

# ← **NEXT LEFT** →

## For a Connecting Progressive Agenda

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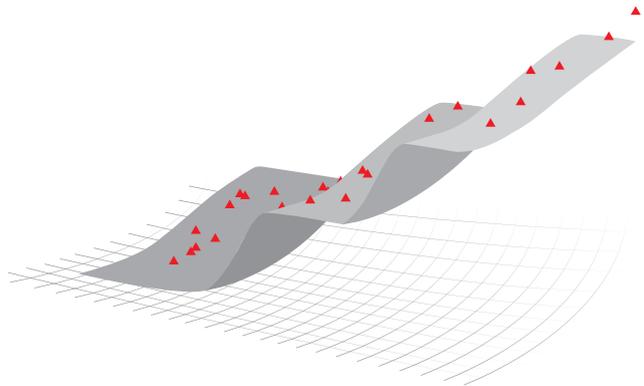


# **For a Connecting Progressive Agenda**





**Ernst STETTER, Karl DUFFEK & Ania SKRZYPEK**



For the last six years the terms of the political debates were determined by the crash of 2008. The mainstreaming inputs would remain “crisis-centered”. They would either refer to the causes of the predicament, or to its’ character, or to the prognosis regarding the way forward. These later ones would in general be gloomy varying from “this is the end of an era” to “we are not out of it with the next wave mounting to hit”. Consequently, a strange political consensus seems to have been silently reached among the ‘traditional’ actors regardless of their particular ideological orientations. They would all eventually unite in understanding that the crisis costs remain “unimaginable” and lack of certainty about them profoundly limits the scope of effective exit scenarios.

This logic brought historically distant (or event opposing) forces onto the same side of the argument. Even though they would dispute details, in overall the parties of moderate left and right would tend to compromise with one another regarding an eminent need to balance the state budgets and eliminate the erosive debts that had occurred. As said, they may have discussed how this debit had been created – but as a way forward they all would subscribe under ‘cut what is wasteful – and invest in what can gear benefits’. This would perfectly fit with the dominant metaphor that the conservatives successfully imprinted in minds of European societies, namely that the state budget is ruled by the same principle as the household one and hence in times of recession one needs to cut on extravagance. The problem with this approach is that much of what should be consider as a measurement of the social progress in the post-war Europe was classified as such a profligacy.

Despite the fact that it would appear as more than appalling for all fitting the most classical image of the supporters of social democracy, it is in fact not that difficult to understand why the center-left would become a signatory of this new consensus. First of all, it ticked the boxes regarding plausibility criteria. With the scarcity of public resources, it effectively would have seemed the only possibility. Especially since the progressives themselves have been fully aware that the social deal at hand was the product of the earlier generations, had severe deficiencies in terms of effective delivery and would require a vast

modernization anyhow. Of course, subjecting it to the cuts to begin with was not at all ideal or desired reform method, but from pragmatic point of view no other heterogeneous agenda existed on the left at that point – reminding painfully of the last and still unfinished ideological dispute around the “Third Way”.

Secondly, even if the different cuts eventually took a form of a more complex “austerity” agenda and even if the population had contested them across the continent – still they were not appearing as a danger to the preservation of the political system. And that was something that all the traditional political parties would need to see as a priority in the times of such an eminent political earthquake. History may have judged it as possibly cynical, but on the other hand it was much more pragmatic than allowing complete destruction and becoming history itself.

In that context, it would appear at the first glance that a new equilibrium got established. The subsequent elections would reaffirm that, as their overall results would induce a format of “grand coalitions” or “unusual coalitions” to become a prevailing model for governing within the European Member States. Within their scopes parties of the left and right would mutually balance their respective agendas, enabling each other to introduce certain particular elements of their programme into legislation. Embodiments of these have been the initiatives regarding youth guarantee or minimum wage. They may have been claimed as “originally coming from the left”, however unlike the past they would not be then seen as “stolen by the right” but rather “supported jointly” within the European or national governing coalition.

Paradoxically therefore, though commentators of the “crisis aftermath” focused on the confinement of the political debate, the “stagnation” was only illusionary. A certain *new dynamics* was born on its fringes, showing that in parallel the discrepancy in between what was considered “politically responsible” and what would be “socially demanded” grew. In the first instance that led many into the streets under the banners of the new social mobilizations, but later split the citizens in between those withdrawing from politics altogether and those searching for alternative ways of expressing their opposition to the new majoritarian “governmental” consensus. While the level of trust in public institutions continued to drop and with that also the figures showing the support for the “traditional” political parties, the actual turnout stabilized and the new energy flew towards anti-systemic, protest, extremist and populist forces. In response, those being part of the “system” showed inclination to pick the strategy of discrediting the later groupings, which in essence made them suffer from a syndrome of a “surrounded fortress”. Within its’ walls it has been impossible so far to figure out how to build a set of new bridges that would reach beyond this narrow horizon and would establish new *connections* between established politics and the contemporary society.

The raise in strength of the groups that used to be on the margins of politics was a substantial one and brought in new challenges, especially for the progressives. First of

all, in its context a new radical left emerged and claimed the position of representative of those, who opposed social injustice caused by crisis and subsequent austerity. Unlike in the past, it was not as simple as to denounce them and hope that their appeal would only be a “seasonal one”. To the contrary, particularly the examples from the South of Europe would rather indicate that not only were they there to stay, but also would convince at least a part of the center-left core voters to follow them. This posed a new dilemma for the center-left regarding on how they further imagined their “progressive” alliance and if in its framework they would see the radicals as potential friends or foes.

Secondly, these new or newly revamped movements would bring along a new sort of energy. This, next to the rhetoric appeal, would be their competitive asset vis-à-vis the traditional, established parties. Both because of their nature and because of the position they would raise from, they would be inclined to use different, modern methods of communication. Their mobilization power would therefore be greater and enable them to reach out to the groups that the center-left had a difficulty in getting in touch with. A prominent example would be the youth and young voters as far as age-based category, and what once was catalogued as *precariat* in reference to the impoverished classes of the society. Their radicalization would translate to the new tensions within the society, which would deepen the existing divisions. In their light even most profoundly established cornerstones of the common living, among them equality and democracy, would be questioned. To make things worse, even though it would call for a new holistic, integration-oriented agenda, the center-left has so far not seemed to be unable to construct.

These observations are what constitutes in fact the departure point of this 9<sup>th</sup> volume of the FEPS Next Left Book Series, which the editors and authors are herewith thrilled to present under the title *For a Connecting Progressive Agenda*. The publication is composed of 5 Chapters, each of which features research papers and recommendations developed within the course of the work of respectively FEPS Next Left Focus Group and Working Group in the year 2013 – 2014.

The first Chapter is devoted to *Facing Social Contestation – a Search for a New Consensus*. It begins with the analyses of David J. BAILEY, who observes that in the midst of the crash of 2008 there has been shift from “conventional forms of political participation” towards the “unconventional ones”. While investigating the meaning of this phenomenon for the “traditional parties”, he argues that there are numerous conditions that would need to be fulfilled in order for a new progressive alliance to emerge in this context. The work of André KROUWEL and Yordan K. KUTIYSKY follows this understanding, looking in particular at how it transposition onto the European dimension. Through meticulous examination of the electoral trends, they expose that the euroscepticism and eurorejectionism are effectively anchored on both radical left and right of the political spectrum. The effective way to counter-balance that would therefore require from the progressives a new holistic

agenda that would combine economic integration with the preservation of the welfare state. This search for a new connection between the issues that would translate into establishing new societal coalitions is also what John HALPIN and Ruy TEIXEIRA advocate for. They claim that a new, more dynamic approach – which they call a “street lights coalition” - would be of a remedy at this point.

These thesis are further explored in the second Chapter *Creating European Welfare – a Proposal of a Tangible Agenda for Equality*. There Ignacio URQUIZU looks closer at the ways the traditional parties could make EU key in finding a solution to growing imbalances and disequilibrium. He warns that looking at the historical examples – a success of that mission will be determinant in terms of “to be or not to be” for the Union as such. Ronny MAZZOCCHI, who claims that the way out of the crisis does not lead through one political dimension only, echoes his assessment. The effective strategy would require coherence in between various policy areas so that employment, prosperity and hence new energy for the economic development could be created. On how to do it in practice, Renaud THILLAYE and Patrick DIAMOND offer an answer evaluating the potential of the EU20 Agenda. Their paper points out the crucial lessons, which the progressives need to take into consideration while considering a new, distinctive social strategy for Europe. While doing so, continues Ania SKRZYPEK, they should take into consideration the richness of the legacy of Welfare State and battle once and for all the criticisms regarding this concept’s sustainability, longevity and plausibility.

The deliberation on the desirable progressive policies to improve people’s living and working conditions are continued in the Chapter 3: *Making Europe Work – a Demand for Quality Employment for All*. It opens with the paper by Rémi BAZILLIER, who reaffirms that progressive approach still should be based on simultaneous promotion of promotion of effective economy and defending working-class interests. He sees its necessary that the role of the labour market institutions is therefore redefined and emancipated from playing the role of the “corrective” mechanisms only. In that spirit, also Dimitris TSAROUHAS takes on the challenge of revisiting the concept of *flexicurity*. He argues that though the idea in itself has been discredited by liberalization of the legal framework, still in its core it promotes a combined approach in favour of employees’ emancipation and economic efficiency. As such, it should be reconsidered. His main argument regarding the necessity to address individualization with the collective offer for everyone’s empowerment is also at the heart of the work by Nadia CARBONI. Her contribution focuses on the access to quality justice system in context of social and labour rights as criteria of delivering on the progressive promise of a Social Europe.

Subsequently, the Chapter 4 *Organising Financial Capitalism – a Strive for an Ethically Prevailing Argument* mirrors the deliberations on how to equip a new agenda with a number of tangible policy proposals. Carlo D’IPPOLITI points out that European Union was too

self-absorbed to notice the great impact the Eurozone crisis had on the rest of the world – and that in this context many of the international commitments have been abandoned. He argues that explaining the way to stabilization as a contributing factor to the solidity of the international monetary system is a way for Europe to reclaim its global position. These arguments should in fact accompany the ones enlisted by Amandine CRESPIY, who proves that unless a comprehensive way out is found and new rules put in place, also the conflict regarding the European integration will persist. Matjaz NAHTIGAL complements her deliberations on “poor governance” during the crisis. His paper presents the assessment of the role that the financial institutions have played so far with the underpinning argument that EU polity has remained hostage to the dogma of free-market neutrality, instead of pursuing better governance through public sector and enabling more development through more access for many. The Chapter closes with the contribution by Pascal ZWICKY, who continues the deliberations on accessibility – modernizing and revamping the concept of economic democracy as the key element for a Social Europe.

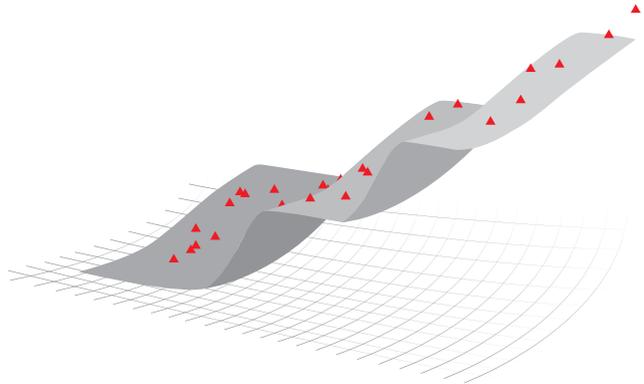
The volume ends with Chapter 5 *Europeanising Social Democracy – a Need for an Organisational Renewal*, which focuses on how to translate ideological and strategic recommendations into an action plan that would revive progressive movement. Therefore Robert LADRECH looks at how to reinvigorate the centre-left appeal ahead of the European elections. He argues that relinking closer the national and the European level is a promising avenue that will increase appeal of the movement as politically coherent, hence credible and able to act on multiple levels of policy making. Gerassimos MOSCHONAS supports that claim, describing the particular case of Greek Debt Crisis. He points out the reinforced limitations of contemporary socialist internationalism, arguing that it is not too late to use this critical junction to forge more the European cohesion of the movement. Even more hopeful is Erol KÜLAHCI, whose article describes subsequent potential ways towards reintegration of European Social Democracy in the dimension of the European partisan system. Similarly to LADRECH and MOSCHONAS he sees the prospective chance in politicization of the EU, which thesis is further supported by Ania SKRZYPEK – who looks at the transformation of the European polity through evolution of consensus, coalition and conflict structures within it.

All in all, this 9<sup>th</sup> volume constitutes an inspiring contribution to the programmatic, organizational and strategic debate on alternative paths for social democracy. The inputs are not only thoughts provoking, but also frequently provocative – since they are intended to enthuse further debate. Although developed within the course of the same FEPS Next Left Research Programme, the articles provide a great variety of proposals. They extend onto the social, economic and institutional dimensions. What unites them is a genuine ambition that they would prove constructive and stirring in the movement's search *For a Connecting Progressive Agenda* in Europe.



Alfred GUSENBAUER

## **Daring to Take a Step Forward**



It is a popular wisdom that there is always a better weather coming and to experience it, it is enough to survive the current storm. As truthful and hopeful as this may sound, in the contemporary political climate it is fair to ask one if not two follow-up questions. The first would be: *but how long is the tempest itself to last?* and the second formulated by those more pessimistic-minded: *and what if the ambiance actually changed for good?*

Indeed, after six years since the financial predicament emerged globally and subsequently hit the European economy it would do no good to seek comfort in reassurance that the recovery is 'just round the corner'. In so far, the developments have proven to the contrary and both the Union, as also the particular Member States, have seen very little (if any) revival. The double if not triple recession, growing impoverishment (also among children) and erosion of the labour market – these three plagues make people in general doubt that any remedy can be offered.

