation is not without risks, as it fundamentally alters the values and principles that unpin society. Social Democrats must reinvigorate the welfare society by ensuring a stronger organisation of the economy, a more thorough social safety net as well as a public sector that enables and empowers people. This will not just be tinkering at the margins. Indeed, it means getting the answers right on the conditions under which welfare societies exist, the components, manifestations and direct outcomes of them as well as the principles that direct them, and doing so in a way that put power in the hands of people.

*"The time demands a new culture in our public services. (...) The time in which we live and the challenges we face demand that we should always be seeking to put more power in the hands of patients, parents and all the users of services."*<sup>1</sup> Power and empowerment. That was what Labour-leader Ed Milliband spoke about in a lecture in the early part of 2014. This was what he thought was necessary to tackle the rising inequality in income and opportunity his country is experiencing.

In so doing he emphasized not only the root of inequality in the 21<sup>st</sup> century, but also one of the most important aspects of the future of the welfare society, particularly in Europe. **The ability to have some kind of control over ones own fate and destiny is what the Europe's welfare states increasingly will have to deliver. This is paramount if they are to solve the social and societal challenges we are faced with and if they are to have sufficient legitimacy among the people they should serve.**

Power and empowerment is also what social democrats and other progressives will have to develop new policy and new language on to stay relevant. What kind of welfare society will empower people to fare through the challenges of life, to make the greatest use of their skills and talents, to develop as human beings and to experience the best of freedom and community? Those are questions electorates increasingly should be expected to ask.

It is in no way a novel thing for welfare to be central in electoral debates. In 2007, for example, the slogan of the Danish social democrats in the national elections came down to the following four words: *"Welfare or tax cuts."* The electorate was presented with a clear choice: vote for the party that has been responsible for creating the current welfare state or risk that right wingers will dismantle it in a frenzy of tax cuts and downsizing. While this campaign and set of elections might have showcased a particular Danish approach to welfare and the state, conflicts over the role of the state and the scope of welfare are at the root of most struggles between the left and the right.

Indeed, progressive parties in general and Social Democratic parties in particular live and die with the notion of the welfare society. If Europe's welfare societies evaporate in the hands for Social Democrats or the Social Democratic parties fail to provide the answers for the future of the welfare society, then the progressive centre-left will be unable to convince the electorate that it should be entrusted with the responsibility of running the countries of Europe.

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1 E. Milliband, *Hugo Young Lecture.*, London, 10. February 2014.

This is not just due to the fact that the history of the welfare state is intimately linked to the heydays of social democracy and centre-left policies (to be true, the development of several of the welfare states in Europe was just as much a cold-war compromise between labour parties and conservatives), but because the possibility of a welfare society in itself to a large extent encapsulates the progressive ideals. If Social Democrats are unable to present a vision of a welfare society that combines material wealth with social security and progress, then voters might as well opt for conservative or liberal alternatives or look to the extreme left or right.

Yet the reality is unmistakable. Europe's welfare societies are under heavy strain. The face of welfare is changing everywhere while the state is adapting to new realities or undergoing ideologically based transformations. In several of the Mediterranean countries, any notion of welfare has been sent back in time to past decades as the crisis has carried on. In the UK, traditional welfare has been dismantled. In Germany, welfare is increasingly being polarized between those within the benign and privileged part of the labour market and those outside it. And in Scandinavia, welfare is being transformed to cater to the chase for increased competitiveness. While the financial and economic crisis has created new challenges in particularly Europe's southern countries and accelerated the speed of reforms, most changes have been underway for decades.

The future of the welfare society appears uncertain. Public services and social safety nets are constrained by limited public finances and demographic change, while at the same time undergoing fundamental changes.

Most answers that are offered for the future of the welfare society entail the weakening of its components or a reconfiguration of them along lines that seem to be more about strengthening economic competitiveness than about offering better lives and living conditions for its citizens. That is even the case when progressives set the direction. Progressive politicians and policy-makers have failed to deliver new visions and solutions for the welfare society – and they do only to a limited extent seem to be about to do so.

But if Europe's welfare societies continue to change along the lines that it is currently happening, they will risk losing the characteristics that have given them that exact name.

## **Europe Moving from Welfare States to Competition States**

The main narrative of re-invigorating Europe's welfare societies seem to evolve around ideas and priorities that can be linked to the idea of transitioning from a traditional 'welfare state' to a new version of a 'competition state'<sup>2</sup>. The competition state is not a concept that

2 See: P. G. Cerny, *The Changing Architecture of Politics: Structure, agency and the future of the state.*, Sage, 1990; P.G. Cerny, *Paradoxes of the Competition State: The Dynamics of Political Globalisation.*, [in: ] *Government and Opposition*, 32 (2), pp. 251-74, 2007; O.K. Pedersen, *Konkurrencestaten*, Hans Reitzels Forlag, 2011.; O.K Pedersen, *Political Globalisation and the Competition State.*, [in: ] B. Brincker (ed.), *Introduction to Political Sociology.*, Hans Reitzels Forlag, 2013.

has gained major dominance in academic or policy debates in Europe. But it is a descriptive and analytical concept that encapsulates many of the changes that European states have gone through and increasingly appear to be embracing.

In the traditional welfare state the purpose of the state was to protect citizens from market forces. In the competition state the aim is to equip them to compete in the global economy. These changes can be seen in a range of areas, from income, employment and social policy to the organisation of primary education.

The changes in the view of the welfare state have emerged over the last decades together with changes in the view of competition. The year of 1993 is seen as definitive for the articulation that states compete against each other and that the state apparatus should be used to enhance the competitiveness of a nation's firms and corporations. When President Bill Clinton in February that year presented his first budget he spoke of "...a global economy in which we must compete with people around the world." Likewise, later that year the President of the European Commission, Jacques Delors, spoke of a competitive race between Europe and the USA.<sup>3</sup> The increased focus on the competitiveness of nations also sparked critique, among others by the economist Paul Krugman who called it "a dangerous obsession".<sup>4</sup>

In short, "...the competition state has developed alongside a new international economy, and its primary goal is to promote private sector competitiveness by implementing institutional reforms to mobilise the four production factors (labour, capital, technology and material resources) in competition with other states."<sup>5</sup> Institutions have taken centre stage in the discussion about how nations compete and institutional analysis has been used to both explain and promote comparative advantage. Intellectually, this is seen most popularly in the work of Michael Porter<sup>6</sup> who emphasised the importance of the national context for business competitiveness. This contributed to the change in the understanding of national competition, and also became apparent in how international organisations like the EU, the OECD and the IMF started to talk about the issue.

In this view the new task for the state is to ensure that firms and companies have a favourable environment to compete in and that the factors of production support their competitiveness. In the EU, this is noticeable with the Lisbon Strategy, which was agreed upon in 2000, but can be traced back to the European Commission's White Paper on Growth, Competitiveness and Employment from 1993 – the paper that Delors spoke about in the reference above. This is the origin of the notion that the EU's

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3 O.K. Pedersen, *Institutional Competitiveness: How Nations came to Compete*, [in: ] G. Morgan et. al. (eds.), *The Oxford Handbook of Comparative Institutional Analysis*, Oxford University Press 2010.

4 P. Krugman, *Competitiveness: A Dangerous Obsession*, *Foreign Affairs*, 73(2), 1994, pp. 28-44.

5 O.K. Pedersen, *Political Globalisation and the Competition State.*, [in: ] B. Brincker (ed.), *Introduction to Political Sociology*, Hans Reitzels Forlag, 2013, p. 282.

6 See M.E. Porter, *The Competitive Advantage of Nations.*, New York: Free Press, 1990.

member states compete with other countries on the ability to implement institutional reforms.<sup>7</sup>

The thinking behind such policies and initiatives is an understanding of the modern state, which is associated with a change in the responsibilities of the welfare state towards promoting business competitiveness<sup>8</sup>. As a consequence the post-war welfare state is gradually replaced by the contemporary competition state.

According to Pedersen "...the competition state can be defined by:

- 1) deregulating national borders,
- 2) mobilising labour and capital,
- 3) preventing loss of employability for the labour force, and
- 4) creating incentives for workers..."

He emphasises that "unlike the welfare state, the competition state does not protect the national labour force and business structure, and nor does it offer compensation in case of unemployment or lack of competitiveness. Instead it mobilises the national production factors, prevents the decline of the production factors and urges and encourages individual workers and firms to assume responsibility for their own market behaviour."<sup>9</sup>

The emergence of and move towards competition states is the result of willed and wanted reforms. Such reforms are not limited to traditional areas of business policy but include the states' welfare responsibilities and their organisation. **All capitalist welfare states or capitalist states per se do not naturally become competition states, but the transitions can be observed in several EU member-states – particularly in the Nordic countries. Though the pace of reform has accelerated in the post-crisis environment, the changes towards competition states have taken place over the last three to four decades, with most changes occurring from the 1990s and forward. The changes mirror the move from macro-economic management to supply-side management as the overarching policy principle.**

Even in countries where the competition state is not explicitly taking form, an increasing number of national reforms are based on arguments of creating comparative advantages by reforming the institutional environment of firms and labour – such reforms include the German Hartz reforms in 2003 to 2005 and the introduction of 'flexicurity à la française' in 2008. Besides liberalising labour markets the aim is to have the welfare state ensure continual adaptability and employability of workers by making the individual worker more responsive to constantly changing requirements and conditions. That is to equip them for the markets by creating incentives and motivations to enable or prepare them for continuous change and new expectations.

7 O.K Pedersen, Op.Cit., 2013, p. 282.

8 See: B. Jessop, *State Power*, London: Polity Press, 2007.

9 O.K Pedersen, Op. Cit., 2013, p. 289.

## The Perils of the Current Trends of ‘Modernisation’

While several of these changes might be necessary for the sustainability of individual welfare states, just as modernisation and continuous reforms in general are prerequisites for ensuring any future for them, the changes related to the competition state risk undermining the original purpose of welfare states and societies per se. The danger is that the motive of state arrangements and organisation become one-dimensional and that the mission of the state is altered so that we no longer will live in what is experienced as welfare societies but rather in what we would see as competition societies.

The arrangements related to the welfare state explicitly have historically sought to de-commodify citizens.<sup>10</sup> The competition state instead re-commodifies them. While the welfare state was able to offer protection, the competition state cannot, is the assertion. Moreover, it is no longer the state's role to raise democratic and enlightened citizens, but rather to ensure that they can increase their productivity and value in the market place. The main values of the competition state are thus in conflict with the core values that Europe's welfare states were founded on.

The imperative of policy-making and government becomes the economy. This applies to both the left and the right. Hence today, even large parts of Social Democrats and other progressives have changed their focus, not least when in government. Almost all policy initiatives are measured by their effect on competitiveness, growth and fiscal sustainability. There is a general belief that quality of life, social cohesion, security and most attributes related to a successful welfare society are the result of a strong economy. That welfare is something that should ‘be afforded’. While economic and fiscal responsibility *is* central, the relationship is obviously not that simple.

One risk related to the ongoing “modernisation” of the state is that choices about the configuration of the welfare state are left to economists in finance ministries rather than to democratically elected representatives who are able to consider a broader set of issues. Another risk is that both the public and new generations of politicians are raised and cultivated to see everything through an economic prism. This could mean that we forget what we want our societies to underpin and support: the ability to live good and secure lives.

The loss of security is already seen in what American political scientist Jacob S. Hacker calls ‘the great risk shift’: “*Over the last generation we have witnessed a massive transfer of economic risk from broad structures of insurance, including those sponsored by the corporate sector as well as government, onto the fragile balance sheets of American families.*”<sup>11</sup>, Hacker asserts. His context is American but many of the changes he describes have a European angle too.

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

11 J.S. Hacker, *The Great Risk Shift.*, Oxford University Press, 2006.



In the effort to increase EU-countries' competitiveness a great deal of risks have transferred from the community to the individual. This is in spite of the fact that Danish "flexicurity" – the combination of flexible labour markets with high economic and social security – has often been hailed as the inspiration for reforms and modernisation efforts. The reality, however, has too often been that weakened employment security has gone hand in hand with less generous unemployment insurance and benefits.

Concurrently, the quality of welfare per se appears to be in decline. Citizens are increasingly turning their back against public services and instead look for private alternatives in everything from schools and hospital care to unemployment insurance. This shift is strengthened by governments' own emphasis on "private options" and effort to promote these by giving subsidies, tax credits and the like. The result is that the resources available for the public option become less and that the trend of people opting for private options becomes self-reinforcing.

Similarly, employees in the public sector experience increased pressure and control mechanisms from new public management regimes. They have less time with patients, clients and pupils but spend more time filling out forms and evaluations. They feel less trusted and under more surveillance. As a consequence motivation is plunging in many public sector professions while total costs of public services remain as high as ever.

It is no surprise that the increased focus on countries' ability to compete and their reconfiguration around the characteristics of the competition state has gone hand in hand with a strengthened view that the public sector should learn from and imitate the private sector. The competition that the state is to support and enhance is internalised in the management and organisational principles of the state itself. The philosophy seems to be that the more the state can look and act like private firms and companies, the better.

All of this is, as alluded to, often dubbed "modernisation". It hardly always reaches the goals that it was supposed. But admittedly, sometimes it does. Sometimes it does bring down costs, does increase delivery of public services, does increase the employment ratio and does enhance competitiveness, which can then be recorded in rising exports and positive trade balances.

**Yet, even if and when the policies of the competition state are a success by their own measure, they risk undermining the values of the society they claim to ensure the future of. Progressive proponents of the competition state will say that their endeavour is to save the welfare state. But if they equate 'saving' with 'ensuring finances' or 'being able to afford' they too often will miss the bigger picture. Hence, in so doing they will change the face and the foundation of the society they aim to sustain.**

**The social democratic welfare society evolves around a moral obligation. It is not just a means to an end. It cannot be justified alone by its economic results or what it achieves in economic terms. Its task and goal is the realisation of**

freedom, community and solidarity – in whatever cloak these values come at present time.

The right can talk the language of economics too. They can even get economic and employment policies right at times and create wealth, full employment and rising living standards. But their notion of freedom is flawed, their understanding of community limited and their sense of solidarity a joke. If the social democratic welfare society is reduced to ensuring competitiveness and economic growth, it is hardly different from what could be realised by champions of other political traditions and ideals.

## Prerequisites for the Future of the Welfare Society

There is no reason to be nostalgic. The future of Europe's welfare societies should not be found in the past. Social investment policies, active labour market policies and the array of policies that enable women to take part in the labour market are vast improvements compared to the passive approach of previous decades. They were they right policies when they were introduced over the last couple of decades and most of them still are.