This distrust has replaced the anger that they felt at the very beginning of the crisis. Back then they felt cheated by the system, which motivated them to express fury and mobilize to articulate resistance to the state of affairs. They would raise the arguments symbolically recalled as the plea against the 1%, pointing out that there was no civic permission to continue with the neo-liberal logic. They would disparage financial capitalism as an obscure system and unite as *Indignados* to demand a new social deal. Their aim was to seek re-empowerment for those, whose assets lied in hard work and not in assumed liberty to take on high-risk financial speculations on the costs of others.

But after just couple of months, the rage bleached. It gave place to anxiety and subsequent resignation. There seem to have been no other way but indeed to make sacrifices, which under the name of "austerity" were proclaimed to be "the only solution". The rationale behind was the need to balance back the public budgets and get over the debts. What was claimed was that the deficits were created by overspending in the sector of public policies, which consequently needed to be subjected to more 'realistic' planning. Additionally, it was underlined that the debts, as in any household budget, are the path leading to further ruination and hence the objective to pay them back was the only way

to avoid any further disaster. That definition of 'responsibility' was to be kept in mind as a measure to avoid hindering the chances of the 'future generations'. Altogether it provided an excellent smoke screen, behind which it was possible to hide many wrongdoings. It covered the fact that it was the public money that was used to bailout the banks and rescue private interests. It dodged the fact that the cuts put in place were thwarting the opportunities for all, and especially for the young people. And to that end, it also facilitated a drift that would give up on essential components of democracy – a right of citizens to actually choose if that was the path they wanted to follow.

The rhetoric of "There is No Alternative" swiftly moved from being contained within the aspects of economy towards being a guiding philosophy of the entire political system. With the different degree of enthusiasm, the parties of both left, centre and right embarked on it – assessing that a key to surviving the *storm* lied in finding a shelter within whatever has been still left out of the system. Hence also the policy of quick fixes and minimum promises, as during a *tempest* one focuses on keeping the roof and walls in tack, rather than on setting new fundamentals or even refurbishing the interior. That strategy was bound to be unsuccessful, as there were by far too many left outside *in the thrusting rain*.

Unsurprisingly, while the political class altogether gave an impression that it wanted to *weather the storm*, a political stagnation that would top the economic one was not what the voters would be ready to consent on. Having lost the connection with those, who once upon a time used to bare the proud name of the "representatives of the hard working family"; they turned to those, who would be more explicit in claiming "impossible" – by which adjective till then any alternative scenario would be dismissed. Although initially these would be mostly the anti-systemic and anti-democratic forces, which noted a dangerously impressive gain in the European elections of 2014 - more recently the trend showed an inclination to rather simply back the groupings of more radical profile. Unlike in the case of the earlier ones, it was not possible to depict them as anti-democratic – as they were at the core claiming that the system at hand was based on anti-democratic decisions. Consequently, they claimed that they would pave the way to new democratization, expressing the opinions of the suppressed and ensuring their re-emancipation. This claimed not only attention, but also support of many especially on the left and presented itself as a challenge to the established social democracy.

The dilemma that the progressives need to face is therefore the one of historical nature. Remaining in the contemporary position, where every election seems to point out that the shelter against the *storm* is defaulting from a fortress into a shaky hut, is not an option. While such a description may sound as contemptibly caricatured, a certain grain of truth is entailed in it and makes one wonder for how long such a positioning would enable social democrats to still claim the right to define the criteria describing progressivism. But

at the same time, it would be also rather hasty to jump into a conclusion that this is a new revolution that one may have failed to launch – but still can try to preside over, should one run quickly enough towards the front lines of it. Externally also, neither of the two ways appears as a self-conscious, well-leveled and coherent choice.

This is why instead of continuing the dwindling on complicated strategic polls and hasty assessments of complex developments at hand, the progressives should ask themselves rather a simpler question: what is the core problem underpinning the political disaster at hand that they would be in a position to solve.

From the numerous deliberations it is apparent that this is the challenge of existing, growing and multiplying inequalities. They transverse social and economic dimensions, as also their persistence constitute the reason for which no sustainable balance and hence no recovery can in fact be achieved. Addressing them is not a matter of taking a u-turn and returning to well-known remedies, which were encrypted in the earlier economic model, paired with redistributive guarantees of the welfare states. Instead, the progressives should find courage to take a step forward and propose a profoundly new agenda.

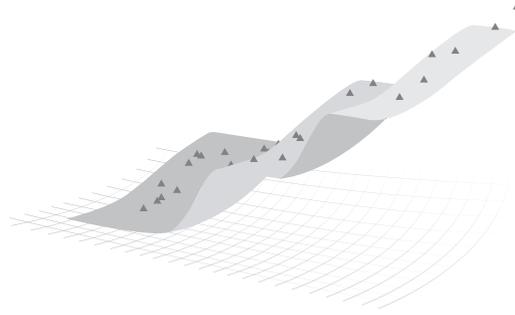
Their proposal should reinstate economy to be at the service of people. It must become leverage for ensuring prosperity for societies and consequently welfare for individuals. The later must no longer be seen as a matter of corrective intervention, namely redistribution, but an issue of coherency between diverse tools starting from predistribution and ending at the adequate safety nets provisions.

To that end the crucial ingredient is of course an appropriate, modern and social investment strategy. The emphasis on “social” is not a secondary aspect of it, as the progressives must retrieve and bring back to the political debate the moral imperative. It should stand for ethical guidelines, which underpin politics in terms of framing choices in the name of a broader societal cause. In that understanding it should not be limited to the field of social policies, but encompass all actions that lead to improvement of living and working conditions. This social investment strategy must on one side ensure the best support for the existing assets, on the other would also ensure multiplying effects. In that sense, though building on the earlier promoted concepts such as activation paradigm, it must carry on a further reaching ambition – which would move the debate from “rights and responsibilities” angle towards the one of “opportunities and contributions”. In that way it can link with all the notions, such as productivity and efficiency, allowing the progressives to frame them in a new way and reclaim them from the hands of the neo-liberals.

This proposal is just a small trailer of what the FEPS Next Left deliberations have recently been about and consequently serves as a teaser of the intellectual richness that this volume offers. The outcomes of this intense, interdisciplinary and by all means inspiring conversation may seem a provocatively formulated record of what the European social



democracy is and potentially could be about. In that sense they are testimony of those, who do not believe that the current storm could just be weathered or that this would be a time to *sing in the rain*. To the contrary, altogether they make a strong case on why there is no need to give in – but instead dare making a step forward to get a broader picture and seek to rich another, perhaps more of a brighter horizon.



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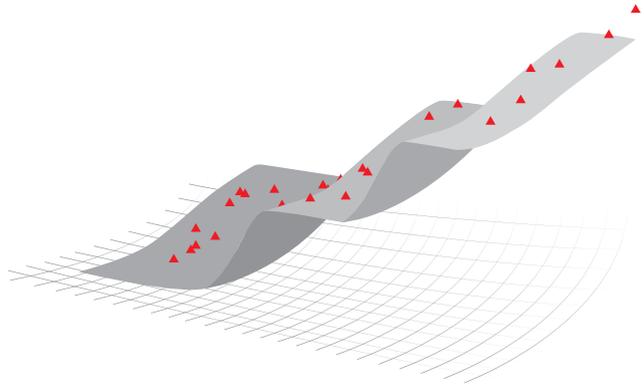
**Facing Social Contestation  
– a Search for a New  
Connection**

**SIVE**



David J. BAILEY

**Responding to New Patterns of Social  
Contestation: the Politics of Protest  
Management During  
the Global Economic Crisis**



**Keywords:**

**Social Democratic Parties – Protest - Global Economic Crisis - Labour Party - SPD**

**Abstract:**

This paper explores the responses that social democratic parties might adopt towards waves of social mobilisation that have emerged in the light of the global economic context. It seeks to consider the extent to which we might expect to see a (new) progressive alliance form between social democratic parties and social movements. Focusing on responses by the British Labour Party and German SPD to waves of protest during the global economic crisis, the preliminary results presented in this paper suggest that following the onset of crisis, both parties were minded to move towards a broadly more supportive position towards some of the protest events witnessed, but that these were highly muted. Even whilst out of office, moreover, support was either muted or not forthcoming. Whilst the Labour Party found itself more able to formulate moderate support for the more 'conventional' form of protest (industrial disputes) than the more unconventional forms of protest that have emerged (across Europe) (and which have typically witnessed occupations being adopted as an attempt to highlight injustices associated with the crisis); the SPD was highly muted and relatively 'neutral' in its response to both forms of protest (offering support for the right to protest in the case of direct action forms of protest, and offering to act as a neutral mediator in the case of a major industrial dispute). In terms of the scheme setting out potential likely responses developed within the paper, therefore, both parties seem to have moved towards a position of either superficial advocacy or non-reaction. The findings of the paper therefore suggest that there is not likely to be a re-formulated alliance between contemporary social/protest movements and centre-left social democratic parties in the foreseeable future.

This paper considers the various responses that centre-left democratic political actors within the European Union both have available to them, and that have been adopted, in the light of new patterns of social contestation witnessed as responses to the post-2007 global economic crisis. The article therefore investigates a number of important socio-political and socio-economic questions that have arisen during the course of the global economic crisis. These developments touch on a number of key issues related to contemporary democracy, modern institutions of representative democracy, and the relationship between political parties and social movements. These issues, moreover, are particularly pressing for social democratic parties due to their historic relationship with social movements. The author seeks to explore these questions, and particularly to consider the following. How have social democratic parties responded to the mobilisation of protest movements in the light of the global economic crisis? Are social democratic parties encouraging, ignoring or condemning the emergence of protest movements associated with the global economic crisis? Are we witnessing the emergence of new social movements aligned with, and supported by, social democratic parties? To what extent might we expect to witness a (new) alliance between social democratic parties and social movements in pursuit of progressive alternatives in the context of global economic crisis and a climate in which austerity policies are the prevailing response to crisis?

The paper proceeds as follows. It begins by outlining some of the key trends and challenges that have faced contemporary advanced industrial democracies over the past three decades, and which have the potential to be amplified as a result of the global economic crisis. It subsequently highlights the way in which these trends impinge especially upon social democratic parties. It then proceeds to set out what we might consider to be a range of attitudes that we would expect social democratic parties to show towards social movements in the context of global economic crisis, spanning from an alliance with social movements to the repression of them. The paper then presents the findings of preliminary research into the response of British Labour Party and German SPD actors to episodes of social mobilisation and protest, both before and after the global economic crisis, and (in the case of the UK) both in and out of office. The findings suggest that social democratic parties have adopted heavily muted and luke warm support for some crisis-related protest movements.

## Three challenges facing contemporary democracies

Contemporary democracies – and especially formal institutions of representative democracy - have been faced with a number of challenges over the past three decades. Three in particular stand out.

### From conventional to unconventional participation

First, **we have witnessed a shift from what is commonly referred to in the literature as conventional to that of unconventional forms of political participation.**<sup>1</sup> Those identifying this trend as a feature of contemporary democracies point to the growing willingness of citizens of advanced industrial democracies to engage in direct action forms of political participation – ranging from highly moderate petitions, through public demonstrations, to acts of both violent and non-violent disruption (such as occupations, sit-ins, blockades, and riots)<sup>2</sup>. This trend, observers have noted, exists alongside a secular decline in voter turnout<sup>3</sup>, in addition to declining party membership<sup>4</sup> and declining partisan alignment to particular parties<sup>5</sup>. **What we are witnessing, then, scholars have commented, is a generalised move away from conventional forms of political participation (voting, party membership, partisan voting) towards more unconventional political participation (direct action, street demonstrations, occupations).** For some, this has been described as the construction of a ‘social movement society’<sup>6</sup>, in which the process of political engagement by the citizenry with the state is achieved through the mobilisation of social movements, rather than through the typical institutions of interest aggregation of representative democracy (i.e. political parties).

**What we are witnessing, then, scholars have commented, is a generalised move away from conventional forms of political participation (voting, party membership, partisan voting) towards more unconventional political participation (direct action, street demonstrations, occupations).**

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6 D. S. Meyer & S. Tarrow (eds.), *The Social Movement Society: Contentious Politics for a New Century*, Lanham, MD, Rowman and Littlefield, 1998.

## **The decline in trust towards institutions of representative democracy**

Second, and partly explaining the move from conventional to unconventional political participation, we have witnessed an ongoing decline in trust towards institutions of representative democracy<sup>7</sup>. **Citizens are increasingly inclined to view politicians, political parties, civil servants and the institutions of democratic government in terms of self-interest, duplicity, and unaccountability**<sup>8</sup>. This rising distrust towards institutions of representative democracy also manifests itself in the generalised adoption of cynicism towards those actors and institutions – i.e. expectations are such that there is scant expectation that politicians believe in concrete political principles, abide by those principles, or genuinely to see their implementation. Rather, formal political representatives are increasingly considered to be solely focused on self-serving goals oriented to reaping the benefits associated with high office, irrespective of the political compromises, inconsistencies or contradictions necessary in order to achieve that goal.

## **The decline of partisan politics**

Finally, a third trend facing contemporary democracies is a commonly noted decline of partisan politics. **This has been noted by a number of scholars, who claim that political parties – and especially major parties within each national party system - have increasingly converged around an ideological centre-ground in which distinctions between left and right are growing meaningless**<sup>9</sup>. This view has been particularly associated with the idea that pro-welfare politics are either economically unaffordable and/or electorally unviable, resulting in a consensus between both left and right. According to this consensus, the strength of global economic integration is such that public policies need to be pro-market, redistributive fiscal policies are counter-productive (and therefore to be avoided), and traditionally redistributive institutions such as trade union and centre-left parties should limit their goals to those of assisting (rather than challenging the injustices of) the market<sup>10</sup>.

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7 J. Lindvall, *The Political Foundations of Trust and Distrust: Reforms and Protests in France.*, [in: ] *West European Politics*, Volume 34, Issue 2, pp.296-316., 2011.