But without greater attention to the purpose of Europe's welfare societies, such moves and initiatives risk missing the greater picture: that the welfare society should improve the inclusiveness of society and deliver on the promise of improving the lives of ordinary people.

**The social democratic task today evolves around the twin challenges of creating jobs and employment on one side while ensuring security, social cohesion and the provision of central welfare services on the other.**

The social democratic task today evolves around the twin challenges of creating jobs and employment on one side while ensuring security, social cohesion and the provision of central welfare services on the other. In the post-war era these challenges seemed compatible. In recent decades, however, they have most often been seen in contrast to each other and as something that there are trade-offs between.

The welfare society is challenged in all of Europe, though the challenges may not be the same in every country.

The challenges can be seen and should be assessed in relation to three main areas. Briefly, they are the *conditions* under which welfare societies exist at present, the *components, manifestations and direct outcomes* of them as well as the *principles* that direct them. Any welfare society will only be viable and successful if it gets the answers right on all three aspects and is able to prioritise all of them.

*The conditions under which welfare societies exist at present*

All welfare societies are dependent on a viable economy, stable and high employment, effective taxation and sufficient public revenue. The long term challenges to Europe's welfare societies have often and particularly in recent times been framed as a question of demography. Will there be enough people in the working age and active in the labour market to support growing cohorts of retirees? Will there be a sustainable mix of public and private sector employees? And will people spend enough time working – total number of years as well as hours per year – to keep public finances sustainable?

These are relevant questions, though they have often been framed in neoliberal ways and led to dogmatic supply side answers. Yet more immanent questions seem to be how the welfare state copes with increased financialisation, rising inequality and the combination of intensified tax competition and dodging. Tax evasion and tax avoidance is estimated to cost the countries of the EU up to one trillion Euros a year<sup>12</sup>, the equivalent of 7-8 per cent of GDP. While offshore tax havens have become the most targeted symbol of this loss of revenue, they appear to account for less than 10 per cent of the total loss.<sup>13</sup>

**It is clear that the effort to maintain and reinvigorate Europe's welfare states will have to start with some of the classical issues of political economy: ensuring stable growth, job-creation, just income distribution and fair revenue contributions. These are issues that Social Democrats have long championed but appear to need to find new visions and policies around in the current post-crisis (or permanent-crisis<sup>14</sup>) era.**

*Components, manifestations and direct outcomes of welfare societies*

Welfare societies are usually measured by what they deliver with regards to public services and concrete welfare benefits. There might be changes in the experienced value of these. Is the public education system delivering as it should or are parents opting for private alternatives? Do people trust public hospitals to give them the best treatment or are they increasingly buying insurance and preferring private practices? Similarly, it is possible to measure core statistical developments in for example compensation rates in the case of unemployment or the state of pension entitlements.

In many European countries there appears to be a feeling that public services are not what they used to be. There is a perceived difference between what was offered in the heydays of the welfare state in the post-war era and what starved and overused public services are able to provide today. One area where we don't have to rely on feelings and sentiments, however, is the adequacy of social assistance and minimum income benefits.

12 R. Murphy, *Closing the European Tax Gap.*, 2012.

13 G. Zucman, *Taxing across Borders: Tracking Personal Wealth and Corporate Profits.*, [in: ] *Journal of Economic Perspectives*, Volume 28, Number 4, Fall 2014, pp. 121–148.

14 See: A. Gamble, *Crisis Without End? The Unravelling of Western Prosperity.*, Palgrave Macmillan, 2014.

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Studies show that for a group of countries comprising the UK, the Netherlands, Sweden, Denmark and Finland experienced a drop in the compensation rate of such incomes of between 5 and 15 percentage points between 1990 and 2008. By that year the Nordic countries had levels of social assistance between 44 and 48 per cent of median disposable income, down from 55-65 per cent 15 years earlier.<sup>15</sup>

**The biggest threat to Europe's welfare societies and Social Democratic parties is probably the potential feeling among citizens and voters that the welfare state no longer provides the right quality of public services nor adequate levels of social and economic security.** If people no longer trust the welfare society to bring them progress and security, their support of policies that enable the welfare society will wither.

### *Principles that direct welfare societies at present*

The face of welfare societies is not just determined by its concrete manifestations in public services and benefits but just as much in the principles that guide these. The philosophy behind the practice of the welfare state, so to say. Over the last decade these principles have been characterised by a commitment to increased centralisation and standardisation, the paradigm of new public management, and a growing sense of control and mistrust experienced by employees.

While these principles have arguably increased economic accountability of public services, they have in broad terms also coincided with a decline in work satisfaction by many employees in the public sector. This decline is seen to influence motivation negatively and lead to lower quality and experiences of users of public welfare. Hence, the declining trust in Europe's welfare societies might very well be linked to the principles by which these are directed at the present time.

The limits of centralisation, standardisation and new public management have led to a search for alternatives. In several countries – for example the UK and several of the Nordics – there has been an effort to develop a new approach to the public sector. The new Social Democratic government in Sweden, for example, has launched an effort to replace new public management with an approach that places more emphasis on the skills of caretakers, case workers, nurses, teachers and the like.<sup>16</sup> Yet so far no real changes appear to have been made in any country. Hence, there is still an urgent need for developing alternative approaches to welfare and the public sector.

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<sup>15</sup> S. Kuivalainen & K. Nelson, *Eroding minimum income protection in the Nordic countries? Reassessing the Nordic model of social assistance.*, [in: ] *Changing Social Equality. The Nordic welfare model in the 21<sup>st</sup> century.*, Policy Press, 2012.

<sup>16</sup> Ministry of Finance of Sweden, *Ny styrning bortom New Public Management.*, Press release, 23. October 2014.

## Relations, not Transactions, Should Be at The Heart of Welfare Societies

The welfare society should be able to deliver security. That has been the aim since its inception and will have to be so in the 21<sup>st</sup> century too. Yet providing security alone doesn't do it. **Our welfare societies should also be enabling and empowering.**

**Our welfare societies should also be enabling and empowering.**

The competition state – as discussed previously – aims at enabling and empowering people to do their best in the market place. But by limiting its focus to this realm of commerce, production and the economy it also diminishes the understanding of the individual and the communities in which we take part. In so doing it might enable people to work and compete. But it also exposes them to increased insecurity. And it far from leaves people with a feeling of increased empowerment and say over their lives.

To really ensure empowerment, to actually build power among citizens, welfare must be looked at differently than what is done is present. A common feature of the challenges of today's welfare societies is the view of welfare as something transactional and the understanding of welfare within a transactional model. Welfare is way too often seen as something that can be transferred from a provider to a user, whether it is economic support or hospital treatment. Yet the real value of welfare, the difference it can make, is created in the relation between the user of welfare and the employee that provides it.

If we are to get long term unemployed people back in the labour market and to treat the chronically ill so they can live healthier lives, we most probably need to work with and change some of their ways of life. It will not be enough with a technical fix. Rather we will have to understand the issue and problem as something that requires an adaptation, i.e. as an adaptive problem or task.<sup>17</sup> Accordingly, we cannot solve the biggest and most pervasive societal problems of our time by extending the manifestations of the welfare state such as public hospitals, schools and libraries.

**In order to reinvigorate our welfare societies and in the search for new principles to guide them it seems clear that one important move will have to be from an understanding of welfare as something transactional to something more relational.**

This is not a new idea. Indeed, it has been pointed out at various times in history. In the early 1970s, for example, the American activist and community organiser Saul Alinsky wrote: *"Self-respect arises only out of people who play an active role in solving their own crises and who are not helpless, passive puppet-like recipients of private or public services. To give people help, while denying them a significant part of the action, contributes nothing*

<sup>17</sup> R. A. Heifetz, A. Grashow & M. Linsky, *The Practice of Adaptive Leadership: Tools and Tactics for Changing Your Organization and the World.*, Harvard Business Review Press, 2009.

*to the development of the individual. In the deepest sense, it is not giving but taking - their dignity. Denial of opportunity for participation is the denial of human dignity and democracy. It will not work.*"<sup>18</sup>

In spite of such historical insights, the organisation of welfare has gone through more of a zigzag development, with the transactional approach coming out as the dominant. But there is nevertheless some movement.

Today the development of a more relational approach to welfare has been spearheaded by think tanks like the IPPR, articulated by people like Hillary Cottam of Participle, and seems to resonate with the ambitions of Labour in the UK. The full quote by Ed Milliband from the very first part of this article is as follows:

*"My case is that the time demands a new culture in our public services. Not old-style, top-down central control, with users as passive recipients of services. Nor a market-based individualism which says we can simply transplant the principles of the private sector lock, stock and barrel into the public sector."*

The time in which we live and the challenges we face demand that we should always be seeking instead to put more power in the hands of patients, parents and all the users of services.

Unaccountable concentrations of power wherever we find them don't serve the public interest and need to be held to account.

But this is about much more than the individual acting simply as a consumer. It is about voice as well as choice. Individuals working together with each other and with those professionals who serve them. This commitment to people powered public services will be at the heart of the next Labour government..."

Ed Milliband further emphasised that giving power to citizens and empowering them meant to change the culture, structures and organisation of the welfare society:

*"...if we are truly to make our public services open to the voices of those they are meant to serve, we need to throw the decision making structures open to people too. (...) Every user of a public service has something to contribute and the presumption should be that decisions should be made by users and public servants together. ( ) By hoarding power and decision-making at the centre, we end up with duplication and waste in public services – and fail to serve the people."*

This is an entirely different approach than the ones that follow from the current European processes of adaptation and modernisation as well as from the emphasis that nations compete and that the state should focus on enhancing the ability to take part in this competition. Yet, it is not an approach that will necessarily make the state any less efficient, less capable of educating its population (or developing its human resources, as it would often be phrased) nor more expensive to run.

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18 S. D. Alinsky, *Rules for radicals.*, Vintage Books, 1971.

What it is, however, is an attempt to make the welfare society more responsive to the real problems that people face and to include them in process of designing and performing this problem solving. If it can be further developed and successfully implemented it would have the potential to serve as one of the central ingredients in a new reinvigoration of Europe's welfare societies.

**Social Democrats must once again put power in the hands of people. They must give them more control over their lives. That takes a stronger organisation of the economy, a more thorough social safety net as well as a public sector that enables and empowers without reducing citizens to economic actors only.**

It is no easy task to design and implement such a combination of policies. Yet if it is done successfully, it should provide for a future for both the welfare society and the parties of the Social Democratic family.

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**DELIVERING  
EMPOWERED  
WELFARE  
SOCIETIES**



Ania SKRZYPEK

**To Change or be Changed...  
The Evolution of the Welfare Agendas  
of the Progressive Parties in Europe  
and the Perspectives for an Ideological  
Shift in the Future**



**Keywords:**

**Welfare Society – Welfare State – Programmatic Change – Welfare Society Matrix – Chance for Social Europe**

**Abstract:**

The aim of the paper is to look beyond the traditional already, crisis-driven and hence limited conversation regarding the future of economic and social policies in Europe, while responding to a question in how far the progressive movement is still in a position to take an initiative and forge a new project. For that reason, it argues to go beyond the defensive position on the welfare state legacy and consider a broader notion of building welfare societies – which would be based on the revised core values and would bridge in between diverse groups of the more and more fragmented society. In order to do so, the paper proposes to look at the main axes of criticism of the social democratic welfare agenda so far (the criteria of sustainability, longevity, political viability) and cross-cut them with what the concept originally has been (an ideal, a political/electoral strategy to mobilise, a core of governing agenda). Herewith constructed “Welfare Societies Matrix” is then used to examine two case studies – assessing the programmatic evolution of the Labour Party and SPD before, during and after the crisis of 2008. This exercise is completed in order to see in what way a hope for the Next Social Europe remains a tangible one and can be further pursued.

Within the last six years, the term 'crisis' has become the integral part of the political, economic and social vocabulary. It has developed to be: a reference point, an explanation why the affairs have taken a certain course – but equally frequently it has been also used a *reason* and an *excuse*, as to why no alternative path was possible. It has been perceived as a sole motive to act promptly and apply quick fixes, while at the same time not to risk any long term deliberations. These would anyhow be seen as *irresponsible* in such *unpredictable* circumstances. In that sense, **the notion of crisis has served as the most prominent feature of the contemporary reality and has turned to be dictating the ways of understanding of the world around. The most deceptive part of that is that in itself crisis is not a simple, politically neutral concept. To the contrary, it is a complex term of which scope and impact is being defined accordingly to one's political beliefs, ambitions and strategies.** While the political interpretations of the mainstream parties converged around the justification 'because of the crisis', the others – independent social mobilisations on one hand, and the anti-systemic and radical factions on the other - grasped the momentum to undermine legitimacy of both these reasoning and the order that has been reconstructed upon it.

There is a vast literature devoted to causes of the 2008 predicament, as also to the analyses of the various policy responses. Although the interpretations of both differentiate, one general observation can be made. Namely, that this recent crisis (similarly to the crashes before) has created a "critical junction" and hence has been a catalyst of a certain change. Whilst it is disputable, if that has been fundamental or incremental one, as also in how far it has been circumstances-based or policy-led, still an obvious transformation has taken place. And the character of it, its political understanding and consequently the space of manoeuvre in its aftermath is an exciting question to study.

The simplistic way to approach it would be to look at the mainstreaming dialectics. In political discourse it is the public debts and excessive spending of states that seem to emerge as a main cause of the crisis, while it is austerity (sometimes disguised under the call for "more reasonable resources allocation") that is proposed as the unique way out. But that would mean that one sees this critical junctions as a *one way street* on which there are *only some stop lights*, but no possibilities to go either *left* or *right*. As such it would be a synonym of already giving into the notion that neo-liberalism not only did not get crashed by the test it failed in 2008, but it strangely so emerged even stronger from

it<sup>1</sup>. And one has to admit that regardless of strong rhetorical opposition to it, it has been a tempting scenario for many traditional parties on both the right and left of the political spectrum.

But critical *junctions* are never that simple. To the contrary, they are *multi-layered with many possible turns and detours* – in the background of which completely *new traffic regulations* may emerge actually. And that is perhaps a more accurate metaphor to describe the situation at hand. The character of the crisis is a dynamic one, with the crash having undermined the previous architecture. Hence, even if that was a very popular one – such as welfare state – there is path that would lead to its restoration. Moreover, there are multiple factors influencing the play and a regrouping of actors taking part in it. Hence there is neither a possibility to simply reverse and return to the departure point, nor to ride on for too long on any intermediate diagnoses. Therefore even if the developments remain rapid and there is an urgency to respond to them in an ad-hoc manner, still there should be clarity on what the actual destination is.

Applying such an understanding seems to present itself as a great challenge to the social democratic family. It may appear somewhat paradoxical, especially that the centre-left has spent the last decade on a certain, one could say, metaphorical re-branding. This process originating from the initially British strategic idea that “elections can be won in the middle”, made the sister parties across the Union look for formulas that would enable rapprochement between them and potential allies. In some states it was more successful in terms of mergers (if one looks for example at the transition into the Democratic Party in Italy), in some a bit less (if one looks at the disappointing legacy of experiments such as LiD – Left and Democrats in Poland). In either ways, this meant globally that a new common denominator needed to be found – and the characteristic “progressives” seem to have suited the purpose. It was to emphasise that the centre-left has defined the way to move away from the disastrous diagnoses on the end of the traditional parties’ system<sup>2</sup>, transforming itself into a formula that would emphasise their focus on the future. The problem with the spin remains however, how to follow it with political content and with consequent need to build new bridges with different societal groups. Summarising, though social democrats recognised that they needed to change – the clear concept of what they would like to change subsequently has remained missing.

This provokes hesitations while coping with the above-mentioned analyses regarding crisis, its causes and possible solutions. **In the context of 2008 crash, social democracy found itself bitterly disappointed that it was not the devastating neo-liberalism or wild financial capitalism that would be exposed, criticised and eventually dismissed. To the contrary, it was its own legacy – especially in the aspect of the welfare**

1 C. Crouch, *The Strange Non-Death of Neo-Liberalism*, Polity, Cambridge 2011.

2 See: I. Van Biezen (ed.), *On Parties, Party Systems and Democracy. Selected Writings of Peter Meir.*, ECPR Colchester 2014.

**state that became the most favourite target of criticism.** Having been misled by the initial hopes, progressives found it somewhat difficult to quickly devise another strategy. Since their 'attack' stratagem had not been bringing expected results – they were losing the ground in terms of standing a chance to actually frame the debate on their own conditions. Instead, they were left to respond – to the traditional political opponents, to the protest anti-systemic voices and to nonetheless to the disenchanting citizens. In *defending* their legacy they believed that they found a safe haven, from which they could succeed in doing so.

Despite the fact that it may look like a position of retreat, the actual underpinning logic was much more noble and even in some ways ambitious – as it has been connected with principled motives. To begin with, there has been an idealistic drive. Social democracy claim to have learnt a lesson of the recent bitter years in the opposition, and while aiming at returning to power, it has been promising to restore the values upon which the post-war social order was constructed. This is where they pledge to *defend* the bequest of welfare state. The problem with this plea is that in the broader perception it is seen as not really effective framework, within which there are many pressures (on so called squeezed middle to name one) and anachronistic provisions leading to further inequalities. With this criticism at hand, it is hard to balance in between *defending* and arguing for modernisation at the same time.

Secondly, there is a strategic motivation. In order to climb in polls, social democracy is a need to bridge between different groups of voters. Within the current fragmented and individualised societies, this means no less but trying to find brackets large enough to gather support under a multi-layered denominator. It would have to connect for example so called "insiders" and "outsiders", as also the holders of "lousy" and "lovely" jobs at the same time. It would have to ally different generations, genders, and indigenous and migrant populations – achieving which is difficult in the light of conflicts growing alongside with the discourse on "scarcity of resources". So although the social democrats come to be *defending* all these diverse social groups, the question of the credibility of their promises has not been solved. That is especially that with having abandoned old class theory and not having linked with any of the modernised ones, they still lack a holistic sociological approach that would make their pledges more coherent and consequently more plausible.

And finally there is a search for governing legitimacy. The social democrats gladly return in their memories to the years, where they led the majority of the EU governments. This nostalgia induces further *defensive* statements, which are meant to underline the achievements – but more and more frequently have actually quite of the opposite effects. On one side, they draw attentions to the agendas that not always have been fully realised. An example of that is the Lisbon Strategy, which was to be the promising future oriented project enabling citizens' to get emancipated in the era of globalisation. Even though it

constitutes a proud example of a noble ambition, still it did not stand the operational test and was quite promptly replaced by the conservatively flavoured EU2020. On the other, it exposes the attachment of social democracy to the current order and to their own position in the government. This makes them “part of the system” – placing them in a line together with all the traditional parties as a target for anti-systemic (extremists, populists) groupings attacks. While in a need of making governmental compromises (since the landslide electoral victories are at this point rather a memory than an actual possibility), it may be missing herewith the window of opportunity seeing in crisis an opportunity to not only by name, but rather to profoundly renew the movement and construct a distinctively modern vision.

In the light of these reflections, this particular article aims at examining a following question: can European progressives regain ground, while arguing for an agenda of welfare societies? Following the introduction, the first issue to examine is in how far the welfare agenda can transfer into a politically plausible, future-focused project again. This discussion will be taken upon while using the three axes of existing criticism regarding welfare state at present (sustainability, longevity and political viability) and the space for progressive reproduction in the context of their particular, above described dilemma (in terms of defending ideal, political strategy and governing agenda). Secondly, the article will devote the space to contrast these possibilities with on-going evolution of approaches within the social democratic family. For that reason, the positions on the issue of welfare of 2 social democratic parties (each from within a different welfare state type and both belonging to the modernising stream of the end of 1990s – known as Third Way or Neue Mitte) in the period 2004-2014 will be examined. Thirdly and finally, it will be examined in how far these answers correspond with one another. The underpinning question here is in how far they constitute a common platform, on the bases of which there could be a hope for further development of the European Social Model and consequently a Social Europe.

### **Progressive Welfare Agenda for the Future**

The introduction described the basic motivation for which social democracy assumed the position of a defender of welfare states in Europe. Though the reasoning was characterised as a triple-folded one (ideals, search for societal anchoring, nostalgic pursuit of political credentials), still these were originating from rather a simplified understanding that the major post-crisis battle is taking place on the lines of (conservative) austerity versus welfare state. This, as remarked before has neither been grasping the dynamic character of evolving situation, nor the shift of the political conflicts moving from within the current political system into a border between it and the system’s contesters. In that sense, it would seem that social democracy remains entangled in what could be named a previous

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stage struggle – while it should be aiming at framing the battlefield of the new kind.

The motivation to formulate such a hypothesis comes from the review of the more of academic literature. It is true that immediately after the crisis the deliberations regarding the welfare state turned somewhat mute for a while. In the years 2008 – 2010 there seem to have been a pause (“for reflection?”), which is now being quickly recuperated with numerous important volumes being published. They have already started being classified into diverse respective schools. These would deal in a differentiating manner with the two-folded process of the natural self-transformation of the welfare states on one hand, and the politically driven retrenchment (less expansion these days) on the other. **Regardless of dissimilarity of opinions on how far the welfare states are still able to self-adjust, the clear conclusion emerging from majority of the studies is that way forward will need to lead through redefining fundamentals and deciding on a sound strategy to solve the existing and emerging distributional conflicts.**

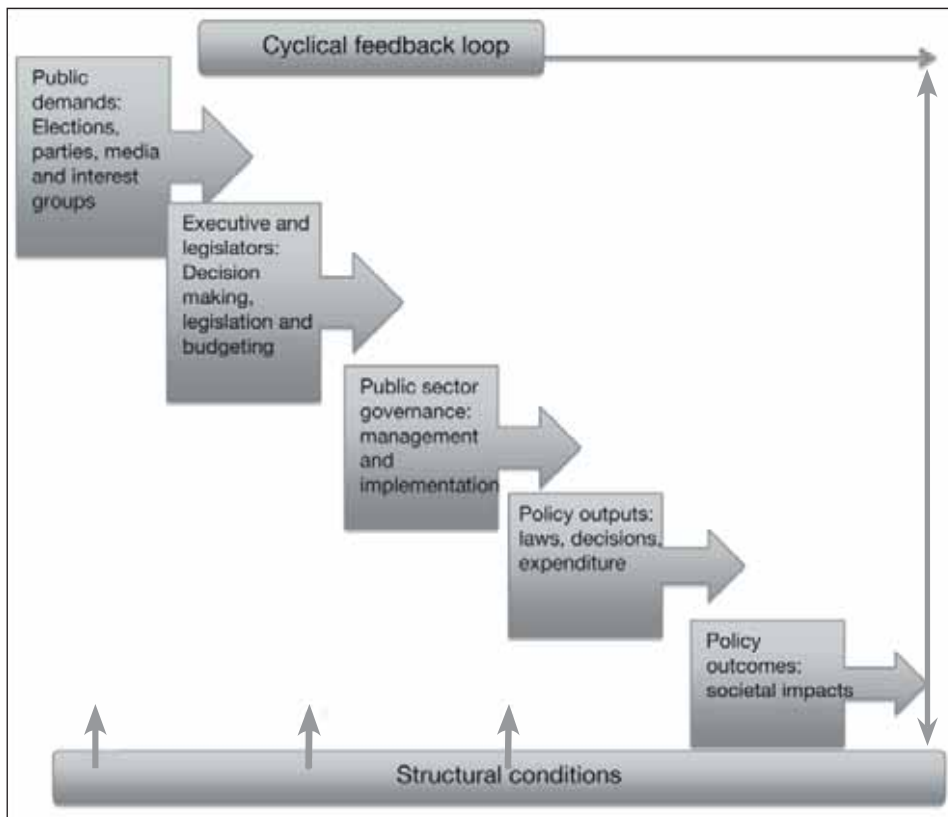
This yet again proves the earlier hypothesis that neither it is possible to simply ‘defend’ nor consequently return to any previous arrangement, nor that it is feasible to think about it accordingly to the old concept of a social deal between capital and labour. **If indeed there was a ‘new’ deal to be stricken it needs to begin with an understanding that society has changed and hence it would have to serve an alliance built on different base than the old one - forging new understanding of the dynamics at hand and proposing a coherent, holistic new narrative that will set the lines for a new, fair distribution of power, income, welfare and knowledge. Taking into consideration its more ‘global’ dimension, it would perhaps need to spell out already in the name a somewhat accelerated ambition – shifting from ‘welfare state’ into ‘welfare society’.**

The change of the leading name may appear somewhat controversial- and in the course of the FEPS Next Left National Round Tables in 2014 this proposal was met with a number of criticisms. To counterbalance them and reiterate benefits of merging new approach with a new term, it is worth to articulate three essential arguments. First of all, it emphasises that there is a distinctive, unique vision of a fairer and more *solidaristic* society, to which progressives aspire. This is the key, as it is carrying a notion that this is no longer defensive, but rather offensive showing that other paths than the conservative ideas of ‘big society’ are possible. Secondly, it focuses on societal dimension, offering a chance for social democrats to show that they are committed to breaking the division between ‘system’ and ‘society’. Instead, it would show that they are interested in re-anchoring their mission in a broader public demand, helping to forge a new societal progressive alliance on behalf of which they could act. And thirdly, it would allow them to imprint an understanding that they are not keen on preserving the set up for the set-up sakes, but on the contrary that they want to gear the changes needed to make it work for benefit of many.

All those opportunities are relevant in a broader context of modernisation of social democracy. As mentioned and examined before, it is at this stage classified as a part of



“old system” – and by many scholars seen as almost an ‘endangered species’ among the other ‘traditional parties’. In that sense and coming back to the ‘junction metaphor’, it seems to be getting side-track together with others rather than being in the driving seat. As such, even if the respective parties do not lose elections, they rather tend to weaken during subsequent ‘cyclical feedback loops’<sup>3</sup>.



While the crisis brought obvious pressures on the “loop” above, it would seem that traditional parties, social democrats included focused predominantly on the structural conditions – and not on the core of the cycle (in between the public demands, through public sector governance to actual policy outcomes). That is dangerous not only for the progressives, but overall for the system of democratic governance (as known nowadays). With the emergence of the contesting groups, this may, following Arend Lijphard and others, further undermine the troubled, but still existing set of power balance. The way to change it is to discredit and hence shake off the criticism regarding welfare state, champion the new electoral strategy and prove it trustworthy in the governing area.

<sup>3</sup> After: P. Norris, *Making Democratic Governance work. How Regimes Shape Prosperity, Welfare and Peace.*, Cambridge University Press 2012, p. 36.

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Currently, there are three main dimensions within which the discussion regarding the future of the welfare states is taking place. The first one spins around the question of *sustainability*. The crisis-induced narrative of usually gives the tone of the argument: public debts, excessive public spending and *unaffordability* of current set up. Resisting for the moment a temptation to jump right into the polemics, one needs to observe that these points of criticism aim predominantly at undermining economic credibility of the welfare state as a transformative project. While social democrats have been engaging in this dispute, they have found it hard to contradict it to the full extent. Instead, they themselves found some of the provisions either inadequate or ineffective. This meant that some of the sister parties embarked also on the strategy of cuts, when entering the governments. The misleading assumption has been that the public demands (see the graphs) and the neo-liberal arguments in favour of cuts were synonymous, rather than consistence in commitment to articulating and putting societal objective first. Not only didn't it bring social democracy credentials in economy, but also it heavily undermined its core competence to "social-democracy".

The second line marking the borders of the disputes touches upon the *longevity* criteria. It questions if welfare state is still in a position to deliver as far as needs and ambitions of the continuously changing societies are concerned, while at the same time being a catalyst of a transformation that would lead to more egalitarian and more just conditions determining a quality lives for everyone. The way those issues are raised is frequently connected with pointing fingers at the loop-wholes that do not prevent new inequalities to arise, that do not cope well with the new social risks and that do not give answers as far as new distributional conflicts are concerned. They gravely shake the public confidence and herewith also diminish the support for the welfare state as a project. And this is where the progressives should gain courage to address the issue of modernisation. Instead of being afraid that any notion of the 'reform' would immediately be associated with yet another set of cuts and perceived as their ideological treason, the progressives should retrieve the rationale that the welfare state is a continuously readapting project with one constant feature – remaining the framework to fight social in justice. To that extent, the progressives must reconnect it with ambitions they have regarding the rapidly transforming labour market, with all the challenges and traps that i.e. digitalisation is bringing along.

Finally, the third group entails the criteria of *political viability*. The issue here is two-dimensional. On one hand, the quest for politicization of the welfare state translates too easily into already mentioned defensiveness of social democracy. While arguing that it has been the movement's legacy, it focuses on preserving. Instead, it should perhaps rather opt for combining the narrative of safeguarding through reforming. On the other hand, whilst the crisis imprinted onto political discourse an understanding of scarcity of resources, it quickly evolved into being a synonym of confinement in political terms. The debates on

welfare state became the rounds of bargaining about what to keep and what to cut, and are not longer essentially about what societal transformations these arrangements should aim at bringing into place. To that extent these talks also ignore the very own feature of the welfare state – which is its continuous self-transformation (taking place both through expansion and retrenchment in parallel). Hence from a visionary project, it has been filtered down to becoming an issue of political management.