8 C. Hay, *Why we hate politics.*, Cambridge, Polity, 2007.

9 P. Mair, *The Challenge to Party Government*, [in: ] *West European Politics* 31(1-2), 2008.; and M. L. Caul & M. M. Gray, *From Platform Declarations to Policy Outcomes: Changing Party Profiles and Partisan Influence over Policy*, [in: ] Russell J. Dalton & Martin P. Wattenberg (eds.), *Parties without Partisans*. Oxford, Oxford University Press, 208–37, 2000.

10 J. P. Allan & L. Scruggs, *Political Partisanship and Welfare State Reform in Advanced Industrial Societies*, [in: ] *American Journal of Political Science*, Vol. 48(3), pp. 496-512, 2004.

## The global economic crisis, contemporary democracy and centre-left parties

The global economic crisis has prompted a number of challenges for contemporary institutions of representative democracy, and especially for centre left parties. The experience of global economic crisis has seen a heightening of each of the three challenges noted above. Indeed, this is perhaps most clearly evinced by the wave of extra-parliamentary social mobilisation that emerged in the wake of the crisis. Movements such as the Occupy Movement, UK Uncut, the *indignados*, M15 and the *Puerta del Sol* encampment each represented a very clear commitment to the kind of direct action political participation that had been hypothesised by those viewing a general shift between conventional and unconventional forms of political participation. Equally, these movements were characterised by their voicing a generalised distrust towards the political class that had also been noted prior to the crisis. Thus, many of the slogans and objectives around which these movements have mobilised have focused on a critique of the political class, which is viewed as unavoidably and inherently corrupted by their position in office (irrespective of ideological position), and lacking any inclination or ability to resolve the crisis. For instance, Perugorría and Tejerina discuss the construction during the Spanish 15M protests of a ‘them’ and an ‘us’, in which ‘them’ is typically considered to be ‘thieving and swindling bankers’, and ‘us’ are considered those united by a lack of voice and a lack of participation in political decision-making<sup>11</sup>.

The global economic crisis has also witnessed a consolidation of the absence of partisan politics. Most notably, centre-left parties have proven unable to produce an economically and/or electorally viable alternative to pro-market and austerity-oriented policies as a potential solution to the crisis<sup>12</sup>. This has perhaps been most often noted with reference to the failure of the centre-left to make electoral gains at the height of the crisis in the 2009 European Parliamentary elections. But it is also marked by the collapse of PASOK, the failure of the German SPD to make electoral gains in the 2013 elections, the ejection from office of the British Labour Party in the 2010 general election, and the inconsistent record of the Hollande Presidency in France<sup>13</sup>.

It is with this context in mind that we should consider a range of questions that the

11 I. Perugorría & B. Tejerina, *Politics of the encounter: Cognition, emotions, and networks in the Spanish 15M*, [in: ] *Current Sociology*, forthcoming.

12 D. J. Bailey et al., *Introduction.*, [in : ] Bailey, D.J., De Waele, J.M., Escalona, F. & Vieira, M. (eds.), *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester University Press, forthcoming.

13 see: the various contributions to Bailey et al., *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester University Press , forthcoming b)

global economic crisis raises for centre-left and social democratic parties. To a certain extent we might consider the emergence of heightened levels of extra-parliamentary social movements associated with the global economic crisis to be an opportunity for centre-left parties. Given that centre-left parties have perhaps the longest heritage in terms of, and therefore strongest claim to represent, minoritarian groups within European society<sup>14</sup>, new patterns of mobilisation by marginalised and disaffected social groups might be expected to connect with centre-left parties and provide a renewed and revitalised social base to underpin a renovation and reinvigoration of centre-left political parties. The historical background of centre-left parties, however, also creates potential problems for such a potential process of reinvigoration. In particular, the historical jettisoning of much of the market-correcting and radical traditions of centre-left parties – i.e the move towards a third way position of pro-market policymaking that characterised most centre-left parties during the mid-1990s-mid-2000s period – has created a context in which social movements are reluctant to engage with centre-left parties<sup>15</sup>, and moreover centre-left party actors are reluctant, unwilling and/or unable to advocate a political position (i.e. a more redistributive, pro-welfare and interventionist position) that they have purposefully moved themselves away from<sup>16</sup>. The global economic crisis and subsequent witnessing of extra-parliamentary mobilisation therefore raises a number of important questions for centre-left parties: will they support or dampen the new forms of mobilisation witnessed; will they seek to represent social movements' demands, and if so in what way; to what extent is the relationship between the centre-left and new social movements a complementary and/or antagonistic one; and how should we expect centre-left parties to respond to the emergence of potentially new types of socio-economic mobilisation and socio-political actors?

In this sense, **we might also consider centre-left parties to be entering a fourth phase of their historical development, defined in terms of the relationship between centre-left parties and the extra-parliamentary social mobilisation of the broad sub-altern social base that has tended to form their constituency – with the content of this relationship yet to be decided.** According to this view, we can sketch the three previous stages (in an admittedly highly schematic fashion) along the following lines:

### **Stage One: mobilisation of the extra-parliamentary labour movement (19<sup>th</sup> century and early 20<sup>th</sup> century)**

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14 D. Sassoon, *One Hundred Years of Socialism: The West European Left in the Twentieth Century*, London, Fontana Press, 1996.

15 G. Ross, *Social democracy and social movements from crisis to crisis*, [in: ] Bailey, D.J., De Waele, J.M., Escalona, F. and Vieira, M. (eds.), forthcoming, *European Social Democracy During the Global Economic Crisis: Renovation or Resignation?*, Manchester University Press, forthcoming.

16 M. Ryner, *An Obituary for the Third Way: The Financial Crisis and Social Democracy in Europe*, [in: ] *The Political Quarterly* 81 (4) , pp. 554-63, 2010.

The 19<sup>th</sup> and early 20<sup>th</sup> century was largely characterised by the mobilisation of a broad-based workers movement, especially across much of Western Europe. Whilst commentators perhaps refer most often to the German working class movement, within which it was famously possible to spend one's entire waking life within institutions of the labour movement (the social democratic trade union, after-work social clubs and societies, and mass readership media sources run by the social democratic party), the rapid development of trade unions and socialist and social democratic parties during this period was a common feature across the continent. The role of social democratic parties was also significant in this mobilisation period, witnessing key social democratic party actors actively contributing towards and promoting mobilisation. For instance, the role of the First International was largely oriented towards linking up, connecting and disseminating the exchange of information between nascent labour movements, and especially their engagement in strike activity, across European countries<sup>17</sup>. Similarly, the focus of those moving within the British labour movement to access parliament was largely an attempt to ensure that organised labour would be able to challenge legal constraints that might be placed upon its growth – most obviously in responding to the Taff Vale judgement of 1901.

### **Stage Two: representation of a broad working class-focused movement (Golden Age of Social Democracy, 1945-1970s)**

The second stage in this schematic overview of the history of social democratic parties' relationship with their broad social base might be considered one characterised by the attempt to represent the interests of the broad working class movement that had been constructed during the first phase of mobilisation. Having entered parliament in most west European countries during the pre, or inter-war, period, social democratic parties only became fully focused on seeking to implement a governing programme that would represent the interests of their broadly defined worker-oriented constituency after the Second World War<sup>18</sup>. Whilst this brought with it greater potential for clashes with their own social base, particularly in contexts where the requirements of government contrasted with the demands of organised labour, nevertheless the aim during this period was largely one of seeking to represent a pro-worker agenda within the broad limits set by the need to manage a democratic capitalist society. This meant, therefore, a commitment to a range of measures that would have a beneficial impact upon social democratic constituents – including pro-trade union legislation, the expansion of the welfare state, counter-cyclical macroeconomic policymaking

17 J. Braunthal, *History of the International*, Nelson, 1966.

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

that would focus on tackling unemployment, the incorporation of organised labour in policymaking, and a commitment to manage, own and/or regulate public services and large-scale industry in such a way that would constitute a class compromise between organised labour and capital<sup>19</sup>.

### **Stage Three: containment and limiting of working class mobilisation (Third Way, 1990s-2000s)**

The third stage in this schematic overview, typically referred to in the literature as the adoption of 'Third Way' social democracy, was characterised by a more antagonistic relationship between social democratic parties and their traditional broad worker-oriented social base. Thus, informed in part by analyses which saw the industrial working class as a declining force within advanced industrial democracies, alongside a view that traditional social democratic ideology had become dated and unviable in a context of heightened global integration, social democratic parties moved to position themselves as post-class parties. This meant in many instances a rejection of the commitment to regulate the market and to view the state as a means by which to redistribute towards working class constituents. The expansion of the welfare state was no longer held up as a viable or desirable policy goal. It also meant the adoption of a more hostile position towards the mobilisation of organised labour – for instance, witnessing the Labour Party in the UK explicitly oppose strike activity by trade unions, and the German SPD government actively seek the curtailment of unemployed workers' entitlements to unemployment benefits (Agenda 2010) and overseeing a limiting of wage growth in the early 2000s. The period also witnessed some social democratic parties adopting measures that would act to discipline and thereby contain the mobilisation of their traditional constituents – for instance, witnessing the Labour Party adopt a range of so-called anti-social behaviour measures that sought to impose a form of social discipline, typically upon disaffected and disadvantaged youth in declining industrial urban settings<sup>20</sup>.

### **Stage Four: centre-left parties during the global economic crisis?**

As noted above, the occurrence of the global economic crisis from 2008 onwards has created the opportunity for the emergence of a fourth stage in the relationship of centre-left parties with their broader social base. **Drawing on our discussion of the historical development of social democratic parties, we might consider this relationship to**

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19 D. J. Bailey, *The Political Economy of European Social Democracy: A Critical Realist Approach*, London, Routledge 2009.

20 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*, 11(4), pp. 593-612, 2009b; S. C. Motta & D. J. Bailey, *Neither Pragmatic Adaptation nor Misguided Accommodation: Modernization as Domination in the Chilean and British Left*, [in: ] *Capital and Class*, 92, pp. 107-36, 2007.

witness attempts by social democratic parties to either mobilise, represent, or to further contain the emerging social movements associated with the crisis. As such we might anticipate a range of potential responses, which sit across this spectrum from mobilisation to containment:

1. **Alliance.** The active incorporation of vocalised demands into party policy and public policy (the latter, if in office). This we might expect to see alongside attempts by social democratic parties both encouraging mobilisation by social movements and seeking to form alliances with those groups in an attempt to promote more substantive pressure for progressive policy alternatives.
2. **Substantive advocacy.** Centre-left party actors might adopt one or more of the vocalised demands and actively seek their incorporation into party policy and/or public policy.
3. **Reformulated representation.** Whilst not wishing to adopt all social movements' demands in their original form, centre-left parties might instead reformulate those demands into a more presentable or domesticated form, that can they subsequently be promoted within the formal policymaking institutions.
4. **Superficial advocacy.** Whilst it might be politically convenient to adopt particular demands expressed by mobilised challenger actors, the attempt to pursue the incorporation of these demands can be for rhetorical (rather than substantive) gain and therefore represent a form of superficial advocacy in which the proclaimed desired outcome is either not sought or pursued in such a way that its realisation is wilfully avoided.
5. **Non-reaction.** Under certain circumstances we might expect centre-left party actors to avoid reacting or responding to mobilised demands, thereby witnessing a stance of non-reaction.
6. **Dismissal.** The active attempt to undermine the viability or credibility of particular proposals being voiced by mobilised socio-political actors.
7. **Repression.** Finally, we might anticipate that under certain conditions centre-left party actors will actively seek to repress, silence or demobilise social movements and the demands they raise.

### **Assessing contemporary trends: the case of the British Labour Party**

In order to offer a preliminary assessment of the range of responses witnessed thus far in the context of the global economic crisis, the present paper examines two cases: the British Labour Party and the German SPD. Both parties are particularly well-suited to this analysis, because (a) they have both been both in and out of office during the period of crisis, and therefore provide an interesting opportunity through which to explore the impact of being in

office upon social democratic party responses, and (b) both parties signed up to the 'Third Way' turn (with Blair happy to adopt the terminology of 'Third Way', and Schroeder using the language of the *Neue Mitte*) but have also witnessed a change of leadership, with the potential to be more aligned to traditional social democratic constituents (especially in the case of the Miliband leadership, which in part resulted from trade union support).

## British Labour Party

In order to consider the types of responses witnessed in the case of the British Labour Party, we can select six distinct protest events over three periods: (i) the pre-crisis period (2002-2007); (ii) the crisis period during which the Labour Party was in office (2008-2010); and (iii) the crisis period during which the Labour Party was out of office (2010-present). We can also select from two different types of protest – industrial action (i.e. the form of activity more traditionally associated with the labour movement and social democratic parties), and direct action (i.e. the wave of anti-austerity occupation-demonstrations that have emerged as a feature of political participation and dissent during the course of the global economic crisis). The protest events were some of the most prominent (either in terms of number of participants, or number of protest event-days) during each of the periods, drawn from a database of protest events in British politics from the 1970s onwards<sup>21</sup>. The protest events selected are listed in table 1.

In order to assess the response of the Labour Party to each of these forms of social mobilisation, a newspaper archive search was conducted seeking stories in all UK newspapers registered with Nexis, with keyword searches identifying the episodes of protest and 'government' or 'Labour' (depending on whether the Labour Party was in office during the period or not), during the period of contention. This was an attempt to identify responses stated publicly by the Labour Party or its representatives. Each paragraph that was reported as part of each unique statement were subsequently coded on an 10-point scale (very supportive (2), supportive (1), neutral (0), opposed (-1), very opposed (-2), with each score subsequently doubled if the statement was made by a member of the party leadership (party leader, minister/shadow minister) in order to generate a total and average score estimating the position of the Labour Party on the social movement in question for each event. The score assigned to each statement could therefore range from 4 to minus 4. Total scores indicate a combination of both the strength and frequency of the position, whilst average scores indicate the position adopted only (without indicating the frequency with which it was stated). The results of the research can be seen in table 1.