As stipulated already, **progressives were confronted with these three axes of criticism – regarding sustainability, longevity and political viability – in the midst of the crisis. Following the earlier presented graph and the generally described strategies so far, it would seem that social democracy was heavily influenced, if not even consumed by the “structural conditions”. This is why it applied a relatively defensive strategy rather than assuming a position of changing them via governance, policy outputs and policy outcomes. It would explain, at least theoretically, why it would be weakening in the course of cyclical feedback loop (neither attracting new voters nor mobilising the traditional ones) – regardless of the context of remaining in the opposition or returning to the government.** Consequently, the inability to respond to public demands for an alternative situated it within the contested system and not on the side of those, who really aim to change it. Hence, even though social democracy was repeating as mantra the slogan *'never waste a good crisis'*, effectively itself it seem to have missed the moment of using that as an opportunity to reposition and step back into the game. Instead of paving the way out, social democracy *de facto* allowed the crisis to change its own nature.

This may sound quite harsh; especially that it would suggest that progressives somewhat lost their conviction that politics may deliver a change and that their own place is always in opposition to what is unjust, making them always contestant of the 'current system' and not the integral part of it. Instead they gave into the *TINA* philosophy, which continues to prevail and confine political imagination of the contemporaries.

Although it would be possible to further dwell on this depressing thought, it seems to be more constructive to reassess the three axes of criticism in a different context. Namely, perhaps one could rather look at the welfare state concept applying multi-pier understanding of what it ought to be. That is before it became a heavily disparaged concept. First of all, it has been an embodiment of a certain *ideal*. It was anchored in socially accepted principles, alongside which individuals would come together in their efforts to ensure fairer, prosperous future for all. Secondly, it was a model that would attract different social groups. They would unite behind a political agent (candidate(s), parties etc.), who would be paving the *strategy* on how they could use it as a leverage to claim power and put in place necessary changes. Finally, if successful, it would become a reference point – based on which voters would assess if their initial demands (see the graph) were met with policy outcomes.

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Recalling these three initial features of the welfare state project is not meant as a nostalgic exercise. On the contrary, while retrieving the original sense of the mission and then contrasting these attributes with the three axes of criticism (as enumerated before), one arrives to an interesting matrix. Instead of a focus on defensive line of “what is not true” and “what it is not”, it brings attention to what it has been conceptually and hence where the space of political manoeuvre remains:

	IDEAL	POLITICAL/ ELECTORAL STRATEGY	GOVERNING AGENDA
SUSTAINABILITY	Reassuring	Committing	Delivering
LONGEVITY	Encouraging	Daring	Transforming
POLITICAL VIABILITY	Mobilising	Allying	Crediting

To expand these shortly, in terms of *ideal* it was proposing a certain social deal that would be sustainable. As such, it would appear as *reassuring* for all – being a certain guarantee of continuous improvement and opportunities that would expand for all in the future. It would in that sense be *encouraging* for all to engage and to contribute, providing a warranty that joint inputs would translate into better living (and working) conditions for all. And that would mean both for those ‘on the bottom’, as also for everyone else. Here through it had a *mobilising* character, lining up diverse classes (in both socio-economic and cultural understanding) in a joint struggle.

Being presented as an ideal, hence as an aim – it has been the base to anchor a political and electoral strategy in. It has served as an explanation on what the movement's mission has been about. As such it was *committing* the party to abide by a certain plan, which would reach beyond the short-term electoral dispute and would in that sense be *daring*. By spelling out certain benchmarks, it was also a sort of a guidebook for any eventual alliance or coalition that could be expected at the end of the cyclical feedback loop. This *allying* feature would seem most essential especially these days, when it is quite evident that landslide electoral victories are out of reach and when the reasoning needs to take into consideration an eventual need to compromise with competitors in order to form a government.

In relation to that, the project of creating or modernising welfare state would also constitute a manual for a legislative period. In terms of sustainability, it would be predominantly setting the evaluation criteria for *delivering* – a quality that the modern parties have become relatively obsessed about. Furthermore, it would be seen as an exam of power, exposing in how far the parties in question were holding *transformative* powers and in how far they would be subjected to circumstances-related limitations. And finally success of realising a welfare agenda would be of relevance in terms of either *crediting* or blaming the party in political terms after the loop would finish.

Concluding, what the table shows is that the three-pillar character of the welfare state (or as argued in the spirit of modernisation: welfare society) project contrasted with the three evaluation criteria of it, that they map clearly the space of manoeuvre for the progressives. If to take only the three axes of criticism – which is frequently the case – it translates into defensiveness. If to take the dimensions in which it translates only, it can be judged respectively as unrealistic, conformist or incoherent. Hence in order to aim not only at the progressive policy reproduction, but also try to put in place new ideas to be formulated – it is essential to look at the entire matrix (as proposed). Only then there is a chance to go beyond empathic or nostalgic search for credentials in the past, and instead put a proposal towards a new holistic mission that would carry the changed society and would make the progressives a force of the future.

### **Welfare Society Matrix in Practice**

The here above proposed matrix presents itself as an interesting tool for both evaluation of the on-going evolution within the progressive movement, as also a certain compass that could eventually be used while reformulating an agenda for the future. But so far, it has remained in somewhat comforting theoretical zone, multiplying rather a mainstream of 'renewal of social democracy' literature with some 'good-piece-of-advice' giving. The ambition is of course greater than this – and this is why the second part of this paper (below) is devoted to assessing the feasibility of the proposal made before.

The test that the matrix is going to be put through is based on an idea of contrasting the theoretical presuppositions with the actual evidentiary material. It is constituted of the key documents adopted by the respective progressive parties in the period of 2004 – 2014. The comparative empirical study would allow on one hand complement the deliberations regarding the evolution of predominant understanding of welfare state notion, while at the same time aiming at capturing the dynamic brought into the conceptualisation and narrative by the crisis. It will allow at the same time to examine the eventual ideological shift (especially in the context of the struggle between the principle values and assumed available means), as also grasp in how far the developments constitute continuation or abruption in the progressive agendas. If the later one was to be the dominant feature, it would then signify that the crisis is much more of a long-term-impacts phenomenon than initially perhaps assumed. It could then suggest that the argument regarding the fact that the current situation enables only formulation of short-term strategies is hypocritical, when at the same time such profound changes are taking place.

The selection of the case studies reflects the initial typology of the welfare state<sup>4</sup> – approaching it from both the geographical and the political angles. Primarily, it was

4 <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2006-0238+0+DOC+PDF+V0//EN>

determined by the accessibility of the documents at the moment of completing this study<sup>5</sup>. But the richness of the material on one hand, and the limitations of this particular article on the other induced a decision to vastly limit the scope and focus on the two parties only – namely the Labour Party and SPD. The choice was dictated by the understanding that these two, having been either praised or criticised for the reform attempt known as Third Way/Neue Mitte, constitute in themselves an interesting case study. In each of the cases, the respective PES member parties selected the examined documents. This is why the overview of the cases presents itself in a following way:

Type of a model	Party	Government	Opposition
'Anglo-Saxon' Model (Liberal capitalism)	Labour Party	(1997) - 2010	2010 -
Central European (Conservatively coordinated capitalism)	SPD	2005 – 2009 (grand coalition) 2013 – (grand coalition)	2009 - 2013

The selection of case studies is expected to provide an interesting panorama that should enable encapsulating a number of features. First of all, it should facilitate painting their portrait from the end of governing and later in what European social democracy sees as the “Third Way debate” era. In this context it will be interesting to see, which criteria the parties see as the modernising one in regards to their social and labour policies. Secondly, it can help finding out in how far differences between the welfare state models influence the scope of the reaction (and action) of these respective parties. And thirdly, it can additionally provide an interesting insight regarding how the evolution of the political agenda co-depends on the parties’ positions (in governments and in the opposition respectively).

## Labour Party

There are six key documents that have been indicated as the key ones for the Labour Party regarding the welfare state debate. These are: *The 2008 White Paper on welfare reform*<sup>6</sup>, *Raising expectations and increasing support: reforming welfare for the future* (by Department of Work and Pension in December 2008), *Building Britain’s Future* (of June 2009, including Labour’s responses to the crisis)<sup>7</sup>, *One Nation Economy*<sup>8</sup> and *One*

5 The author would like to thank International Secretaries of: SPD, PvdA, CSSD, SLD, Labour Party, PSOE – for their support and trust, without which completing this study would not be possible.

6 <http://www.hlg.org.uk/images/stories/BenefitWhitePaper.pdf>

7 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228621/7654.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228621/7654.pdf)

8 [http://www.yourbritain.org.uk/uploads/editor/files/ONE\\_NATION\\_ECONOMY.pdf](http://www.yourbritain.org.uk/uploads/editor/files/ONE_NATION_ECONOMY.pdf)

*Nation Society*<sup>9</sup> (of 2014), *The Choice: Social Security* (of 2014). What is very interesting about this selection is naturally that these date respectively from the time of Labour in the government, as also the most recent one indicate the strategies that Labour would see feasible ahead of the 2015 general elections.

The first of the documents begins with the foreword of Prime Minister Gordon Brown, who begins with a reference to the notion of a *fair society* – which he describes in a following way *A fair society is built on a shared understanding of what each of us can expect from the other, which is why we have put not just rights but the responsibilities that match them at the heart of our welfare reforms*". Further, the Prime Minister's message refers to the tough times (of the crisis) and the anxiety that many share, reassuring that the task is to support all to get back into work. Social security is clearly understood as a temporary help, while the objective is otherwise double-folded. On one side, help people survive and enable them to benefit from the recovery. On the other, it is to move to *a system that offers more support but expects more in return*. This means helping people to develop skills and talents, so that they can ensure a better life *for themselves, their families and their communities*.

Further the document is composed of 7 Chapters<sup>10</sup>, through which there are certain transversal principles. First of all, there is an emphasis on activation and obligation to work – from which perspective welfare benefits are seen as 'entrapment'. Therefore also the starting point of any of the deliberation is the question of work. Secondly, the argumentation is anchored in a certain transversal approach – within which it is being argued that the progressive welfare state is capable to deliver both on high quality employment and lowering children poverty. Thirdly, there is a strong belief that the key to empower people lays in providing them with education and training. While the document is written in the times of crisis, the argumentation in favour of a reform is spelled out in a following way: *Some people have argued that now is not the time to press with welfare reform. We believe the opposite is true. The current economic climate means we must step up both the support we offer to people on benefits and the expectations of them to get themselves prepared for work. To do otherwise would be to repeat the mistakes of the past, writing people off and encouraging long-term-benefit dependency that still scars too many of our communities*.

Following these observations, as also the broader analyses of this text (and the one on *Building Britain's Future*), it is possible to reconstruct the welfare matrix for the Labour Party in 2008 in a following manner:

9 [http://www.yourbritain.org.uk/uploads/editor/files/SOCIETY\\_one\\_nation.pdf](http://www.yourbritain.org.uk/uploads/editor/files/SOCIETY_one_nation.pdf)

10 1) Introduction; 2) Benefit reform; 3) An empowering welfare state; 4) Personalised conditionality and support; 5) No one written off; 6) More support, higher expectations; 8) Ending Child Poverty.

	IDEAL	POLITICAL/ ELECTORAL STRATEGY	GOVERNING AGENDA
SUSTAINABILITY	Fair society	Extend support and expectations	Increase employment
LONGEVITY	Activation	Empowering in competitive times with skills Ending child poverty	Making money effectively used by improving services
POLITICAL VIABILITY	No exclusion	"Personalised welfare state"	Removing internal barriers, winning in global competition

Interestingly enough, the position of the Labour Party in the midst of the global crisis was precisely in favour of using the momentum to put in place the reforms. As they argued this was an essential condition to cushion the effects of the predicament and hence the logic was to promote a “reasonable expansion”. That was advocated in the spirit of balancing further not only rights and responsibilities, but also expectations on both the side of individuals and the state.

Having moved to opposition and having changed the leadership, the Labour Party began a new journey – seeking yet another renewal and re-profiling. On the wave of that the concept of “One Nation” had been elaborated and served in subsequent years (pretty much till 2013) as the party-leading motto. Under this umbrella, the two documents were elaborated: one on economy and another one on society.

Within the first one's foreword, Ed Miliband and Ed Balls write that (...) *vital link between the overall wealth of the country and the family budget has been broken. People are now working harder, for longer, for less than before.* In a mission to restore that connection, they argue that *building a new economy* is a way forward, which is based on (among others): creating new, higher paying quality jobs; and competing with world on high skills. While the document begins with the explanation how Labour plans to exercise the “fair benefit reduction”, still the chapter on “Jobs for the Future” is as high as second one. In it, the Labour reasons that the potential lays in supporting small business and green economy.

While jobs are included in the paper on *One Nation Economy*, as a title they do not form a specific chapter in *One Nation Society*<sup>11</sup>. Comparatively, in the “New Labour” approach the pledge of “no exclusion” was complimentary to prior “activation and fairness (in opportunities, societal set up etc.)”. In the new post-crisis reality, it is rather the promise to fight against imbalances and gaps that seems to be rather in the spotlight. Therefore also the matter of wages, quality of work, working conditions (including hours) and accompanying safety nets is at the heart of the deliberations. The cross-repeated notion of “empowerment” has become enriched with a strong emphasis on co-decision (of citizens)

11 The Chapters there are: People-powered public services; Supporting families a better work-life balance; education; whole person care; supporting and rewarding contribution; housing; safer communities: integration; high streets.



and de-centralisation of power (especially in the area of public sector). Though it is no longer labelled explicatively there as a “reform of welfare state”, it would be nevertheless possible to risk hypothesis that it is one that rather from the point of “empowerment through labour” takes the angle of “empowerment through citizen rights to decide”.