As we can see, each of the three periods are marked by different types of responses by Labour Party actors to the mobilisation of social protest. Thus, during its pre-crisis period in office, the Labour Party responded negatively to both the Gate Gourmet industrial

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<sup>21</sup> for more on this database, see: D.J. Bailey forthcoming work.

Table 1: selection of protest event cases

Protest event	Period	In office?	Type	Total score	No. of statements	average
UK						
Gate Gourmet industrial dispute (August 2005)	Pre-crisis	Yes	Industrial dispute	-6	8	-0.75
Fuel protests (September 2000)	Pre-crisis	Yes	Direct action (blockades)	-94	126	-0.75
Lindsey Oil Refinery Dispute (2009)	Crisis	Yes	Industrial dispute	25	84	0.3
Vestas occupation and protests (2009)	Crisis	Yes	Direct action (occupation and protests)	2	7	0.29
2011 public sector pension dispute	Crisis	No	Industrial dispute	26	13	2
UK Uncut protests against Vodafone tax deal (2010)	Crisis	No	Direct action (occupations)	0	0	0
Germany						
Agenda 2010 (August – December 2004)	Pre-crisis	Yes	Direct action (street protests)	-16	8	-2
IG Metall strike (June 2003)	Pre-crisis	Yes	Industrial dispute	-4	2	-2
Blockupy (Frankfurt 2012)	Crisis	No	Direct action protest	2	1	2
Lufthansa strikes (September 2012)	Crisis	No	Industrial dispute	0	0	0

dispute (and especially suggestions that arose as part of that dispute for a change to anti-trade union legislation) and to the Fuel protests of 2000. Whilst the response was relatively muted in the case of the Gate Gourmet dispute, it was most vocal in the case of the Fuel Protests, which represented one of the first waves of major protests against the Blair Government. In both of these cases, the prevailing reason for the negative sentiment appears connected to the pressures of government and associated need to attempt to maintain social order. For instance, in the case of the Gate Gourmet dispute, then-Chancellor Gordon Brown responded to calls for pro-trade union legislation by stating that, “there will be no return to the old failed conflicts of the past, or the disorder or the secondary action of the past”. Similarly, faced with a wave of fuel blockades that in many cases saw petrol station closures, Blair stated, “Whatever the protesters do ... it cannot be right to try to force a change in policy by these means ... We will not be intimidated. We will not give into violence, to blockades, to threats”.

Following the onset of the crisis, however, Labour Party actors' responses to social protest have become more positive, although in both a luke warm and muted way. Thus, in response to the Lindsey Oil Refinery Dispute - which saw first a wave of wildcat strikes in response to the

employment of foreign workers in what protesting workers claimed was an attempt to undermine negotiated working conditions and pay, and then a secondary wave of protests against the dismissal of those striking workers – Labour Party actors were moved to voice an opinion on a considerable number of occasions (84 separate paragraph statements) but with only luke warm support. Thus, we see a conflict between the pressure to govern and the attempt to accommodate what became a broadly popular dispute on the part of the striking workers. Thus, we witness then-Business Secretary, Lord Mandelson, claim, “We quite understand that at a time of such job uncertainty that people are very sensitive about unemployment and who can blame them”, whilst at the same time Prime Minister Gordon Brown moved on a number of occasions to decry unofficial strike action. For instance, Brown stated, ‘I do not believe that a strike will be anything other than counterproductive’, whilst on other occasions making fence-sitting statement such as, *“This is a matter between the management and workers, but we would hope it can be resolved as quickly as possible ... It continues to be our view that the parties do need to talk - ideally through Acas”*. In contrast, a number of backbench Labour MPs took a much more supportive position with regard to the striking workers, with for instance Jon Cruddas MP stating, *“It’s the employers in these instances which are culpable and we need to confront some of them who are notorious in this sector.”* Similarly, Labour MP Austin Mitchell stated, *“The walkout of construction workers at Lindsey Oil Refinery and Conoco demonstrates the strong feelings of British workers, which I share. Wherever possible, British workers should be employed and certainly have first preference in British construction projects”*.

The Vestas occupation and protest of 2009 – in which workers based within the wind turbine factory sought government support for the factory facing closure, on the grounds that government support would be of both environmental benefit and constitute support for workers in the context of the global economic crisis – witnessed widespread silence on the part of the Labour Party. Thus, the event prompted only a total score of 2 – as the Labour Party almost entirely ignored the episode. This, to the extent that Business Secretary Lord Mandelson, facing protests outside his ministry following his return from holiday was reported as responding simply by stating that, *“It’s been really good to go away and have nice peace and quiet on holiday. It was good and I am very glad to be back”*. Overall, only 7 statement paragraphs were forthcoming from Labour Party actors in response to the episode, with only one positive comment being made by leftwing backbench MP, John McDonnell, who stated, *“These workers are at the forefront of the struggle to save their jobs and our planet”*.

Following the eviction from office in 2010, the Labour Party moved to a third broad stance towards episodes of protest. Again this was muted, although arguably more positive (at least with regard to the more conventional form of industrial disputes). Thus, in response to one of the largest number of workers going on strike on a single day since the 1980s, during the November 30 2011 public sector pay dispute, we witness a broadly positive position being adopted by Labour Party actors – including opposition leader Ed Miliband, who declared, *“Why do you think so many decent, hardworking public-sector*

workers, many of whom have never been on strike before, feel the Government simply isn't listening?", and accused Cameron in the following terms: "Unlike you, I'm not going to demonise the dinner lady, the cleaner, the nurse - people who earn in a week what the Chancellor pays for his annual skiing holiday", although the number of statements made was limited – and Miliband's spokesman was moved at one point to point out that Miliband had not given his "unequivocal backing" to the unions, but rather believed the strike was a sign of failure and that both sides should give ground.

In response to the more unconventional forms of protest, however, the Labour Party (at least in the episode selected) appeared unable to know how to respond – with not a single utterance made in response to the UK Uncut protests that took place throughout November and December 2010 in response to a tax deal made between the government and Vodafone, in which protesters claimed Vodafone's tax avoidance had been condoned by the government.

### SPD

Similar developments were witnessed in the case of Germany. In terms of data collection, language issues made access to statements less straightforward. Also, the fact that the transition from being in office to being in opposition occurred one year earlier for the SPD (i.e. 2009 rather than 2010) meant that there was a much shorter space of time during which the SPD were in office during the crisis period. For this reason, it was more feasible to compare two periods: in office, pre-crisis; and out of office, during the crisis. Statements were secured through the use of search terms seeking reports that named the events concerned and included 'SPD'. The results (see table 1) are similar to those found in the case of the Labour Party. Thus, during its pre-crisis period in office, the SPD focused largely on seeking to dampen mobilisation and dissent. In opposition to the anti-Agenda 2010 protests of 2004, therefore, we witnessed statements from Chancellor Schroeder to say that, "If we don't restructure the social welfare it will implode. I'm firmly convinced Germany needs this reform process, and I will not back down". There was also a clear attempt to discredit the protests. With Schroeder stating, "When you see this new popular front with its merciless populism, it's enough to make you sick". Similarly, Economics Minister Wolfgang Clement stated that, "the comparison with 1989 was "an insult to the civic courage shown by many East Germans" (referring to the fact that the protests were named Monday Demonstrations, after those which had toppled the GDR regime). The only SPD representative to speak positively of the protests was Oskar Lafontaine, who was very shortly afterwards to leave the party to form what would subsequently become *Die Linke*. Equally, in response to the IG Metall strikes of 2003, we saw the SPD Government take on either a neutral position that sought solely to encourage a resolution of the dispute, or in the case of Wolfgang Clement an outright rejection of the merits of the dispute, claiming that the strike had come at "the wrong time, at the completely wrong place".

Following the experience of the crisis and the 2009 electoral defeat that resulted in it leaving office, the SPD (as with the Labour Party) became very muted (although less negative) towards instances of social mobilisation. Thus, in the case of the Frankfurt Blockupy protests we see the SPD General Secretary, Andrea Nahles, criticise the banning of the protests on the grounds that this challenged the right to the freedom of assembly. In the case of the Lufthansa strike of September 2012, however, we see no support at all declared by the SPD. Whilst this might be claimed to have been the result of the methods used in collecting the data (i.e. due to difficulties in identifying German language statements), the methods used did nevertheless identify 326 English language stories, 41 German language stories, and an additional 5 reports identified through a more straightforward Google search, with many of these reports providing considerable detail on the Lufthansa dispute. None of these reports, moreover, identified a single supportive statement by an SPD spokesperson. What many of them did identify, however, was the reported offer by the then-SPD Party Chairman, Franz Münterfering, to mediate the industrial dispute – i.e. to take a 'neutral' position that would seek to bring the dispute to a resolution.

## Conclusion

In terms of our discussion of social democratic responses to social protests during the course of the global economic crisis, therefore, the results presented in this paper suggest that:

- (a) following the onset of crisis, both parties were minded to move towards a broadly more supportive (or at least less negative) position towards some of the protest events witnessed, but that
- (b) these were highly muted, initially by the experience of being simultaneously in office and therefore facing the pressures associated with needing to govern, and
- (c) even out of office, support was either muted or not forthcoming, with
- (d) a preliminary suggestion that the Labour Party found itself more able to formulate moderate support for the more 'conventional' form of protest (industrial dispute) than the more unconventional forms of protest that have emerged (across Europe) (and which have typically witnessed occupations being adopted as an attempt to highlight injustices associated with the crisis).

Whilst our ability to assess the extent to which these trends reflect more general ones for European social democratic parties would, of course, benefit from the results of further research, in terms of the scheme of potential likely responses developed within this paper, both parties seem to have moved towards a position of either 'superficial advocacy' or 'non-reaction'. **The findings of the paper therefore suggest that there is not likely to be a re-formulated alliance between contemporary social/protest movements and centre-left social democratic parties in the foreseeable future.**

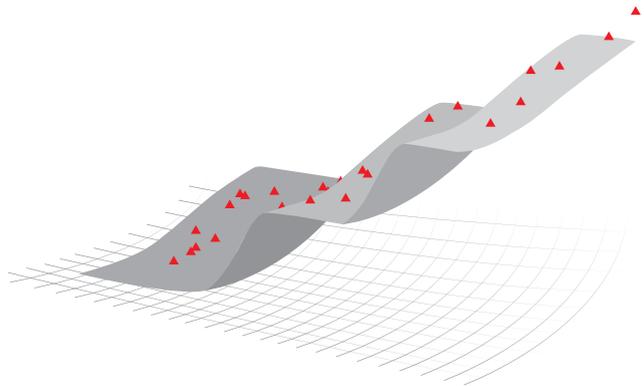
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# **From Euroscepticism to Eurorejectonism: Analysing Discontent with Widening and Deepening European Integration**



**Keywords:**

**Public Opinion – Euroscepticism - Political Extremism - Fringe Parties -  
Voting Advice Application**

**Abstract:**

This study examines the extent to which supporters of different political parties/party families have become Euro-rejectionist, rather than merely Eurosceptic, and to which extent the leadership of most (mainstream) parties have remained largely in favour of European integration. This disconnection between the opinion structure of political elites and the preferences of (their) voters is a crucial problem for the advanced European democracies that constitute the European Union (EU).

This chapter will focus particularly on the alarming disconnection between (the elites of) both the mainstream left (Social Democratic) and right (Liberal, Christian Democratic and Conservative) parties and the most economically and socially vulnerable groups in society (the lower educated, the working class and the elderly) due to a growing cultural divide between unskilled and highly skilled individuals. Kriesi et al<sup>1</sup> have described this structural antagonism between the so-called winners and losers of modernisation, which transforms the dimensional structure of national political spaces. On the economic dimension, this new divide reinforces pro-market versus pro-state antagonisms, in which the pro-state position is likely to become more defensive and protectionist. On the cultural dimension, the losers of modernisation are more receptive to national protectionism and authoritarian particularism as opposed the cultural liberalism and libertarian universalism. As Kriesi testifies, established parties will face difficulties to incorporate the new issues regarding immigration, crime and European integration in their traditional platforms. Mainstream parties of Conservative,

**Centre left social democratic parties can not fully support the winners' side and remain a credible protector of the less well-off, yet they also need to avoid aligning themselves with peripheral actors and refrain from adopting a so-called losers' programme, with only cultural, social and economic protectionism.**

Christian Democratic, Social Democratic and Liberal origin are internally divided but will generally side with the winners of progress, in favour of economic and cultural integration.

We show that Euroscepticism and even flat out Eurorejectionism are found on both the (radical) left and right of the political spectrum. Centre left parties need to find a credible strategy to combine economic integration with the preservation of the welfare state, in the face of an economic crisis and growing support for right-wing austerity politics. In addition, they need to find a way to square their cultural liberalism – a remnant from the 1960s revolution - with working-class authoritarianism and anti-immigration sentiments among their traditional core electorate. Centre left social democratic parties can not fully support the winners' side and remain a credible protector of the less well-off, yet they also need to avoid aligning themselves with peripheral actors and refrain from adopting a so-called losers' programme, with only cultural, social and economic protectionism. Studies – as well as the political logic - show that such mobilization of anti-liberalist protectionism is much

1 H. Kriesi et al., *Globalization and the transformation of the national political space: Six European countries compared.*, *European Journal of Political Research*, 45(6), pp. 921-956, 2006; and H. Kriesi et al., *West European politics in the age of globalization.*, Cambridge: Cambridge University Press, 2008.

better implemented by the radical left and by the xenophobic populist right. Both these political forces constitute a major challenge for the established moderate left in electoral terms. On the right, liberal, Christian democratic and Conservative parties are torn apart over support of the free market and the free transfer of labour across the European continent and the increasing anxiety of immigration among the electorate. Lowering thresholds for labour migration will be popular among the more entrepreneurial and internationally oriented business community, but will deter large sections of the middle class to vote for the centre right.