Consequently in the document *The Choice: Social Security*, which constitutes a summary of Labour Policies ahead of the general elections, underlines that *British people* can decide. In the introduction it argues that *It is clear that the Tories cannot deliver on welfare reform. They promised a new approach to poverty and welfare but have failed to deliver. (...) They are failing because they choose not to see how the growth of insecure, low-paid, poor quality jobs is undermining our country's ability to earn way out of the cost-of-living crisis the increases in social security spending leads to.* The answer of Labour to that is: *it is only by getting more people into work and creating better paid and more secure jobs, that we will tackle the drivers of rising benefits bills and ensure system in sustainable for long time. Labour will put the right values at the heart of our system, so that it rewards work, responsibility and contribution. Through these reforms we will build a better economy for the future – one that works for working people once again.*

While gearing up for the elections, the Labour Party discredits the “Tory Failure” on 3 fronts: *Failure on tackling the underlying drivers of social security spending; failure in delivery and management costing tax payers, failure on fairness.* These are contrasted with the proposals formulated in the same paper under the theme “The Labour Future”. This in itself constitutes an interesting example of identifying a way out from the potentially defensive rhetoric on welfare towards an offensive strategy. If to put into the welfare matrix, it would present itself in a following way:

	IDEAL	POLITICAL/ ELECTORAL STRATEGY	GOVERNING AGENDA
SUSTAINABILITY	Values-based social security system	Building better economy that works for working people and addresses the root causes of social security spending (low wages, low skill, insecure economy)	Tackle the root causes of rising housing benefit spending Raise the National Minimum Wage
LONGEVITY	Economic reform and social security reform go together	Getting people into work, creating better and more secure jobs	Introduce a Compulsory Job Guarantee Introduce Make Work Pay Contracts
POLITICAL VIABILITY	Benefits to all working people, not just a privileged few at the top.	Social security system that rewards work, responsibility and contribution	Devolve power to city and country regions

There are three observations to be made at this point. First of all, though the principle of fairness remains at the core of the Labour policies, there is a greater than before emphasis on overall “values-based approach”. Secondly, the focus point has changed and there is a strong drive to reclaim the economic credentials of the welfare project. It is tackled in a way that Labour promises to look at the causes of spending and re-link the economic and social reforms. And thirdly, the governing agenda has become very “operational” – carrying power through very specific, yet symbolic proposals.

## SPD

Similarly to the Labour Party, the crisis found SPD in the government – which however it had to depart from upon the elections of 2009. At this point in time – the over-arching programmatic document that had been serving SPD as the main reference point was so called “Hamburger Programme” (adopted on 28<sup>th</sup> October 2007)<sup>12</sup>. Its’ adoption followed a long process of 8 years, which had been devoted to debates and drafting – and as such it replaced its predecessor (Berliner Programme of 1989).

With the introduction, SPD outlines its mission as *Committed to the people, in the proud tradition of democratic socialism, with sense for reality and energy the German Social Democrats are accepting their tasks in the world of 21<sup>st</sup> century, for permanent peace and safe ecological foundations in life; for a free and fair society in solidarity; for equality and self-determination of all people – independent of origin and gender, free from poverty, exploitation and fear. (...) We are working for sustainable progress combining economic dynamism, social justice and ecological reason. We want to overcome poverty and exploitation by means of qualitative growth enabling good work for all and counteracting the menacing climate change. (...)*

In the same chapter, they address also specifically the welfare state: *We are developing the preventive welfare state combatting poverty, offering people equal opportunities for a life in self-determination, granting fair participation and providing reliable security for major risks in life. We are favouring togetherness of the generations and equality for women and men. We are dedicating our support to families, focusing our special support on the weakest groups in our society. We want a healthy life and good education for all. We do not want to leave behind any child.*

In the document, much attention is devoted to the issue of *change* – both seen as an aspect of globalisation, as also as a feature of evolution of the society and the labour market. With the criticism of financial capitalism and attention to new opportunities (such as the ones originating from technical progress), SPD advocates strongly for new ways

<sup>12</sup> <http://www.spd.de/partei/grundsatzprogramm/>

to ensure that all equally shares progress and wealth. It underlines the importance of pursuing the dream of Social Europe, as an alternative model to the rapidly developing economies elsewhere in the world.

Analysing specific policies within the framework of the welfare matrix, would shed overall a following picture:

	IDEAL	POLITICAL/ ELECTORAL STRATEGY	GOVERNING AGENDA
SUSTAINABILITY	Justice understood as equal distribution of income, property and power. Performance oriented distribution.	Social Europe	Promoting safe gainful employment for women and men Preventing exclusion Combating poverty Education as central element of social policy
LONGEVITY	Equal opportunities – with no uniformity, but space for development.	“Preventive welfare state” combining civil rights of freedom and social civil rights	Combination of tasks (economic, financial, labour market, education, health, equal opportunities, integration, inclusion)  Justice and solidarity – contributions paid by employers and employees form foundations
POLITICAL VIABILITY	Primacy of democratic policy rejecting the subordination of political economic interests	“Personalised welfare state”	Aims of: security, participation and emancipation  More and better social services

What stands out of the analyses is that the way SPD perceived the role of the welfare state was mostly in two dimensions. The first one was the emphasis on its ‘preventive’ role, which would be the guarantee of security during the times of the profound on-going changes. The second was the attention to the empowerment, seen mostly as the individualised issue. While of course the policy mix was to ensure compatibility of the agendas of quality employment, equal opportunities and fighting exclusion, the logical underpinning of the argument was indispensability of social and civic rights. At the same time notions such as “justice and solidarity in contributions” matched with the “performance oriented distribution”, would stipulate that though all the provisions would be universal –

benefiting from them was a matter of shared responsibilities of all. That was the balance that needed to be put in place and that was also how SPD was arguing for the utility of this modernised welfare state (stepping ahead of the three-axes criticism, which would in fact follow soon after).

Though the Hamburger Programme would still be the valid “Fundamental” document of SPD, while in the opposition and preparing for the elections, the party elaborated a number of new policy proposals. Although generally speaking Germany has managed to safeguard itself from the harshness of the crisis, nevertheless the benefits of perseverance were not inducing decisive improvements as far as both living and working conditions were concerned. In that sense, the notions of ‘preventive welfare state’ and “Social Europe”, were overshadowed by the deliberations how to restore value of labour itself in the world where distribution of income would seriously lag behind the distribution of power.

The SPD board adopted a number of resolutions regarding this subject in years 2011 – 2014, of which examples are *Mannheimer Erklärung: Sichere Arbeit – Gerechter Lohn – Ein Aufschwung für alle* (11<sup>th</sup> February 2011)<sup>13</sup> or *Gerechte Löhne für gute Arbeit – Wir stärken die Tarifautonomie* (of 24<sup>th</sup> March 2014)<sup>14</sup>. This work has heavily impacted the final version of the SPD Governmental programme *Das wird etnscheidet. Das Regierungsprogramm 2013 – 2017*.

The new electoral programme was composed of a total amount of 11 Chapters<sup>15</sup>. Unlike in 2007, the question of managing globalisation was no longer at the core of attention. Its’ prominent place was now fully occupied with the issues of regulating financial capitalism, while ensuring better social balance within the societies and striving for quality employment for all. If to put the specific demands of SPD on the welfare matrix, the result of the analyses of this programme would present themselves in a following way:

**The comparison in between the two welfare matrixes done for SPD lead to following conclusions. First of all, there is a shift in terms of what is identified as the operational context. Although globalisation remains a feature of it, in fact the reference point is financial capitalism and consequently the question on how to manage it. Secondly, there is a preoccupation that the societies are more than ever divided. The panacea, similarly to the Labour Party’s ‘One Nation’ project, is the repeated notion of *Wir sind alle Deutschland*. Hence also the attention is paid to ways of bridging in between different groups and setting minimums below that nobody should ever fall. Thirdly, anticipating on further criticism – the actual**

13 [http://www.spd.de/presse/Pressemitteilungen/8864/20110214\\_mannheimer\\_erklaerung.html](http://www.spd.de/presse/Pressemitteilungen/8864/20110214_mannheimer_erklaerung.html)

14 [http://www.spd.de/presse/Pressemitteilungen/117674/20140324\\_beschluss\\_pv\\_tarifautonomie.html](http://www.spd.de/presse/Pressemitteilungen/117674/20140324_beschluss_pv_tarifautonomie.html)

15 *Deutschland besser und gerechter regieren; Finanzkapitalismus bändigen - Wirtschaft und Mittelstand stärken - Gute Arbeit schaffen; Bildung, Gleichberechtigung und Zusammenleben in einer modernen Gesellschaft; Für eine gerechte Steuerpolitik; Soziale Sicherheit und Vorsorge; Gute Nachbarschaft; Umwelt und Verbraucherschutz; Demokratie leben; Für ein besseres Europa; Unsere Idee der Globalisierung; Deutschland besser regieren.*

	IDEAL	POLITICAL/ ELECTORAL STRATEGY	GOVERNING AGENDA
SUSTAINABILITY	Rules for financial capitalism	Equality of opportunities	Just tax policy
LONGEVITY	Need to strengthen community and build bridges within	Guaranteed minimums Educational opportunities for all	Social investments plan
POLITICAL VIABILITY	Restoring value of work by putting rights and order as the framework of the labour market	Strengthening social partnership	New private and public partnership Greater role for Europe

notion of ‘welfare state’ has been somewhat concealed, even though the traditional components of it are still vastly present. The way to argue for its sustainability and longevity is the merging the philosophy of just contributions (tax system) with the “social investment plan”. To that end, also European Union should further pave the way.

### **Conclusion – Hope for European Consensus on Welfare Society?**

This paper departed from the deliberation on the challenge that the recent global crisis constituted for the European economies and social policies, and by the extension to social democracy and its valued legacy known as welfare state.

While analysing the overall dynamic around the predicament, as also the accompanying political tendencies, it was concluded that progressives found themselves in particularly unfavourable position. On one hand, they had missed out the momentum of the crisis peak – having expected that such a major crash would discredit financial capitalism together with its governing neo-liberal logic. This would, as they believed, lead to a new turn of historical pendulum and the return of ‘their core voters’ to them. This optimistic scenario actually had never been that plausible, since the political system evolved – and in the course of subsequent cyclical feedback loops (please see the graphs) the diverging lines were no longer among the ‘traditional political parties’. They moved to be in between those ‘belonging to the system’ and those ‘outside of it’ – placing social democracy as a part of governing establishment (regardless of them being in opposition or not), which populations saw more and more incapable of coming up with alternative solutions.

This meant that progressives found themselves in a cross fire – between the neo-liberals blaming the welfare system for having induced public deficits (and hence leading

to crash) and the societies shaming the project for not having delivered a safety net, when needed the most. This implied the use of a defensive strategy, in order to deal with the three axes of criticism (regarding the welfare state's sustainability, longevity and political viability). The reasons why such a self-justifying approach was assumed, even if it was limiting – were broadly explained in the second section of this paper.

In order to move away from the assessment of what happened and pursue the optimistic hypothesis that more than that could be done, the three axes were then confronted with the features that welfare state used to embody – being an ideal, being a connecting political strategy and finally being a framework for a governmental agenda. Bringing them together resulted in drafting a “welfare matrix”, which was initially designed to see where the power for the renewal would lay. It was argued that the attempt to create a new transformative project regarding welfare would also require decisive rebranding – and hence it was proposed to call it a “welfare society”.

To test the matrix, as a tool to evaluate the eventual evolution of the parties' positions – it was applied onto the empirical material collected thanks to the support of the PES sister parties. Though the selection was initially much broader and it was planned that the article would look at five examples of the social democratic parties operating within the context of divergent welfare state models – in the end, due to the limitations of this particular article it was decided that the focus will remain on the two that steered the European debate with the modernisation proposals of Third Way/Neue Mitte. Of course, it would still be interesting to compare it with the three other cases – but this would, as said, require a different article.

**What comes out of the comparative analyses is that the picture of social democracy being defensive only does not give it justice. Simply because there was a greater programmatic evolution that there has been taking place within the progressive movement: ahead, during and in the aftermath of the crisis.** What is

**there has been taking place within the progressive movement: ahead, during and in the aftermath of the crisis.**

true however is that there was a certain shift in narrative. In the mist of crisis, both Labour Party and SPD were still strongly advocating the case for welfare state. The first one would do so under the notion of “personalised welfare state”, the second under “preventive welfare state”. They both were claiming that expanding of it is a key element to equip people in the times of rapid changes – being at that point both globalisation and the emerging (persisting) crisis. They would both believe in activation principle, which Labour Party in the context of “liberal capitalism welfare” would explain as empowering through education and training – and SPD would rather see it in searching for ways of equal opportunities and distribution of power, income and property. At this point the commitment to modernise and actually expand welfare state was obvious.

With the progressing crisis, there were new elements that both the parties needed to take into consideration. The first one was the re-conceptualisation of what the issue of fairness/social justice meant regarding reaching the equilibrium between rights and responsibilities. There was of course the question of criticism regarding sustainability raised by political opponents – but more importantly there was a new situation at hand, where the fact of working would neither allow making a contribution (due to the drop of the value of actual work) nor would be emancipatory as such. In that light, both Labour Party and SPD shifted its attention to the discourse of “quality employment”. In case of Labour Party that was the way to address the causes of growing spending on benefits and fighting poverty – and here through making the system more sustainable and ‘responsible’. For SPD it was rather the case of setting framework for rights – which would combine the approach of new ‘just’ tax system and the social investment together.

Secondly, both Labour Party and SPD needed to adjust the reasoning for which they were to pursue the welfare concept (even if that was less and less named so directly). This meant re-formulating the core values that underpinned it initially on one hand, and on the other reconnecting these values interpretations with specific rights. For the Labour Party that translated into greater emphasis on the deliberations on the role of state and democracy, while reiterating that the social and civic rights constitute the two sides of the same coin. For SPD it was about pursuing these rights in a communitarian context, trying to translate them into the rules for the labour market and the regulations of the financial capitalism.

Finally thirdly, the crisis brought onto further polarisation of societies. While there was no return to the discourse on class (understood either in socio-economic or cultural contexts), still there was no concept on how to effectively bridge between the different groups. The need to pursue a policy against exclusions was self evident - Labour Party put it at the core of “One Nation” project and SPD used in its programme the strong sentence “We are all Germany”. A way to approach the diversification was in fact double-folded – on one side focused on minimums, on the other on putting cap on those on the top (here especially the banking sector). Regardless of that, it would still seem however that a coherent, ideologically anchored denominator was still missing.