This project aims to assess – at both the elite and mass levels - the extent of disconnection between political power holders and citizens, particularly in core voter groups. We analyse the ideological 'cartel' that seems to have taken shape around how the economic crisis and the concurrent transformation of European institutions and decision-making have diminished political competition between the major political ideological currents/European party groups. The on-going economic crisis has led representatives of member states and EU institutions to talk about strengthening the EU via a fiscal and political union, while national political arenas are experiencing an increasing politicization of the EU. In addition, the major political party groups seem to largely agree on an economic agenda of austerity measures, rather than anti-cyclical investment policies. This diminished ideological competition among the major political groups in EU member-states and the European Parliament will juxtapose the established and moderate parties of government versus the radical parties in opposition. This reduces the space for the politicisation of the socio-economic left-right dimension. This seemingly contradictory finding – that in times of deep crisis the left-right political space seems to become suppressed rather than wider and political competition becomes even more solidified on the cultural dimension – reduces the electoral competitiveness of the centre left.

## **Euroscepticism left and right**

This paper departs from monitoring the level of Euroscepticism among the citizens of European Union democracies by using a variety of data sources, most notably the questionnaires of the 2009 European Election Studies (EES) and data collected through a European Wide Voting Advice Application (EU Profiler). Since both datasets have their respective strong suits – the EES for its representativeness, the EU Profiler for its sheer number of respondents and broader set of issues addressed – it would be worthwhile to bring the two methods and databases together in a single study. In addition, we use more recently collected Gallup data from six EU member-states, which shows that there is an alarming level of disaffection with the direction in which the EU is going among all ideological voter groups: not only those of the left, but also centrist and right-wing voters.

After this cross-national analysis of Euroscepticism, we delve deeper into a crucial case: the Netherlands. Here we use data from Ipsos opinion polling (probability sample) and VAA-data (non-probability sample).

Similar to other countries, the Netherlands has seen the rise of radical political parties challenging the traditional political establishment<sup>2</sup>. Yet the Netherlands is one of the few cases where the radical left as well as the radical right have become significant electoral forces. After the parliamentary election of September 2012 the radical left Socialist Party (*Socialistische Partij*, SP) and the radical right Freedom Party (*Partij voor de Vrijheid*, PVV) have shared the position of third largest party in parliament having an equal number of seats, and opinion polls after the election have suggested that their electoral potential could be even greater. Getting familiar with the policy platforms of these two radical parties, one could argue that their increase of electoral support is due to an increasing anti-European sentiment among far-left and far-right voters who previously voted for the mainstream social Democratic and Liberal parties. This makes the Netherlands an ideal and crucial case for analyses of voting patterns and electoral interchange between the two supposed poles.

## Feelings and opinions on Europe in 2013

One year before a crucial European Parliament election, things looked bleak for the EU. European economies are still struggling to get out of a deep crisis and dissatisfaction with the EU is rising across the continent. A Gallup poll in six countries shows that very few citizens believe that things are going in the right direction in the EU. The survey has been conducted among a representative random digit fixed line and mobile phone as well as online respondents, on a sample that matches the composition of the voting-age population, with a standard questionnaire. The survey was conducted in six countries: Denmark, France, Germany, the Netherlands, Poland and the UK. The sample size in each country was a total of 1500 individuals. What we find is that discontent is highest in the larger EU-countries, particularly in the United Kingdom and France with respectively 56 per cent and 62 per cent of voters saying the EU is moving in the wrong direction. Yet also among generally considered pro-European electorates such as the Dutch and German, a near-majority thinking that things in the EU are going in the wrong direction is now visible.

Attitudes towards the EU had already become more negative since the 1990s, yet now dissatisfaction seems to be increasing at an ever-faster pace. The acceleration of Euroscepticism is - at least partly - due to the referenda held across Europe on the

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2 A. Krouwel & P. Lucardie, *Waiting in the wings: New parties in the Netherlands.*, [in: ] *Acta politica*, 43(2), pp. 278-307, 2008.

Constitutional Treaty<sup>3</sup>. These referenda provided a stage for anti-integration parties to fully make their case to the public and mobilise discontent. **Despite the growing anti-European integration sentiment, the majority of political elites are consistently more pro-EU than their voters. This ‘EU-enthusiasm gap’ is now fully exposed and results in a serious legitimacy problem for decision-making at the EU level.**

Figure 1. At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in the European Union?

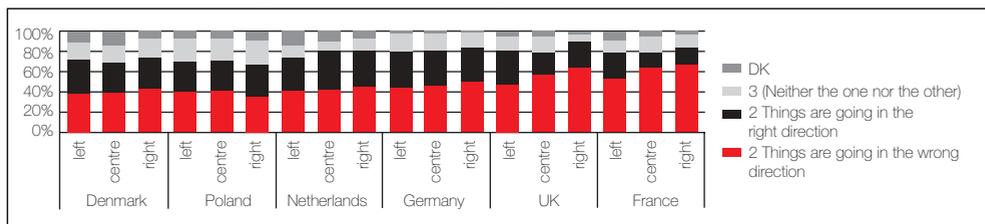
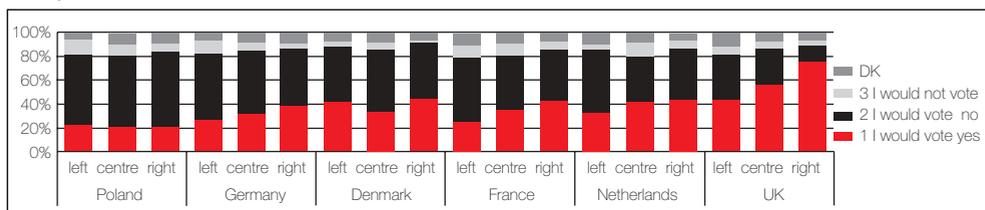


Figure 2. If there was a referendum next, on whether [COUNTRY] should leave the European



Euroscepticism is hardest and most widespread among politically right-leaning voters. Figures 1 and 2 clearly show that voters who position themselves right-of-centre are more negative about the direction of the EU and far more likely to vote for a complete exit of their country from the EU. Yet, anti-EU feelings are spread widely across the political spectrum. This paper will show that voters on the left are also increasingly turning against the European project. Together, all those groups rejecting further European integration could easily constitute majorities in EU elections with low turnout. In the UK, the Gallup poll finds an outright majority that now wants to leave the EU. Prime Minister Cameron, who promised a referendum on European membership in his next term, is facing an uphill battle with EU-sentiments turning sourer, particularly on the political right. Three out four right-wing voters in the UK now want the country to leave the EU. These voters constitute the electoral heartland of the Conservative Party, and Eurosceptic parties like UKIP are making strong inroads according to the latest polls. While in other countries Gallup finds smaller proportions of the electorate willing to fully exit the EU, there is very little comfort in the data for those who still

3 N. Startin & A. Krouwel, *JCMS Special Issue 2013: Confronting Euroscepticism*, [in:] S. Usherwood, N. Startin & S. Guerra (eds.), *Journal of Common Market Studies*, 51(1), pp. 65-84, 2012.

believe in European integration. Even in Germany, arguably one of the most stable party systems in Europe, the anti-EU party - Alternative für Deutschland won almost 5 per cent of the vote campaigning against the bail-out of Southern European states and the attempts of the Merkel administration to get more stringent financial regulation in Europe.

With public opinion hardening against the EU - in the context of a global economic crisis with the Eurozone in a perilous state – the European project as a whole is under tremendous strain. With some effort one could argue that one positive aspect is that finally the EU itself will become a relevant issue in the upcoming European elections of May 2014, whereas previously national issues dominated. With the economic and financial crisis deepening, a steep rise in unemployment (particularly amongst the young) and vast austerity measures in place in most member states, the issues concerning the EU and the Euro have become more salient even in national elections. **Across Europe a fierce debate is emerging between those who argue the crisis shows that we need stronger supranational institutions, while others contend that we need 'less Europe and more national state'. The crisis also contributes to the galvanisation of Eurosceptic political parties who are likely to make substantial electoral gains in 2014.** If they are able to form a more or less coherent party group, the European People's Party (EPP) could disintegrate, as members may be tempted to join a new Eurosceptic formation. In turn, this would upset the long-lasting dominance of the PES and the EPP in the European Parliament and alter the decision-making dynamic of the EU. Such development will be possible particularly in the light of low turnout for European elections. This may turn the EP 2014 elections into a contest between 'passionate minorities' on the left and right fringes of the political spectrum while the rest of the (moderate) voters will abstain in the upcoming European election.

In order to study this dynamic of increasing Euroscepticism among voters on both the right and left and the manner in which these anti-EU sentiments are mobilised by political parties on the flanks of the political system, we zoom in on The Netherlands.

## **The Netherlands: from an EU founding member to Eurorejectionism?**

In the spring of 2005, the EU was plunged into a state of crisis when two of the Union's founding members, France and the Netherlands, rejected the EU constitution in two separate referenda. Particularly the Dutch rejection of a new EU constitutional treaty took many observers by surprise as opinion polling (by the EU itself) had continuously shown majorities in favour of European integration. Nevertheless, over 61 per cent of the Dutch voters that turned *out* to vote were *against* the proposed treaty. The result sent shockwaves through both the EU institutions as well as the Dutch domestic political arena.

Those who had looked beyond the Eurobarometer data were less surprised by the Dutch rejection of the constitution as, despite the support of mainstream political elites and the bulk of the media, there were already clear indications that large swaths of the Dutch electorate was less Euro-enthusiastic than their political and journalistic elites.

Signs of declining Euro-enthusiasm within the Dutch political elite already became visible within the conservative right-wing Party for Freedom and Democracy (*Volkspartij voor Vrijheid en Democratie*, VVD) in the 1990s. VVD-leader Frits Bolkestein (who later became a European Commissioner nonetheless) voiced strong criticism against (German and French) plans for further deepening of the European integration process, as typified by the European Monetary Union (EMU) and the single currency<sup>4</sup>. In addition, the VVD experienced a split, in part over the issue of European integration; in September 2004, VVD-MP and spokesman for Foreign Affairs Geert Wilders left the party rejecting further European integration and the EU-accession of Turkey. Declining popular support for the pro-integration elite also became apparent when the two major pro-EU-integration parties, the Christian democratic (Christen Democratisch Appél, CDA) and the Social democratic Labour party (*Partij van de Arbeid*, PvdA) suffered heavy electoral losses during the early 1990s. While these two parties have together polled on average between 60 to 65 per cent of the popular vote in general elections since the 1970s, their support declined to only 43 per cent in the 2002 election. Despite a partial recovery in the 2003 election where the two parties polled 56 per cent, support for these Pro-EU centrist parties further declined in 2006 (to 48%) and in 2010 and 2012 (to around 33%). **Clearly, the pro-European elite level majority in the Netherlands has increasingly come under pressure from the Eurosceptic margins on both the left and right.**

Attitudes of Dutch voters towards the EU had already become more negative since the early 1990s and at a notably faster pace than in other member states<sup>5</sup>. The referendum of 2005 elevated the levels of party conflict over EU integration and increased the issue salience of Europe for voters<sup>6</sup>. The referendum also impacted on the 2006 elections, in which the anti-Treaty parties gained significantly. The SP went from 6.3 to 16.6 per cent, the confessional Christian Union (CU) from 2.1 to 4.0 per cent and the PVV gained 5.9 per cent in its first ever election, which meant that 18 per cent of the electorate moved into the anti-EU bracket. Particularly since the 2002 elections, political 'outsider parties have achieved considerable successes. This undermined the dominance of the three

4 NRC, *De toekomst van de Europese muntunie: Bolkesteins weerzin*, NRC Handelsblad, 11 februari 1997.

5 T. Huijts & N. D. de Graaf, *Veranderingen in houdingen van Nederlanders ten opzichte van de Europese Unie.*, [in: ] *Mens en Maatschappij*, Vol. 82, No. 3, pp. 205-225, 2007; M. Lubbers & P. Scheepers, *Divergent trends of euro-scepticism in countries and regions of the EU.*, [in: ] *European Journal of Political Research*, Vol. 49, No. 6, pp. 787-817, 2007.

6 See: C. E. De Vries, *The impact of EU referenda on national electoral politics: evidence from the Dutch case.*, [in: ] *West European Politics*, Vol. 32, No. 1, pp. 163, 2009; M. Lubbers & E. Jaspers, *A longitudinal study of Euro-scepticism in the Netherlands: 2008 versus 1990.*, [in: ] *European Union Politics*, Vol. 12, No. 1, p. 36, 2011.

traditional pro-integration party families: the Christian Democrats, the Social Democrats and the Liberals<sup>7</sup>.

## Anti-EU fringe parties winning votes

While the Dutch pro-European centre has weakened in electoral terms, anti-integration parties emerged on both fringes of the political spectrum. On the radical left, the SP has consistently campaigned against the 'capitalist project' of European integration, polling 16.6 per cent of the vote in 2006 and 9.8 per cent in 2010. On the radical right, first the List Pim Fortuyn (LPF) campaigned for replacing the European Parliament with a Senate, against Turkish accession and for the 're-instatement of Dutch national sovereignty' by withdrawing power from 'Brussels'<sup>8</sup>; and since 2005, Geert Wilders' PVV has obtained vote shares of 15.5 per cent in 2010 and 10 per cent in 2012. Both right-wing Eurosceptic parties LPF and PVV have played a role in government, with the LPF having a short spell at the government table in 2002, whereas the minority government of the VVD and CDA signed a coalition agreement with Wilders' PVV on which parliamentary support it depended between 2010 and 2012. Both PVV and SP have consistently campaigned against European integration. Yet other parties have also emerged or turned more strongly against further integration. Already in the 2004 European Elections the anti-EU party *Transparent Europe* won 2 of the 27 Dutch seats and over 7 per cent of the vote. Its leader, an ex-EUocrat Paul van Buitenen, had previously been a 'whistleblower', providing evidence for several cases of corruption within the EU's bureaucracy. Fundamentalist confessional parties such as the Reformed Political Party (Staatkundig Gereformeerde Partij, SGP) and CU have also campaigned against (further) European integration. The gap between voter and elite opinions with regard to the EU slowly translates into the emergence of a Eurosceptic elite<sup>9</sup>.

Currently the main proponent of this trend is Geert Wilders, leader of the PPV, who was propelled on the national stage in the 2006 parliamentary election. Wilders, a former MP for the Liberal Party, shared Fortuyn's critique of the (left-wing) political establishment, his hostility towards immigration and the multicultural society, and warned against the threats of 'Islamisation' of society in particular. Most important for this study is Wilders' discourse on European integration. Wilders wildly attacks 'unelected Eurocrats', 'lazy ouzo-drinking Greeks' and Eastern European labourers threatening to take over 'Dutch jobs'. In the election of June 2010 the Freedom Party almost tripled its seat-share to over 15 per cent

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7 A. Krouwel, *Party transformations in European democracies.*, New York, SUNY Press 2012.

8 see: C. Mudde, *A Fortuynist Foreign Policy.*; [in: ] Liang, C. (ed.), *Europe for the Europeans: the foreign and security policy of the populist radical right*, Reading: Ashgate, pp. 209-222, 2007.

9 see also: J. Holsteyn & J. den Ridder, *Een reus in de polder? Nederlandse kiezers an het electorale belang van Europese integratie.*, [in: ] Vollaard, J.P. & Boer, B. (eds.), *Eurosceptic in Nederland*, Utrecht: Lemma, pp. 23-44, 2005.

and subsequently provided the parliamentary majority for an otherwise minority coalition made up of Christian Democrats and Liberals. Wilders negotiated a strong anti-EU coalition agreement. The government only lasted until April 2012, when Wilders refused to support a budget full of austerity measures that were deemed necessary for the Netherlands to remain within the European 3 per cent budget deficit norm. Wilders fulminated against these 'dictates' from Brussels, which put EU related issues central stage in the 2012 elections<sup>10</sup>. In the 2012 parliamentary election the Freedom Party moved from being Eurosceptic to campaigning for a Dutch 'exit' from the EU altogether. This Euro-rejection attitude dovetailed the Freedom Party's welfare chauvinistic stances in economic matters; Wilders claimed to protect Dutch citizens from austerity measures and tax contributions being handed out to economically ailing Mediterranean countries. In the early election of September 2012, the Freedom Party suffered a substantial loss and received just over 10 per cent of the vote, yet still remained the third largest party in parliament, at par with the other anti-EU force on the left: the SP.

**The second important anti-EU mobilisation in the Netherlands is occurring on the left, where the radical left Socialist Party has transformed from a marginal Maoist party in the 1970s to a force to be reckoned with.** The party entered parliament in 1994 with 1.3 per cent of the vote after it had gradually moved away from its communist roots and had transmuted into an active protest party that was also gaining influence in labour unions. Its best electoral result was recorded in 2006, when the SP won over 16 per cent of the vote, becoming the third largest party in parliament. Four years later – with a new leader – the party won just under 10 per cent of the vote. Opinion polls and election studies now show that the SP has an equally strong base among left-wing voters as the PvdA. In the 2012 election the SP was squashed between a 'horse race' for the prime-ministership between PvdA and VVD, but maintained a strong representation in Dutch parliament<sup>11</sup>. In the early 1980s, the SP had voiced anti-immigration, publishing a brochure urging immigrants (*gastarbeiders*, 'guest workers') to choose between adopting the Dutch nationality or to return to their country of origin<sup>12</sup>. Over time, the SP yet moderated their position on immigration and does not seem to view Islam as a 'threat to Dutch society' as Wilders does. Nevertheless, the SP is very critical with regard to labour migration from Central and Eastern Europe, highlighting the negative effects of a more competitive labour market and the depression of wages and labour conditions. The Socialist Party is often ambivalent about European integration as

10 A. Schout & J. M. Wiersma, *For as well as against: the Dutch-EU paradox*, Clingendael paper series, 2012, p. 1. [http://www.clingendael.nl/publications/2012/20120514\\_schout\\_wiersma\\_ecfr.pdf](http://www.clingendael.nl/publications/2012/20120514_schout_wiersma_ecfr.pdf)

11 S. van Kessel & S. Hollander, *Election Briefing No. 71., Europe and the Dutch Parliamentary Election*, European Parties Elections and Referendums Network (EPERN), 2012.

12 See: 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 1995.

the left electorate is divided on the issue. The SP pays lipservice to the benefits that 'Europe' brought in terms of peace, security and welfare, yet simultaneously criticizes the neo-liberal character of EU policies. Since many left-wing voters (that often contemplate voting for PvdA and GreenLeft as well as the SP) are often pro-European. Thus, a too fierce Euroscepticism could deter more centrist left-wing voters, while most Wilders supporters will not shift to a more moderate version of Euroscepticism<sup>13</sup>. In addition, the SP wants to maintain an aura of governability and this also leads to ambivalence between anti-elitism and acceptance by the major political forces. This became clear in the 2012 election campaign when SP leader Emile Roemer gave a Eurosceptic interview in which he stated he would refuse to pay financial sanctions if the Netherlands would fail to meet the EU's budgetary rules. 'Over my dead body', he initially declared – but had to retract quickly after severe criticism from the main parties and newspapers, calling him irresponsible. Needless to say Geert Wilders was swift in portraying Roemer as 'half a Europhile'.

Both the Socialist Party (SP) and Freedom Party (PVV) are Eurosceptic, evidenced best by their referendum campaign in 2005 when both parties electioneered against 'interference from Brussels in national economic affairs'<sup>14</sup>. The SP particularly criticised the neo-liberal character of European integration, while Wilders focused specifically on labour migration. Both parties campaigned against the 'race to the bottom' in terms of working conditions and social policies. Wilders has taken his party a step further and is now in favour of a Dutch 'exit' from the EU. The SP is still oscillating between an anti-EU stance with regard to the austerity policies that emanate from 'Brussels', while the socialists did support stricter European Central Bank control over national budgets and the financial sector in 2012. The Freedom Party and Socialist Party have become the most important challengers to two traditionally dominant political forces: the Social Democratic PvdA and the Liberal VVD. The influence of Wilders and the Christian Union – as well as right-wing voters defecting to the VVD resulted in historical electoral losses in the 2010 and 2012 election for the Christian Democrats.

In the next section we will explore some recent data we collected on voter opinions on EU-related issues. We use the European Election Studies (EES) dataset, the Euprofiler dataset collected during the last European Election in 2009, a probability sample collected during the last national elections in 2012 and a non-probability, opt-in dataset data collected with an online Vote Advice Application (Kieskompas) during the 2012 Dutch parliamentary elections.

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13 S. van Kessel & A. Krouwel, *Van vergankelijke radicale dissidenten tot kwelgeesten van de gevestigde orde: Nieuwe politieke partijen in Nederland en de toekomst van de representatieve democratie, Paper for the Democratic Audit of the Netherlands*, Enschede, 21 January 2010.

14 N. Startin & A. Krouwel, *JCMS Special Issue 2013: Confronting Euroscepticism.*, [in:] S. Usherwood, N. Startin & S. Guerra (eds.), *Journal of Common Market Studies*, 51(1), pp. 65-84, 2012.

## Euroscepticism and Eurorejectionism

In the run up to the 2012 elections, the Netherlands Institute for Social Research (SCP) found that, even though support for EU membership was still relatively high among Dutch citizens, satisfaction with the way that the EU functioned had decreased and further transfers of powers to Brussels were increasingly being perceived as a threat. This shows that there are gradations in EU-enthusiasm and rejectionism. Sorensen<sup>15</sup> distinguishes different dimensions of Euroscepticism, which he defines as “a sentiment of disapproval directed toward the European Union in its entirety or towards particular policy areas or developments”<sup>16</sup>. Thus, even Eurosceptic voters are not necessarily completely against the European project. A further conceptualization is required to describe the type of voters that are completely opposed to and rejecting the EU. Thus, we differentiate between Eurosceptic and euro-rejectionist voters.

### Attitudes toward Europe during the last European Parliament elections (2009)

First we examine the level and structure of Euroscepticism at the time of the last European Parliament Elections in 2009. We have two databases at our disposal, collected prior and after the 2009 European parliament election that allow for analyzing attitudes towards Europe among Dutch voters. For both datasets we used several items to construct a more general attitude towards European integration (see Appendix 1 for the items, their operationalization and the scalability of the items). To measure Euroscepticism, public opinion on multiple issues can be tested, ranging from the (perceived) benefits of European integration for one's country, the level of trust in European institutions, and whether each member state should have veto power to block certain European decision-making processes. The measure Euroscepticism we use the 6 questions from the EES and the 7 questions from EU Profiler. We coded all of the responses to the statements about European integration for the Euroscepticism analyses in a way that lower scores mean less Euroscepticism, while higher scores mean more Euroscepticism (see Appendix 1).

The additional items included in both questionnaires allow us to analyse to what extent background characteristics have a mediating effect on opinions of respondents on the EU. The proposed research design not only allows us to determine the extent and intensity of Eurosceptic attitudes among the Dutch electorate, it also provides a better understanding of the causes of this phenomenon. By segmenting voters into potential voter groups we can assess the extent to which Euroscepticism – and Euro-rejectionism – impact on the electoral fortunes of the various party families and party groups in the Netherlands. The electorates of the main Dutch political parties competing in the

15 C. Sorensen, *Love me, love me not. A typology of public euroscepticism.*, [in: ] *SEI Working Paper*, p. 101, 2008.

16 C. Sorensen, *op. cit.*

European elections were selected by using their own party preference based on how likely they are to vote for a party. Users were asked to respond how likely they are to vote for each party on a scale ranging from (0 = would never consider voting for party) to (10 = will certainly vote for party). For the following analyses, users who expressed likelihood to vote for a given party higher than “7” (8, 9 or 10) are selected as supporters of that party. In the graphs that follow, party supporters are arranged according to their mean Euroscepticism score.

Figure 3. Levels of Euroscepticism among the Dutch electorate. Source: EU Profiler, 2009

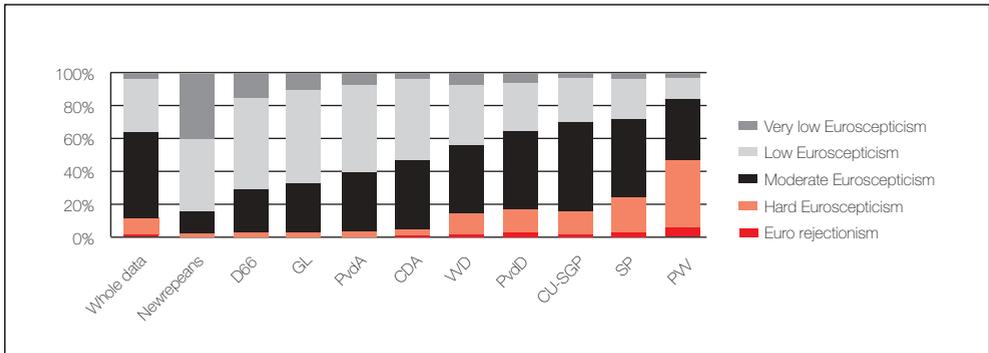
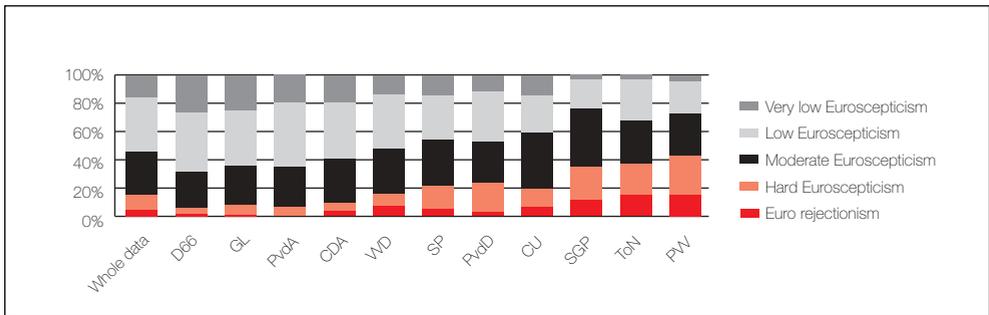


Figure 4. Levels of Euroscepticism among the Dutch electorate. Source: EES, 2009



Both the results from the EUprofiler data (Figure 3) and the European Election Studies (Figure 4) show that the most euro-skeptic Dutch political parties are the PW, SP, SGP and the Animal Rights Party. **Supporters of the left-wing and progressive parties are the least Eurosceptic: PvdA, Groenlinks and D66 voters are most supportive of the EU.** Both datasets show similar results, albeit those in the EUprofiler data show less hard Euroscepticism. We see that particularly anti-immigrant parties (PW and TON) and the radical left SP, as well as the fundamentalist confessional parties all have high levels of hard Euroscepticism and outright Euro-rejectionism among their supporters. As we saw earlier, anti-EU feelings are more widespread among right-wing voters, which is why we

also find an Euro-rejectionist sentiment among the electorate of the mainstream right wing parties VVD and CDA.

The figures clearly show that the electorates of certain parties tend to be more Eurosceptic than those of others. However, in order to confirm whether an increase in the likelihood to vote for each party results in an increase or decrease in Euroscepticism, we also ran several multivariate tests. We use the compiled Euroscepticism variables as the dependent variables, and all available likelihood to vote questions are used as independent variables. All variables used in the analysis were recoded to range from 0 to 1.