There three short observations lead to a following hypothesis. The recent crisis has been, as assumed before, a game-changer or even a core-shaker for social democracy. Unlike many commentators would claim, this didn’t translate to abandoning of the principles – but rather uncertainty on how to translate them into contemporary times and formulate as answer to both short-term and long-term needs. Under the pressures the concept of ‘welfare state’ has indeed become a ‘tricky term to use’, even if the commitment to it is initial principles and readiness to deal with the criticism (as confronted in matrix) remains clearly there. Both the case studies would indicate that this is still a transition period after

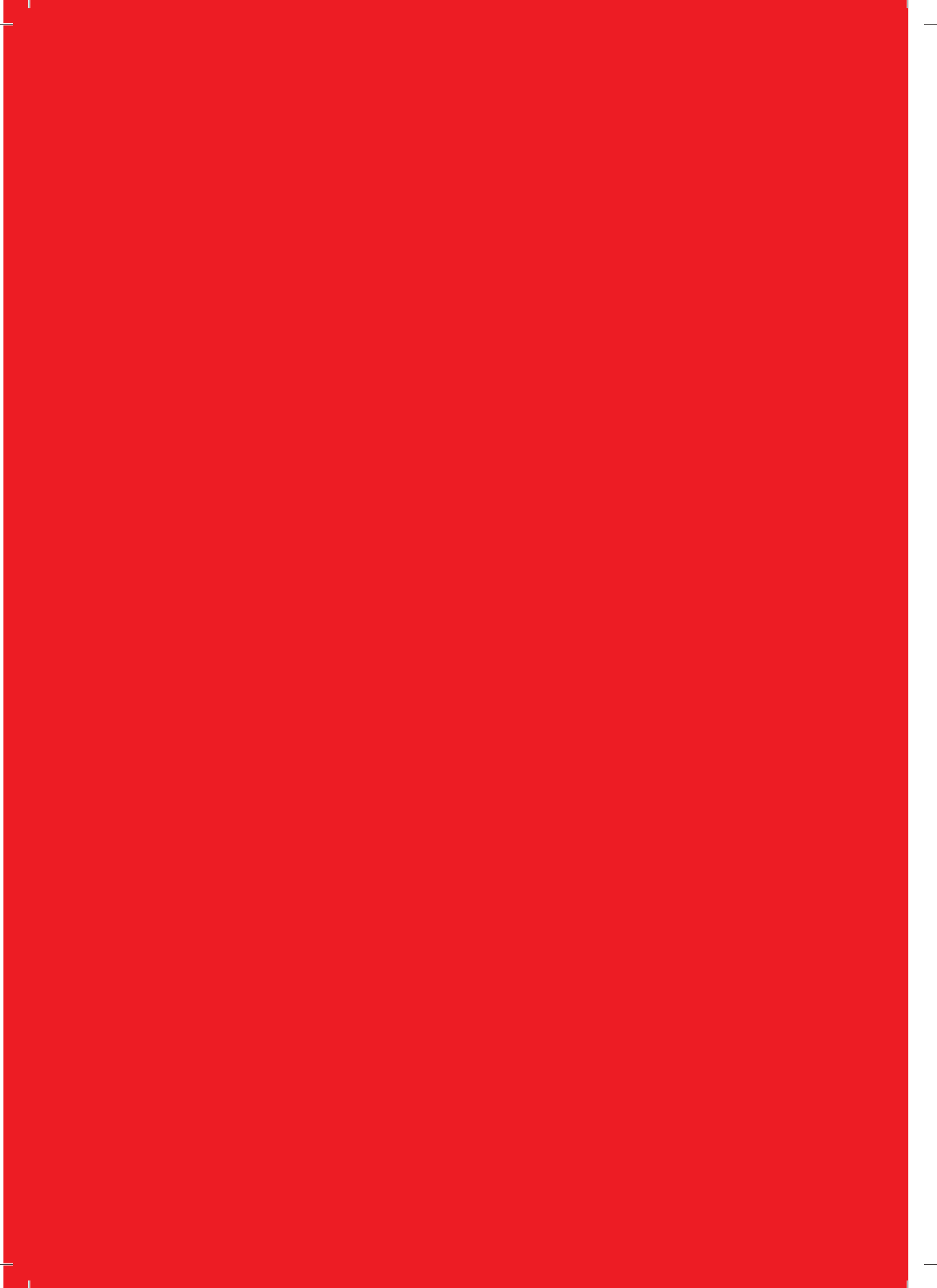
the crash, in which the search for answers (paradigm, terminology and rhetoric) continues. Even though the types of welfare regimes may differ, there is still a vast coherence in analyses. What it's a reason for optimism in that area is that there is a clear understanding on where the weaknesses are – and there is also an obvious attempts to address them. And though SPD sees the way still clearly through a Social Europe, whereas this question not even addressed by Labour – the certain uniformity in exploring values system, remaining preoccupied with societal division and looking for new operational rules exists. That in itself encourages to remain hopeful – both for social democracy and possibility it will embark again on a quest for welfare society, and for it to be a new impetus for the overall European social ambition to lead Europe towards a new, different direction.

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# Biographies



**David BAILEY** is Lecturer in Political Science in the Department of Political Science and International Studies, University of Birmingham. His research focuses on the political economy of social democratic parties, left parties, protest movements and the European context. He has recently co-edited, with Jean-Michel De Waele, Fabien Escalona and Mathieu Vieira, a book charting the response of social democratic parties to the global economic crisis, *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?* (Manchester University Press, 2014). He is also the review essays editor for *Comparative European Politics* and the reviews editor for *Capital and Class*. He is currently researching new patterns of social contestation that have emerged in advanced industrial democracies since 2008, as part of a book to be co-authored with Mònica Clua-Losada and Nikolai Huke, currently under contract with the Routledge/RIPE Global Political Economy series, titled *Beyond defeat and austerity: Disrupting (the critical political economy of) neoliberal Europe*.



**Oriol BARTOMEUS** is Assistant Professor at the Political Science Department at the *Universitat Autònoma* of Barcelona. His research focus at the Political and Social Sciences Institute is on elections and political behaviour. He is also a Member of the board at the Rafel Campalans Foundation.



**Rémi BAZILLIER** is Assistant Professor at the University of Orléans and a research affiliate at the Laboratoire d'Economie d'Orléans (LEO-CNRS). He is also member of the FEPS Scientific Council, alongside being an Alumnus of the FEPS Young Academics Network. His 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. He received his Ph.D. in Economics from the University of Paris I Panthéon-Sorbonne in 2007. He wrote several papers published in international peer-reviewed journals including *World Development*, *Journal of Development Studies*, or *International Labour Review*. He published a book on the linkages between Labour and Sustainable development ("*Le travail, grand oublié du développement durable*", col. eDDen, ed. Le Cavalier Bleu, Sept. 2011, 224p). His website: <http://remi.bazillier.free.fr>



**Nadia CARBONI** holds Ph.D. in Comparative and European Politics and is currently Researcher at the National Research Council (CNR) of Italy. Since 2003, she has been Lecturer in Public Administration at the Faculty of Political Science and in Business Organisation at the Faculty of Economics (University of Bologna). She has been teaching advanced seminars in Administrative Science and Comparative Public Administration at School of Specialization in Administrative Studies (SPISA) University of Bologna and Italian National School of Public Administration (SSPA). Nadia has been carrying out research in public administration (administrative reform processes, public sector innovation, senior civil service, etc.), in public policy (better regulation, health, governance and local public policies) and European studies (EU lobbying system, EU health policy and governance) for almost 10 years. Moreover, she has worked as both project manager and policy advisor for the Department of Public Administration (*Office for Reform and Innovation in public administrations*) in the Prime Minister Office, the Observatoire Social Européen in Brussels, the Public Administration Research Institute "Vittorio Bachelet" - LUISS Guido Carli, the Research Foundation of the National Association of Italian Municipalities ANCI-CITTALIA, the Research Institute Carlo Cattaneo, the Italian Institute for Social Research, the School of Specialization in Administrative Studies of the University of Bologna. Since 2010 she has been in charge of the project management of Ravenna 2019, shortlisted candidate city for European Capital of Culture 2019.



**Amandine CRESPIY** is Associate Professor of Political Science and European Studies at the Université Libre de Bruxelles (ULB). Over the past few years she was invited as a visiting fellow at the Freie Universität Berlin, Science Po in Paris and Harvard University. She is also an Alumna of the FEPS Young Academics Network. Her research deals with political conflict and the socio-economic dimension of European integration (public services liberalization, responses to the Euro-crisis, social policy and social democracy in the EU). From a theoretical point of view, she has a special interest in the role of ideas, discourse and contention with regard to collective choices and democracy in Europe. She has authored a number of articles in international journals (French Politics, JEPP, JCMS, BJPIR, Political Studies) several book chapters and co-edited a volume entitled *The Elusive Pursuit of Social Europe and the Eurocrisis* (with Georg Menz, Palgrave: forthcoming).



**Patrick DIAMOND** is a Co-Chair of Policy Network. He is lecturer in Public Policy at Queen Mary, University of London, Gwilym Gibbon fellow at Nuffield College, Oxford, and a visiting fellow in the Department of Politics at the University of Oxford. He 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 10 Downing Street, the Cabinet Office, the Northern Ireland Office. His recent publications include: *Beyond New Labour* (with Roger Liddle, 2009); *Social Justice in the Global Age* (with Olaf Cramme, 2009); *After the Third Way* (with Olaf Cramme, 2012); and *Global Europe, Social Europe* (with Anthony Giddens, 2006).



**Carlo D'IPPOLITI** is permanent research fellow in political economy at the Department of Statistics of "La Sapienza" University of Rome (Italy), where he is also adjunct professor of International economics and of Economics of risk and uncertainty. He obtained a joint Ph.D. in Economics from the Universities of Rome "La Sapienza" (dottore di ricerca in scienze economiche, Italy) and "W.F. Goethe" of Frankfurt am Main ("dr. rer. pol.", Germany). Carlo is the assistant editor of the economic journals «PSL Quarterly Review» and «Moneta e Credito» (the latter in Italian).



**Karl DUFFEK** 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** was federal Chancellor of the Republic of Austria and member of the European Council between January 2007 and 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 an 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 focusing on political theory, communications, and public opinion analysis. He is the director of the Progressive Studies Program at CAP, an interdisciplinary project researching the intellectual history, foundational principles, and public understanding of progressivism. Halpin is the co-author with John Podesta of *The Power of Progress: How America's Progressives Can (Once Again) Save Our Economy, Our Climate, and Our Country*, a 2008 book about the history and future of the progressive movement. Halpin has been at American Progress since 2003, previously serving as Director of Research and Executive Speechwriter. Halpin

wrote the daily Talking Points newsletter for the Center for American Progress Action Fund from 2004 through 2005, and has directed numerous CAP communications projects on issues including faith in politics, health care, consumer debt, taxes, poverty, and foreign policy. Prior to joining American Progress, he was 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 Austrian Social Democrats, and a range of congressional, state legislative, and initiative campaigns in the U.S.



**Isabelle HERTNER** is a lecturer in German and European Politics and Society at the University of Birmingham. She is also the deputy director of Birmingham's Institute for German Studies (IGS). Isabelle's research focuses on comparative party politics in the European Union. She has published on a variety of topics, such as: the role of the Party of European Socialists during European election campaigns; intra-party democracy within social democratic parties; or the EU narrative of the German government during the Eurozone crisis. She is also an Alumnus of the FEPS Young Academics Network.



**Michael HOLMES, Dr**, is Senior Lecturer in Politics and International Relations in Liverpool Hope University. His work focuses on the impact of European integration on political parties, especially those on the left. He has published books on the Irish Labour Party and the EU and on the Left and the European Constitution.



**André KROUWEL** teaches comparative political science and communication at the Vrije Universiteit Amsterdam and is Academic Director of Kieskompas (Election Compass) – a developer of online Vote Advice Applications, with which data is collected on party positions and voter opinions. Krouwel's research focuses on public opinion and politically relevant sentiments, voting behaviour, political parties and social movements. His latest book is *Party Transformations in European Democracies* (SUNY Press, 2012), which analyses over 300 parties in 15 European countries. Recent research also includes analyses of the protests in the Arab Spring countries, the mechanisms behind voting behaviour in Latin America, and the vote determinants for European fringe parties and Euroskepticism.





**Erol KÜLAHCI**, holds PhD in political science from ULB since 2003, and is an associate member of CEVIPOL. His research focuses on 'European' political parties. Dr Külahci's published works include articles on multi-level party politics for international journals such as *Acta Politica*, *European Integration Online Papers*, *Journal of Common Market Studies*, *Journal of Southern Europe and the Balkans*, *Les Cahiers européens de la Sorbonne nouvelle*, *Perspective on European Politics and Society*, *Politics*, *Politique européenne*, *Romanian Journal of European Affairs*, *Swiss Political Science Review*. He is (co)author of the books *La social-démocratie et le chômage* (ULB: 2008); *Europarties. Organisation and Influence* (2004, with P. Delwit and C. Van de Walle); *Le vote électronique en Belgique: un choix légitime?* (2004, with P. Delwit, J. Faniel, B. Hellings, J-B Pilet, E. Van Haute) as well as *Europeanisation and Party Politics* (ECPR: 2012 & 2014).



**Yordan K. KUTYISKI** is an MSc graduate of political science from the VU University Amsterdam and holds a MA degree in Latin American studies from the Centre of Latin American Research and Documentation (CEDLA) at the University of Amsterdam. He is currently an academic research analyst at Kieskompas (Election Compass). His research interests include voting behaviour, European and Latin American politics.



**Robert LADRECH** is Professor of European Politics at Keele University, UK and Visiting Professor at the College of Europe, Bruges. His research is primarily concerned with the impact of European integration upon national party politics, but has also written on transnational parties and European social democracy. In 2013 he was awarded a grant by the British Economic and Social Research Council for the two-year project 'Climate Policy and Political Parties'. His most recent book is *Europeanization and National Politics* (Palgrave, 2010).



**Johan LIEVENS** is doctoral student at the Faculty of Law of the KU Leuven. He publishes on a variety of topics in Belgian and European constitutional law.



**Ronny MAZZOCCHI** is Assistant to the President of the Committee for Economic and Monetary Affairs of the European Parliament. He holds a Ph.D in Economics from the University of Siena. Between 2006 and 2008 he was researcher at the Institut für Volkswirtschaftslehre und Statistik at the University of Oldenburg, Germany. From 2009 to 2014 he was Assistant Professor of Monetary Economics at the University of Trento, Italy. He is still member of the MacFin research group in the same University. In 2014 he was also researcher in applied economics at the Centro Europa Ricerche in Rome. From 2011 to 2014 he was a columnist for the newspaper L'Unità. Currently he is collaborator of the Italianeuropei Foundation, he is member of the editorial board of the review Left Wing and he is member of the Scientific Committee of the Istituto Gramsci Emilia Romagna.



**Gerassimos MOSCHONAS**, holds PhD (*Doctorat d'Etat*) from University of Paris-II, is currently an associate professor in comparative politics in the Department of Political Science and History, Panteion University of Political and Social Sciences, Athens, Greece. He is the author of *In the Name of Social Democracy, The Great Transformation: 1945 to the Present* (London: Verso, 2002) and *La Social-démocratie de 1945 à nos jours* (Paris: Montchrestien, 1994). Latest publication: "Reforming Europe, Renewing Social Democracy? The Party of European Socialists, the Debt Crisis, and the Europarties" in D. Bailey J.-M. De Waele, F. Escalona and M. Vieira (eds.), *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester, Manchester Univ. Press, 2014. His current research is focused on the European Union and political parties, with particular emphasis on the parties of social democracy and the radical left, the Europarties, the theory of the party phenomenon, and the Greek debt crisis.