The findings from the EES and the EUprofiler datasets closely resemble each other (see Table 1). Again, increase in the likelihood to vote for the 3 mainstream parties – the VVD, PvdA and CDA has a negative effect on Euroscepticism. Thus, voters of these parties are among the less Eurosceptic Dutch citizens. On the other hand, supporters of the two radical left- and right-wing parties – the PVV and the SP are the most Eurosceptic voters in the Netherlands. The increase of the vote share of these two radical parties in the last decade, partially explains the decline of votes for mainstream parties (see the previous section of this article). Thus, it is easy to assume that it is former VVD and CDA voters who now support the PVV, guided by a Eurosceptic sentiment. On the other hand, left-wing voters dissatisfied with the pro-European and increasingly pro-austerity policy preferences of the Social Democrats are likely to now vote for the SP. In line with expectations, the majority of voters of the distinctively pro-European parties Green Left and D66 are not Eurosceptic. The only discrepancy between the two datasets deals with the effect of the propensity to vote for the animal rights party – PvdD (*Partij voor de Dieren*). While in the EES dataset increase in the propensity to vote for the PvdD has a non-significant negative effect on Euroscepticism, results from the EUprofiler data show that PvdD supporters tend to be Eurosceptic. This could be explained by the considerably lower sample size of the EES data.

As the confessional Christian parties CU and SGP were running in a coalition for the 2009 European parliament elections, they were included in a single propensity to vote variable in the EUprofiler dataset. Not surprisingly, an increase in the vote propensity for the two parties, which are members of the Eurosceptic nationalist Europe of Freedom and Democracy (EFD) party group, results in an increase of Eurosceptic sentiments. When we look at the EES data, however, we see positive but not statistically significant effect of the likelihood to vote for the two confessional parties. Increase in the probability to vote for the Euro-enthusiastic NewEuropeans party, which was only included in the EUprofiler questionnaire, also has a negative effect on Euroscepticism.

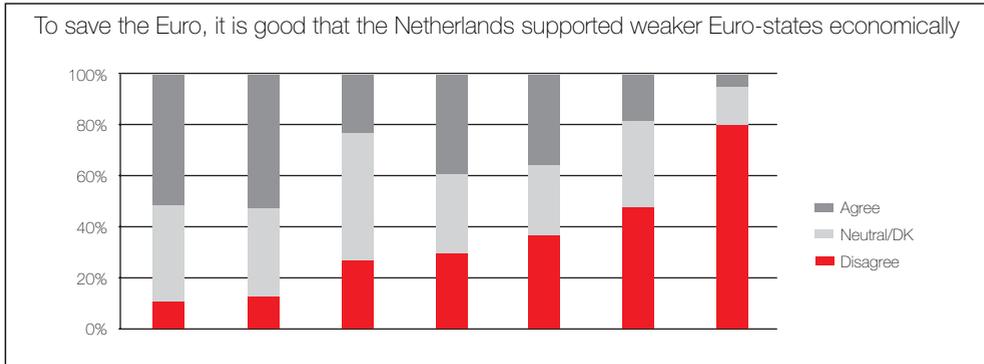
Table 1. Vote propensities as determinants of Euroscepticism

	EES data		EUprofiler data	
	Coeff.	SE	Coeff.	SE
(Constant)	0,55***	0,03	0,48***	0,01
WD	-0,01	0,04	-0,02***	0,01
PVDA	-0,11***	0,03	-0,07***	0,01
PW	0,19***	0,04	0,11***	0,01
CDA	-0,17***	0,03	-0,02***	0,01
SP	0,18***	0,03	0,13***	0,01
D66	-0,10**	0,04	-0,10***	0,01
GL	-0,18***	0,04	-0,06***	0,01
CU	0,04	0,04		
SGP	0,05	0,05		
PVDD	-0,02	0,03	0,02***	0,01
SGP/CU			0,03***	0,01
Newropeans			-0,06***	0,01
TON	0,06	0,05		
N	889		80909	
R2	.22		.18	

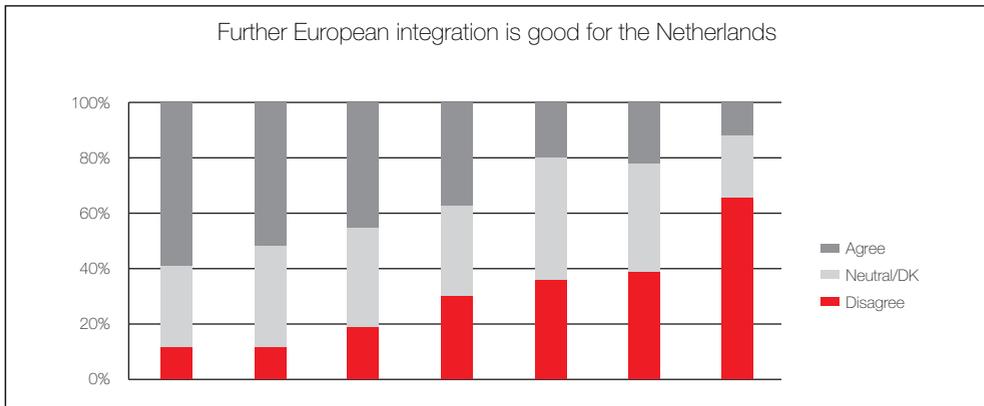
Note: \*\*\*p < .001 \*\*p < .01 \*p < .05  
Source: EES, 2009; EUprofiler, 2009

We provide further evidence of this pattern by presenting the results of a survey conducted by IPSOS in the weeks leading up to the 2012 Dutch parliamentary elections. The data represents a probability sample of the population (996 respondents). Two items were asked about positions towards the EU and a familiar pattern emerges with supporters of the SP on the left and the PW on the right being more eurosceptic than supporters of other parties. The electorates of these two parties express the strongest opposition towards Dutch financial support for weaker Euro-states. Voters that support the SP and PW also disagree most that further European integration is good for the Netherlands. Clearly, there is abundant evidence that supporters of both PW and SP are the most anti-EU voter groups in the Dutch polity.

**Figure 5. Attitudes towards support for weaker Eurostates by party preference (IPSOS, 2012)**



**Figure 6. Attitudes towards further European integration by party preference (IPSOS, 2012)**



In the next section we analyze the relationship between anti-EU stances and political orientation in more depth by examining the relationship between EU-attitudes and left-right self-placement.

### **Euroscepticism as a linear and quadratic function of political orientation**

To delve deeper into the pattern of Euroscepticism, we again use the aggregate anti-EU scale derived from the items in the EUProfiler and EES (see Appendix 1) and relate this measure to a self-placement on an ideological left-right scale. For this purpose, we use a question that asked respondents to classify themselves on a political left vs. right dimension ranging from (0 = extremely left-wing) to (10 = extremely right-wing). This allows for testing the relationship between the users' subjective left-right placement and our aggregate anti-EU scale.

The subjective left-right measure we use shows a clear quadratic association between ideological self-placement on the left-right dimension and our aggregate anti-EU measure

(see figures 7 and 8). The tests reveal an interesting pattern: in both datasets subjective left-right measures show a similar quadratic association between ideological self-placement and opposition to European integration. Both extreme right-wing and extreme left-wing voters most oppose the EU, with those on the right being slightly more anti-EU than those who position themselves on the left.

Figure 7. Euroscepticism as a linear and quadratic function of political orientation. Source: Euprofiler, 2009

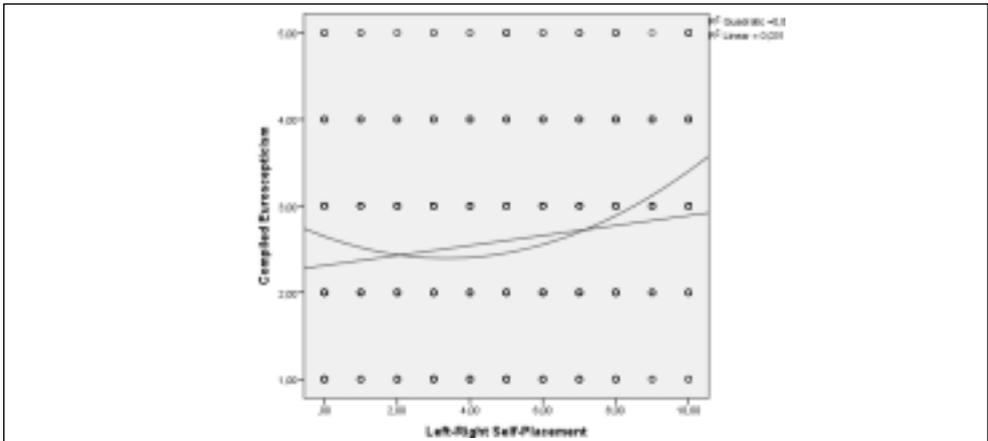
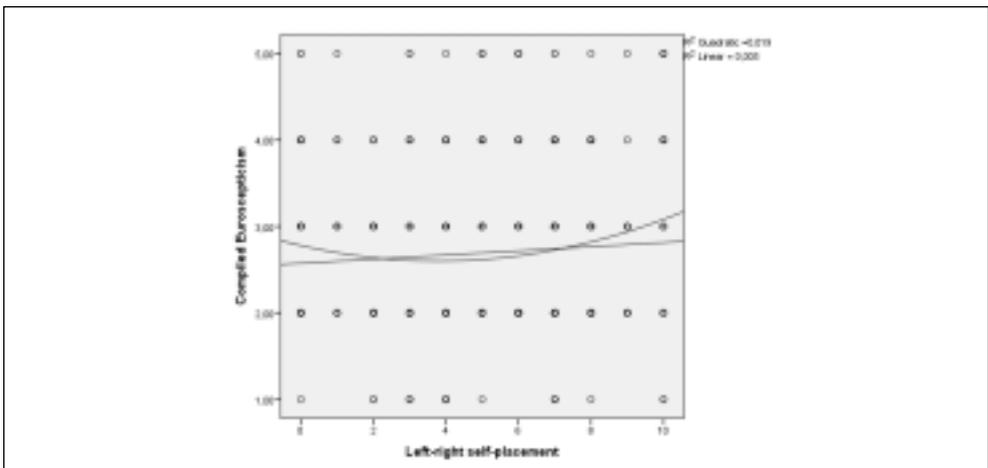


Figure 8. Euroscepticism as a linear and quadratic function of political orientation. Source: EES, 2009



In order to provide further confirmation of the results, we ran several hierarchical regression analyses with the compiled Euroscepticism variable as the dependent variable, and left-right self-placement as the independent variable. This regression technique allows us to test two separate models in order to assess if there are linear as well as curvilinear (quadratic) relationships between political ideology as the independent variable and Euroscepticism as the dependent variable. While the linear effects show whether one

of the two political extremes is more likely to be more or less Eurosceptic, the quadratic effects reveal if there is a curvilinear pattern, which would conform that extreme left and extreme right individuals are indeed more Eurosceptic than those in the political center.

The results indicate that there are both quadratic and linear statistically significant effects in both datasets. This shows that **right-wing individuals tend to be more Eurosceptic than left-wing ones and that there is a strong curvilinear pattern that indicates the increase of Euroscepticism with both extreme political positions.**

**Table 1.** Euroscepticism as a linear and quadratic function of political orientation: hierarchical regression analyses

Dependent variable	Model	R	R2	ΔR2	ΔF	df	β
<b>EES data</b>							
Euroscepticism	Linear	0,07	0,005	0,005	4,77*	895	0,02*
	Quadratic	0,14	0,019	0,013	12,27**		0,01**
EUProfiler data							
Euroscepticism	Linear	0,18	0,031	0,031	104,99***	3305	0,06***
	Quadratic	0,27	0,073	0,043	152,68***		0,02***

Note: \*\*\*p < .001 \*\*p < .01 \*p < .05

Source: NKO, 2010; Kieskompas, 2012, EES 2009, Euprofiler 2009

To study this quadratic pattern more in-depth, we ran the same test on the individual items in the EES dataset that constitute the aggregate anti-EU measure (see Figures 9-12).