**Matjaz NAHTIGAL** is a senior scientific fellow at UP ZRS and associate professor at the Faculty of Management, University of Primorska. He graduated in 1992 at the Faculty of Law, University of Ljubljana, where he completed a doctorate in 1999. In 2001 he has completed his doctoral program (SJD) at Harvard University School of Law. In 2002 he was a member of the Convention on the Future of Europe. He was adviser to the Prime Minister and the President of the Republic of Slovenia. He teaches a course on corporate law and commercial contract law, EU law and international economic law. His area of research: legal institutions and development, EU law and comparative business law. He has published two monographs on the legal reforms and transition in Central and Eastern

Europe. His scientific articles are published in national and international reviews. He lectures as a guest lecturer abroad and he participates in international scientific conferences.



**Gilles PITTOORS** is doctoral student at the Faculty of Social Sciences of the KU Leuven. His research focusses on differentiated integration in Europe, federalism and EU governance.



**Ania SKRZYPEK (Skrzypek-Claassens)** is a 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*. 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 and co-coordinates the Next Social Europe initiative, co-coordinates FEPS Young Academics Network (FEPS YAN) and is a co-editor of the Next Left Book Series. She also represented FEPS at the PES Advisory Board on the 1st PES Fundamental Programme. A. Skrzypek is an author of over 80 published articles and reviews, and among her latest publications are: *Progressive Politics in Fragmented Times – 10 Core Guidelines* (FEPS / Renner Institut/ Policy Network 2015), *Moving Towards Welfare Societies – And Inclusive Approach to Growth* (with A. Gusenbauer in *The Predistribution Agenda*, I. B. Tauris 2015), *Was Europa zusammenbringt, was es auseinandertreibt* (Neue Gesellschaft / Frankfurter Hefte 11/2015)



**Ernst STETTER** 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.



**Ruy TEIXEIRA** is a Senior Fellow at the Center for American Progress. He is also a guest scholar at the Brookings Institution, where he has directed projects on political demography and geography and co-authored a series of papers with William Frey on the shifting demographics of battleground states. He is the author or co-author of seven books, including *America's New Swing Region: Changing Politics and Demographics in the Mountain West*; *Red, Blue and Purple America: The Future of Election Demographics*; *The Emerging Democratic Majority*; *America's Forgotten Majority: Why the White Working Class Still Matters*; and *The Disappearing American Voter*, as well as hundreds of articles, both scholarly and popular. He blogs regularly for TP Ideas, a part of ThinkProgress's blog. Teixeira's book, *The Emerging Democratic Majority*, written with John Judis (Scribner, 2002), was the most widely discussed political book of that year and generated praise across the political spectrum, from George Will on the right to E.J. Dionne on the left. It was selected as one of the best books of the year by *The Economist* magazine.



**Dimitris TSAROUHAS** is Associate Professor and Jean Monnet Chair at the Department of International Relations at Bilkent University, Turkey. He has previously taught at Middle East Technical University (METU) and has been a Visiting Fellow at Istanbul Bilgi University and Queen Mary, University of London. He is a Member of the FEPS Scientific Council. He is the author of *Social Democracy in Sweden: the Threat from a Globalized World* (London and New York: IB Tauris, 2008), co-editor of *Bridging the Real Divide: Social and Regional Policy in Turkey's EU Accession Process* (METU Press 2007) and author of numerous book chapters and journal articles on European Politics, Social and Employment Policy, and Public Policy. His work has appeared *inter alia* in journals such as *Political Studies Review*, *New Political Economy*, *Public Administration*, *Social Politics*, *Social Policy & Administration* and *Southeast European and Black Sea Studies*.



**Michael WEATHERBURN** is presently chair of the Oxford branch of the Fabian Society and a member of Compass: Direction for the Democratic Left. Before joining the FEPS Next Left Focus Group, Michael was, for two years, an active member of the FEPS Young Academics Network. Educated at Oxford and London universities, he holds a PhD in history from Imperial College, in which he examines the rise of formal management in Britain, the emergence of the consultancy sector, and the labour movement's response to these developments. As part of this work, he examines both public and private sector organisations, and places a particular focus on Seeborn Rowntree and the iconic Rowntree firm. From 2013-14, Michael was Byrne-Bussey Marconi Fellow at Oxford University. He presently teaches the history of business, economics and industry at Imperial College, London, and is a member of the new research committee of the Voluntary Action History Society. His current research explores historical alternatives to the still-famous and influential Hawthorne studies, into what managerial tactics can be used to make workers more productive. He is an Alumnus of the FEPS Young Academics Network.



**Kristian WEISE** is Director of the Danish centre-left think tank Cevea. He has previously been Head of Secretariat for the Danish Social Democrats in the European Parliament and an adviser and analyst for the International Trade Union Confederation (ITUC), the Danish Confederation of Trade Unions (LO) and former Danish Prime Minister, Poul Nyrup Rasmussen. He holds an MSc in Political Sociology from London School of Economics and Political Science (LSE) and a BSc in Philosophy and Economics from Copenhagen Business School (CBS).



**Steven VAN HECKE** is assistant professor at the Faculty of Social Sciences of the KU Leuven. He teaches comparative and EU politics and publishes on Europarties and EU institutions.



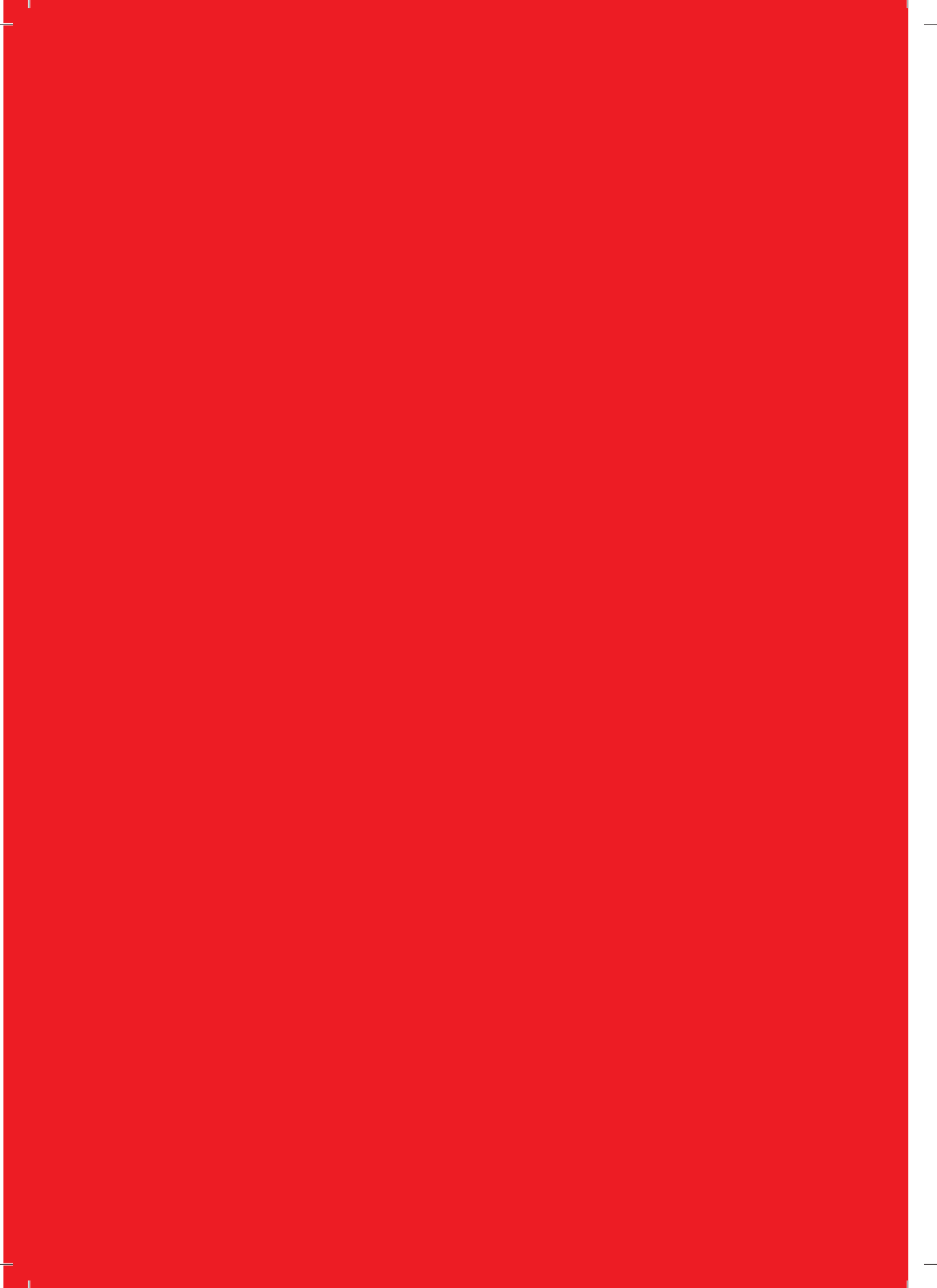
**Pascal ZWICKY** works as a political secretary for the Social Democratic Party of Switzerland. He is responsible for the issue management and advises the party in questions of the strategic direction and communication. P. Zwicky is a member of the FEPS Next Left Focus Group. Currently, economic democracy is one of the main subjects he



is dealing with. P. Zwicky received his Ph.D. in media science from the University of Zurich in 2011. He is author of “Journalistische Produktion unter neoliberalen Bedingungen” (Nomos, Baden-Baden 2012) and has written a number of articles on the politico-economic embedding of media in the power structures of society and media policy.



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WELFARE  
SOCIETIES**







# **FEPS Next Left 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 21<sup>st</sup> 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 URPIAINEN, Eamon GILMORE, Caroline GENNEZ, Elio DI RUPPO, Jens STOLTENBERG, Werner FAYMANN.



## ←NEXT LEFT→

**“Towards a new strategy”** constitutes the 3<sup>rd</sup> 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 21<sup>st</sup> 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 21<sup>st</sup> century.

### Featuring

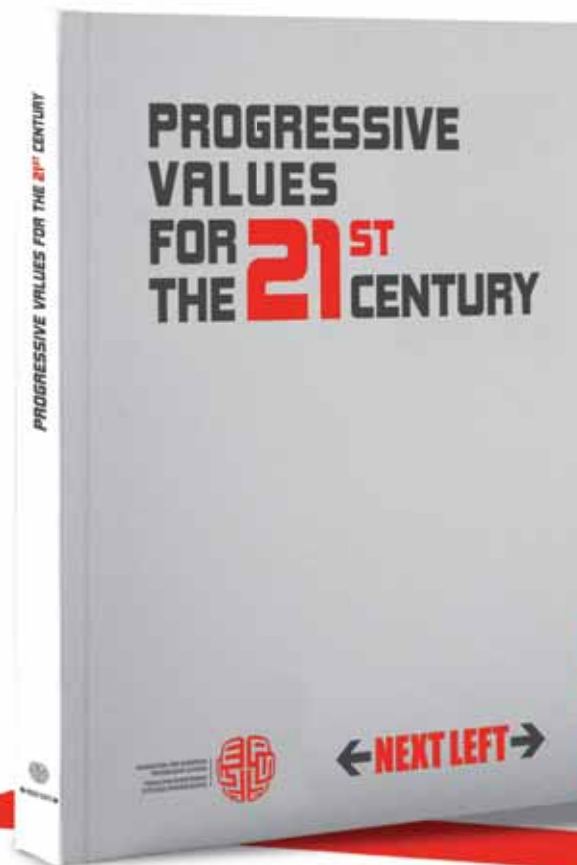
Irene RAMOS-VIELBA, Catherine de VRIES, Laurent BOUVET, Jan ČERNÝ, René CUPERUS, Florin ABRAHAM, George SIAKANTARIS, Attila ÁGH, Daša ŠAŠIĆ ŠILOVIĆ, Klaus MEHRENS, Rocio MARTÍNEZ-SAMPERE, Anne JUGANARU, Sunder KATWALA, Tim HORTON, Eric SUNDSTRÖM, Gero MAAß, Jan Niklas ENGELS, Carlo D'IPPOLITI, Kajsa BORGNÅS, Björn HACKER, Paul DE BEER, Dimitris TSAROUHAS, Carles RIVERA, Jens ORBACK, Ingemar LINDBERG, Conny REUTER, Cosimo WINCKLER, Tomáš PETŘIČEK, Patrick DIAMOND, Trinidad NOGUERA, Andrew WATT.



←NEXT LEFT→

**“Progressive values for the 21<sup>st</sup> century”** is the 4<sup>th</sup> 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**

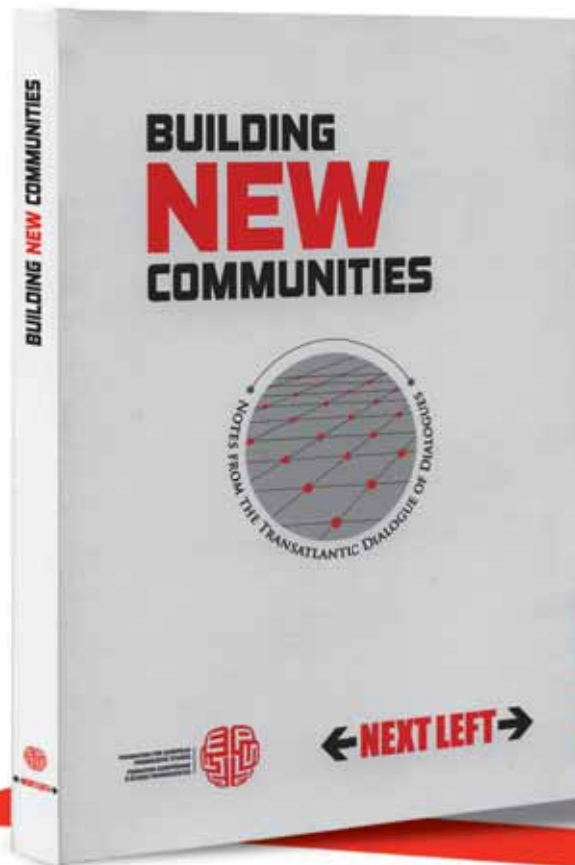
Julian NIDA-RÜMELIN, Gustav-Adolf HORN, Christine FÄRBER, Gesine SCHWAN, Ania SKRZYPEK, Rémi BAZILLIER, Patrick DIAMOND, Pim PAULUSMA, Eric SUNDSTRÖM, Dimitris TSAROUHAS, John HALPIN.



←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 **5<sup>th</sup> 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 Fundación 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:**

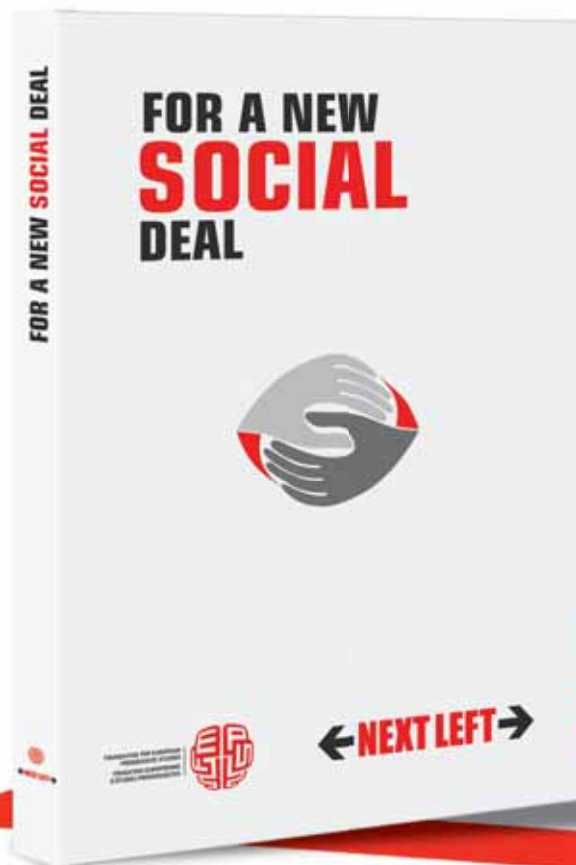
Gianpaolo BAIOCCHI, Cornel BAN, Rémi BAZILLIER, Patrick DIAMOND, Yannis Z. DROSSOS, Karl DUFFEK, Ernesto GANUZA, Paolo GUERRIERI, Alfred GUSENBAUER, José ITZIGSOHN, David KENNEDY, Michael D. KENNEDY, Ricardo LAGOS, Oscar LANDERRETICHE, Roger LIDDLE, Vivien A. SCHMIDT, Juliet SCHOR, Ania SKRZYPEK, Ernst STETTER, Dimitris TSAROUHAS.



## ←NEXT LEFT→

“**Next Left: For a New Social Deal**” presents a new way of thinking about the relations that should be forged between the world of financial capitalism and politics, so that the path can be paved towards a better, fairer society. Deriving from previous deliberations on the modern understanding of progressive values, the FEPS Next Left Focus Group Members take herewith a challenge to seek their translation into a new narrative. The objective is therefore to reach beyond the crisis-induced confinement of politics, and while stretching the borders of political imagination point at new horizons of a historical mission for social democracy.

**The New Social Deal** that emerges on the pages of this book is about constructing new equilibriums. Therefore, the concept of “welfare state” is being carefully examined in the light of the double-folded criticism it is currently facing. The criteria of its efficiency as a tool for societal transformation, as also the public support for its contemporary features



are being discussed in details. Hypothesis emerging lead to a conclusion of inevitability of modernisation, of which course should be steered by principles of empowerment. Hence the concept of “equality of autonomy of individuals” is carefully examined as an essential condition enabling people to actively participate in socio-political life. The demand for fair distribution of income, wealth and power gains herewith a tangible political character. To that extent, the traditional commitment of the movement to the values of solidarity and social justice is being seen as a motivation that may lay fundamentals for a new progressive coalition that would need to constitute to gain power of breaking the prevailing neo-liberal logic and bring about the change that the contemporary polarised, fragmented and impoverished societies aspire to.

The **“Next Left: For a New Social Deal”** is 6<sup>th</sup> volume of the FEPS Next Left Book Series. It is composed of 3 Chapters: **“Shaping A New Social Contract”**, **“Ensuring Fair Distribution of Income, Wealth and Power”** and **“Building Progressive Alliances”**. It illustrates the outcomes of the work of the FEPS Next Left Focus Group within the year 2012, which herewith is being presented for consideration of the progressive movement.

**Featuring:**

Rémi BAZILLIER, Andrius BIELSKIS, Patrick DIAMOND, Karl DUFFEK, Alfred GUSENBAUER, John HALPIN, Ania SKRZYPEK, Ernst STETTER, Dimintris TSAROUHAS, Ignacio URQUIZU.



**←NEXT LEFT→**

*“In the Name of Political Union – Europarties on the Rise”* is the 7<sup>th</sup> volume of the FEPS Next Left Book series. Being at the same time the first publication of the FEPS Next Left Working Group on europarties and eurodemocracy, this collection invites to explore a new avenue of research within the exciting journey towards the renewal of social democracy. It leads through questions regarding potential for politicisation and democratisation of the European Union, which queries come particularly timely taking into account 20<sup>th</sup> anniversary of the Treaty of Maastricht.

The authors of the respective articles are outstanding scholars researching the themes related to European partisan systems. This discipline remains still seriously overlooked, which is also why the explorations of this circle are so profoundly important. Providing a solid assessment of the transformative processes that took place due and during the recent crisis, these academics take on a challenge of mapping potential scenarios for



the future both in the context of the upcoming European elections, as also beyond them. What makes this book a particularly recommendable reading for the progressive family is that the specific proposals that are formulated may serve as an inspiration on how to use the momentum of 2014 and while equipped with the tools provided by the Lisbon Treaty, try to reach the next stadium of development for the euro-partisan system. The particular proposals are provided for consideration of the progressive family

*"In the Name of Political Union – Europarties on the Rise"* is organised in three chapters. The first one, entitled *"The Role of Europarties in shaping the Union"* looks at how the process of democratisation of the EU can be forged through an on-going consolidation of the europarties. Here the points regarding the mechanisms of cooperation between the sister parties are elaborated upon, this includes the summitries of their leaders, alongside the challenges of enhancing collective participation. The second chapter, *"Progressive strategies for overcoming the crisis"* continues debating democratic legitimacy, looking at coherence and diversity of progressive answers to the predicament as given respectively on the European and the national levels. The hypothesis here is that the crisis was a catalyst of a profound renewal, transforming the europarties from arenas of "politically unstructured politics" towards "a policy seeking party". Finally, the last section *"Innovative Ideas in Designing the Eurocampaigns"* looks at the europarties in through a prism of their relations with their members and eventual supporters. It includes a pioneer study on direct and individual membership, as also overview of electoral trends and herewith-potential groups, which could be still a social democratic stronghold among voters in Europe.

*"In the Name of Political Union: Europarties on the Rise"* constitutes therefore a great collection of analyses, which paint an accurate panorama of political and partisan landscape on the European level. The deliberations are anchored in original research, which links both academic methodology and empirical studies. Thanks to this interdisciplinary and pan-European character they make a strong case that there is a potential for further development of the europarties and that the progressive family has a full potential to make the upcoming elections historical ones indeed.

**Featuring:**

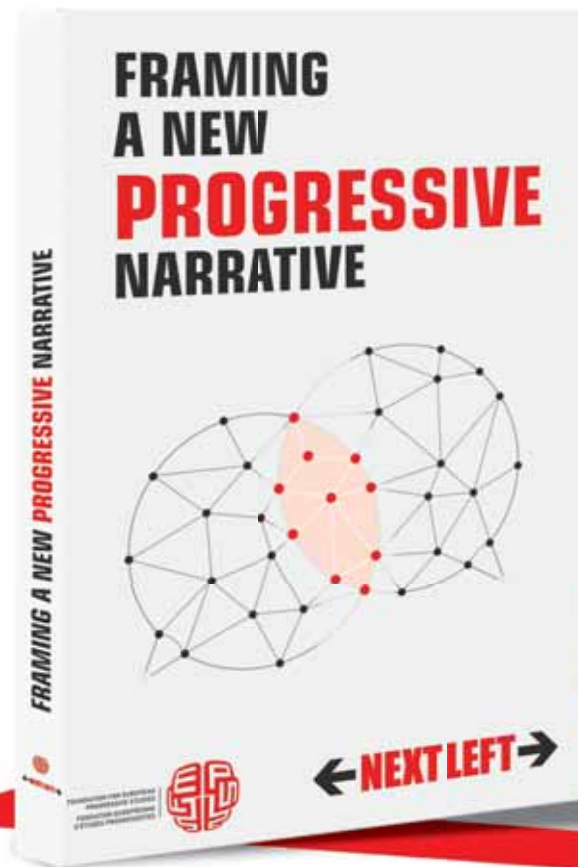
David BAILEY, Karl DUFFEK, Alfred GUSENBAUER, Isabelle HERTNER, Michael HOLMES, Karl Magnus JOHANSSON, Erol KÜLAHCI, Andre KROUWEL, Robert LADRECH, Simon LIGHTFOOT, Gerassimos MOSCHONAS, Ernst STETTER, Ania SKRZYPEK, Jose REIS SANTOS, Steven VAN HECKE, Matt WALL.



←NEXT LEFT→

*Framing a New Progressive Narrative* is the 8<sup>th</sup> volume of the FEPS Next Left books' series. It came together as a result of an inspiring reflection round, which was held at the University of Pompeu Fabra in Barcelona in May 2013 within the context of the transatlantic "Dialogue of Dialogues". The event was organized in cooperation with the Institute of Global Law and Policy of Harvard Law School, Rafael Campalans Foundation and Renner Institute. It featured an intellectually rich two days symposium, of which particular themes were framed by the inputs from the most outstanding scholars of both the continents.

The objective of this conversation was to go beyond the confinement of the post-crisis debate and aim at proposing an alternative, plausible, progressive *Narrative*. In that spirit, the deficiencies of the currently hegemonic neo-liberal order were addressed. Unlike any time in the past, the hope that the predicament would be an impetuous for the historical pendulum to turn on positive for the centre-left was rejected. Instead, it was assessed that a new, pro-active strategy was needed to pave the way out of the political malaise. It would



require restoring sense of politics, while proving that the dividing lines are not only between the pro and anti-systemic movements, but actually alternatives can be distinguished while choosing between the democratic left and right. It would need innovative approach to economy, while redefining the concept of sustainable growth and putting promise of quality jobs at the heart. And finally, it would call for courage to protect while modernizing, especially in the context of once-upon-a-time grandiose ambitions such as European Union.

Consequently, *Framing a New Progressive Alternative* includes 13 articles, each of which presents a set of daring thoughts. They are organized in 5 Chapters: *Reinstating Values-Based Politics*; *Defining Modern Progressivism*; *Stimulating Growth*; *Creating Jobs and Providing Welfare*; *Delivering within a Realistic Union*. The common feature of those inspiring inputs is that they all map a route, which progressive movement should take in order to successfully transform, becoming the political force in a position to decisively shape the course of this century. The authors agree that the point is not to look at how to restore the order from the past or how to apply more traditional criteria regarding the standards of policy evaluation. On the contrary, they seek encouragement in dynamism of the situation at hand and they look forward, identifying opportunities for a change and benchmarks to reach. Their innovative, courageous and undoubtedly thought-provoking ideas constitute an excellent example of thinking beyond the current horizon of political imagination.

**Featuring:**

Oriol BARTOMEUS, Rémi BAZILLIER, Yannis Z. DROSSOS, Karl DUFFEK, Mark ELCHARDUS, Paolo GUERRIERI, Alfred GUSENBAUER, Anton HEMERJUCK, Rupa HUQ, Inge KAUL, Michael D. KENNEDY, Matjaz NACHTIGAL, Esther NIUBÓ CIODONCHA, Monika SIE DHIAN HO, Ania SKRZYPEK, Leopold SPECHT, Ernst STETTER, Dimitris TSAROUHAS.



←NEXT LEFT→

**For a Connecting Progressive Agenda**, the 9<sup>th</sup> volume of the FEPS Next Left book series, features the contributions developed in the months of 2013 - 2014 by the researchers assembled within the FEPS Next Left Focus Group and Working Groups respectively. The intensive internal work based on research and four consecutive peer review rounds, as also on the exchanges enabled through the numerous national round table debates across Europe, are the reasons to highly recommend this reading as carrying profound and detailed proposals for the new progressive approach in Europe.

*For a Connecting Progressive Agenda* opens with the foreword by Dr. Alfred Gusenbauer, Chair of the FEPS Next Left Research Programme. The introductory part is then followed by 5 Chapters, which respectively focus on: Facing social contestation – a search for a new connection; Creating European welfare – a proposal of a tangible agenda for equality, Making Europe work – a demand for quality employment for all, Organising financial capitalism – a





strive for an ethically prevailing argument; Europeanising social democracy – a need for an organisational renewal. The impressive number of 18 articles and 19 experts from both the EU and the US guarantees the multidisciplinary, multi-layer and innovative approaches. The fact that in certain aspects they may appear controversial or even contradictory, makes the case for richness of the pluralistic debate among progressives and constitutes a proof that it is not the crisis of ideas that is being experienced at present.

For a Connecting Progressive Agenda is guided by an ambition to identify where and how the new bridges can be established – between the historical mission and the future-oriented ambitions, between the world of traditional politics and the contemporary society, among diverse generations and societal groups. In this sense, it provides a broad, fair diagnosis of present-day challenges and makes an argument that it is high time to emancipate visionary political thinking from the limitations imposed by the post-crisis dialectics. Therefore, the book rejects the doomsday rhetoric about the end of ideologies. Instead it presents itself as a hopeful appeal for courage, boldness and passion. With the well-established list of arguments, it paves a comprehensive, even if sometimes a rocky way – taking which social democracy could become the movement that shaped Europe in the subsequent decades of the 21<sup>st</sup> century.

**Featuring:**

David J. BAILEY, Rémi BAZILLIER, Nadia CARBONI, Amandine CRESPIY, Patrick DIAMOND, Carlo D'IPPOLITI, Karl DUFFEK, Alfred GUSENBAUER, John HALPIN, André KROUWEL, Erol KÜLAHCI, Yordan K. KUTIYSKI, Robert LADRECH, Ronny MAZZOCCHI, Gerassimos MOSCHONAS, Matjaz NAHTIGAL, Ania SKRZYPEK, Ernst STETTER, Ruy TEIXEIRA, Renaud THILLAYE, Dimitris TSAROUHAS, Ignacio URQUIZU, Pascal ZWICKY.



## ←NEXT LEFT→

### “Winning for Real: the Next Left taking the Chance to Shape Europe for the 21st century - 10 fundamental challenges”

by Dr. Ania Skrzypek

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 21<sup>st</sup> 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 disenchanting 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 indispensable 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?