**Figure 9.** Trust in EU institutions. Source: EES, 2009

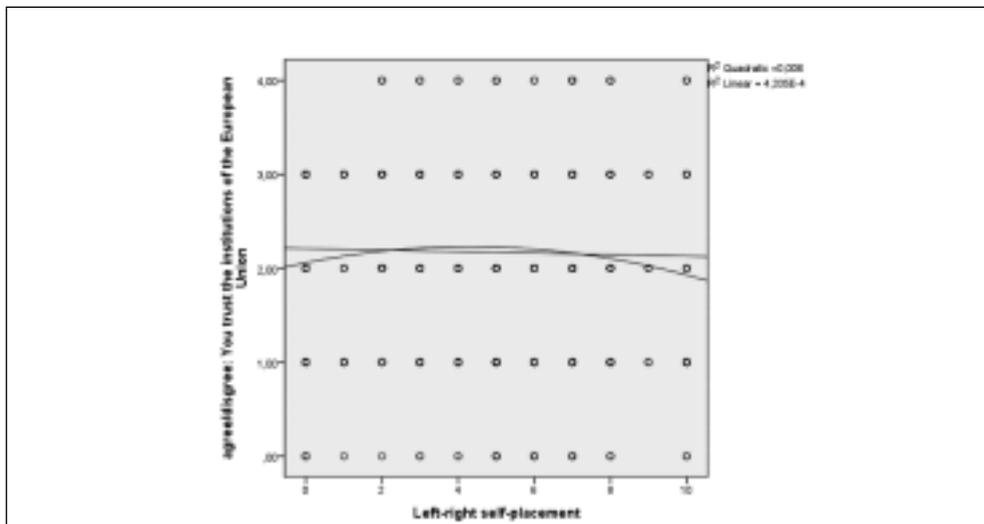


Figure 10. EU decisions in the interest of the Netherlands. Source: EES, 2009

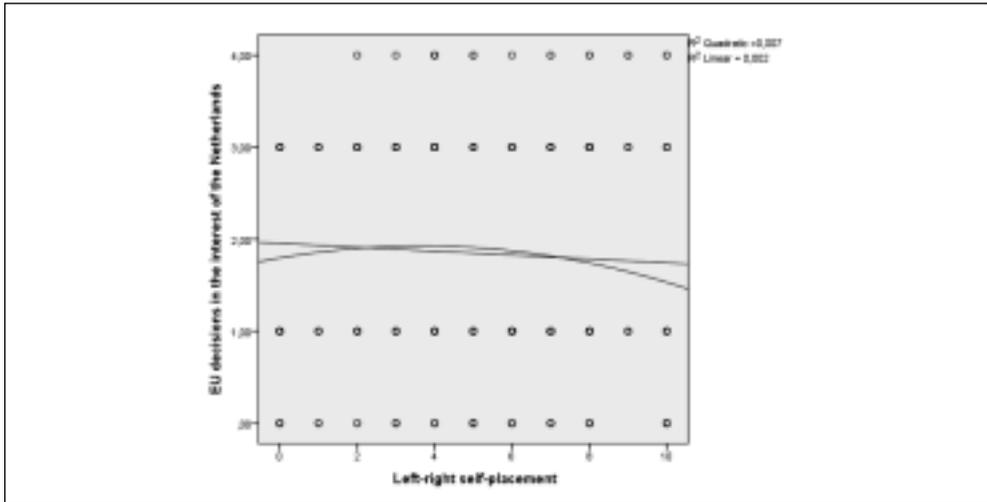
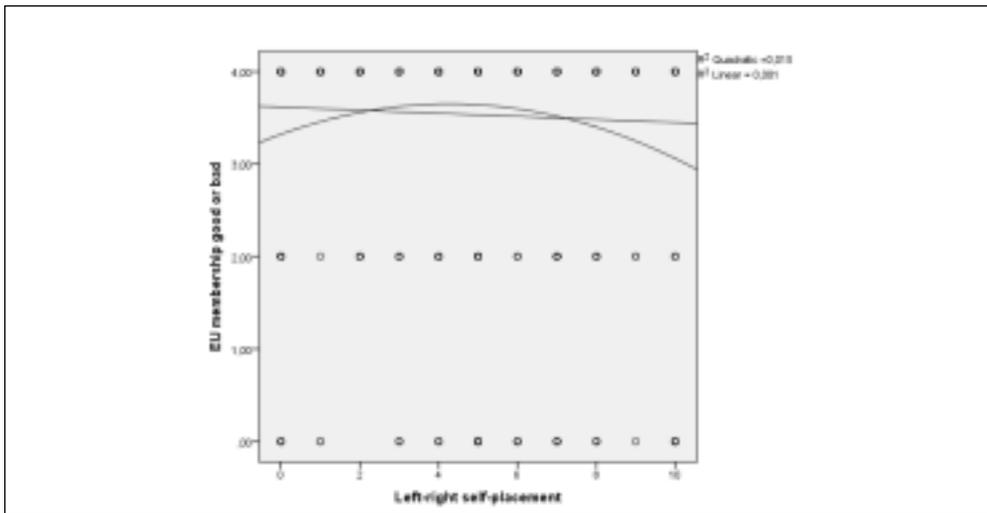


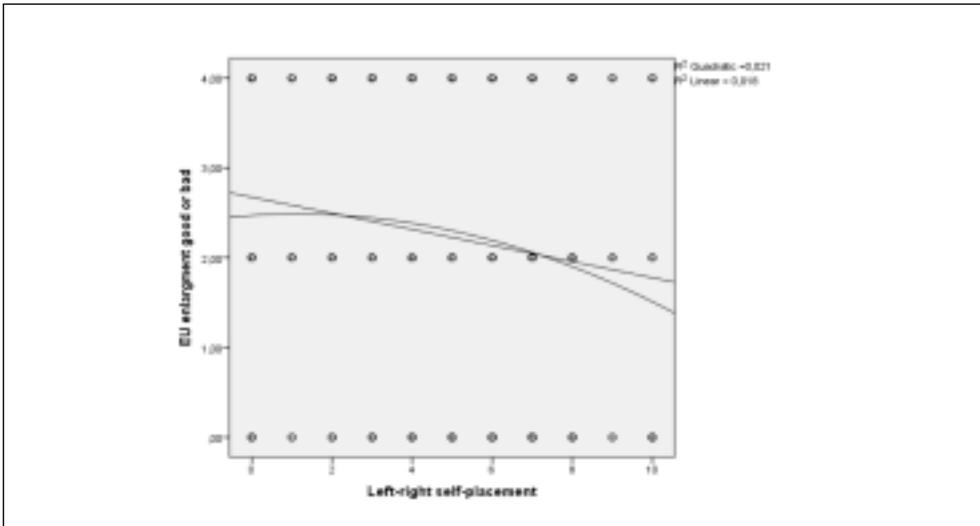
Figure 11. Attitudes towards EU membership. Source: EES, 2009



In each of the separate items we see a clear curvilinear pattern: **the more voters are to either the extreme left or right the more anti-EU they are.** Again we also find without exception that voters who position themselves on the the (extreme) right are more Eurosceptic than those on the (extreme) left. Radical left and right voters are more distrustful in European institutions, less likely to think that EU decisions have a positive impact on their country and more likely to think that EU membership is bad. Especially on the question whether European enlargement is positive for the country, Dutch right-wing voters disagree much more than the rest of

**The more voters are to either the extreme left or right the more anti-EU they are.**

Figure 12. Attitudes towards EU enlargement. Source: EES, 2009



electorate in the Low Countries. Anti-EU sentiments are more common and more profound among voters on both the left and the right compared to centrist voters.

### **Effect of social background, satisfaction with democracy and partisan preferences with attitudes towards European integration**

In order to have a better understanding of what drives voters' Euroscepticism we finally ran multivariate analyses, using the representative EES data, with the same compiled Euroscepticism measure as the dependent variable (see Table 1 and 2). By developing four models we test to what extent the social background (age, education and gender), the propensity to vote for each of the Dutch parties, right-wing and left-wing policy preferences, satisfaction with democracy and economic evaluations determine attitudes towards the EU. All variables, including the dependent variable, were recoded to range from 0 to 1. For the exact wording of each of the items and the recoding, see appendix.

The results show that the background variables affect attitudes towards the EU: **while older and highly educated respondents are less eurosceptic, women are more likely to oppose further european integration than men.** In Model 2, where we used vote propensities for each party, we see clear differences in Euroscepticism between supporters of each of the parties. Supporters of the Social democratic PvdA, the green-left Groenlinks (GL) and the christian-democratic CDA, are likely to be less eurosceptic than voters of other political parties. A further confirmation of our hypothesis that radical left-wing and right-wing ideological positions are associated with higher levels of euroscepticism

Table 2. Determinants Explaining Attitudes towards Euroscepticism: Linear Regression Estimates

	Model 1		Model 2		Model 3		Model 4	
	B	SE	B	SE	B	SE	B	SE
(Constant)	0,58***	0,04	0,55***	0,03	0,89***	0,06	1,03***	0,07
Age	-0,02*	0,01					-0,02*	0,01
Education	-0,22***	0,03					-0,09**	0,03
Gender	0,01	0,02					0,05**	0,02
PTV PVDA			-0,11***	0,03			-0,08**	0,03
PTV CDA			-0,17***	0,03			-0,09**	0,03
PTV WVD			-0,01	0,04			0,03	0,03
PTV D66			-0,10**	0,04			-0,04	0,04
PTV Groenlinks			-0,18***	0,04			-0,18***	0,04
PTV PvdD			-0,02	0,03			0,00	0,03
PTV CU			0,04	0,04			0,02	0,04
PTV SGP			0,05	0,05			0,05	0,05
PTV SP			0,18***	0,03			0,15***	0,03
PTV PW			0,19***	0,04			0,08*	0,04
PTV TON			0,06	0,05			0,04	0,05
Prospective economic evaluation					0,02	0,04	-0,02	0,04
Income should be redistributed					-0,015	0,03	-0,02	0,03
Immigration should be decreased					0,24***	0,03	0,12***	0,03
Satisfaction with democracy in NL					-0,23***	0,06	-0,09	0,06
satisfaction with democracy in EU					-0,57***	0,05	-0,57***	0,05
Subjective standard of living					-0,18***	0,04	-0,16***	0,04
Number of cases	902		889		857		813	
Adj. R2	0,05		.22		.28		.37	
***p < .001 **p < .01 *p < .05								
Source: 2009 EES								

can also be seen in the analysis. A higher likelihood to vote for the SP and the PW results in a decline of EU approval. What can also be seen is that satisfaction with Dutch and European democracy results in lower Euroscepticism. Reversely, preference for

stricter immigration legislation leads to higher levels Euroscepticism. Agreement with the typically left-wing policies for wealth redistribution towards the lower income earners and negative prospective economic evaluations do not have a statistically significant effect on Euroscepticism. The subjective estimate of the respondents' living standards, on the other hand is statistically significant at the 0,001 level: those with a higher living standard are less likely to be eurosceptic.

## Conclusion

This paper presented substantial evidence that European voters are increasingly Eurosceptic and focused specifically on the Dutch case to analyse which voters are more prone to anti-EU sentiments. We found abundant evidence that radical ideological left and right positions are related to Euro-rejectionism. The European project appears to face grave difficulties with an ever increasing number of voters being dissatisfied with the direction in which the EU is developing and fearing that European integration is not good for the country.

This trend has resulted in an expansion of the vote-share of Eurosceptic parties on both the left and the right across Europe, while the elites of mainstream moderate parties appear to be increasingly detached from the preferences of the electorate. **Eurosceptic sentiments have grown to such an extent that even among the electorates of established pro-EU parties there are sections, which outright reject the EU and would prefer their respective countries to leave the union. With this substantial increase of Euroscepticism, the appearance of complete euro-rejectionist positions across the ideological spectrum of the European electorate may underlie the saliency of an EU legitimacy issue prior to the 2014 European election campaign.**

By focusing on the Dutch case, we showed that Eurosceptic parties performed strongly in the 2010 and 2012 national elections, a dynamic that was accelerated after the rejection of the proposed EU constitutional treaty. Capitalizing on the Eurosceptic sentiments of the Dutch electorate, radical parties on both the left and the right now constitute an alternative, anti-EU political elite, seriously challenging the mainstream pro-EU elite of the centre left and right. Established social-democratic and liberal parties appear to currently constitute a pro-EU ideological 'cartel' to which radical left and right parties are opposed. This trend undermines the saliency of the traditional left-right ideological divide by putting the legitimacy of the EU itself on the table. Although parties on the extreme right, such as the PVV has moved from Eurosceptic to completely euro-rejectionist position, favouring the Dutch exit from the EU, the radical left is still ambivalent on the issue. Following the logic of the results we present, this appears to be in line with the expectations of radical left and right electorates: voters on the

extreme right are much more likely to opt for a Eurorejectionist strategy, while those on the (moderate) extreme left, even though more Eurosceptic than the average voter, are more likely to oppose certain EU (economic, pro-market) policies, rather than completely reject the European project.

**In order to maintain their electoral dominance on the national, as well as on the EU level, the moderate left and the right parties need to find a way to appeal to what seems to be a near majority of anti-EU voters across the continent.** While liberals and conservatives will have a hard time appealing to the radical right, calls for loosening the belts of austerity and opposing further supranational EU dominance on the part of the social-democrats might still attract radical left voters who are Eurosceptic but do not completely reject the existence of the EU. If this strategy proves successful, **the social democrats can again become the dominant political force in Europe, given that the liberals and conservatives will have a hard time attracting the radical right voters, because of the latter's intrinsic euro-rejectionism.**

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## Appendix 1.

### Operationalisation of EU-attitudes scale on EES data and EUprofiler data.

In order to measure levels of euroscepticism among different types of voters we combined all the questions into a single five-point scale variable ranging from 0 to 4. The statements used to compile it have a five scale answer categories in the EU profiler data, and vary in terms of answer categories in the EES data. Therefore to measure the average level of euroscepticism among the supporters of Dutch parties, we use a single 5 point-scale variable (0-4), where 4 indicates very high euroscepticism and 0 indicates very low euroscepticism. We also manage to distinguish between outright euro-rejectionism (5) and hard and soft euroscepticism (3 and 4).

The compiled euroscepticism variable was coded as follows:

- 0-0.5: Euro-rejectionism (5)
- 0.51-1.5: Hard euroscepticism (4)
- 1.51-2.5: Soft euroscepticism (3)
- 2.51-3.5: Low euroscepticism (2)
- 3.51-4: Very low euroscepticism (1)

The following questions of the EES survey are used for this purpose:

- 1) The European Parliament takes into consideration the concerns of European citizens.
- 2) You trust the institutions of the European Union.
- 3) Generally speaking, do you think that [your country's] membership of the European Union is a good thing, a bad thing, or neither good nor bad?
- 4) Some say European unification should be pushed further. Others say it already has gone too far. What is your opinion?
- 5) In general, do you think that enlargement of the European Union would be a good thing, a bad thing, or neither good nor bad?
- 6) How much confidence do you have that decisions made by the European Union will be in the interest of [your country]?

Cronbach's Alpha: 0,765

From the EU Profiler, seven items are included:

- 1) The EU should acquire its own tax raising powers.
- 2) On foreign policy issues, such as the relationship with Russia, the EU should speak with one voice.
- 3) The European Union should strengthen its security and defence policy.
- 4) European integration is a good thing.
- 5) [Your country] is much better off in the EU than outside it.

- 6) The European Parliament should be given more powers.
  - 7) Individual member states of the EU should have less veto power.
- Cronbach's Alpha: 0,762

On all these statements of the EU Profiler, respondents were asked to select one of the following answer categories: Completely agree – tend to agree – neutral – tend to disagree – completely disagree. The answer categories of the EES questions vary.

**Variables used in the multivariate analyses:**

**Age:** "What is your age?: Recoded to (1) 18-24; (2) 25-34; (3) 35-49; (4) 50-64; (5) 64+".

**Education:** What is your level of education?: (1) Basic; (5) University".

**Gender:** Q1. "Gender: (0) Male; (1) Female".

**Propensity to vote for [Party]:** "(0) not at all probable; (10) very probable".

**Prospective economic evaluation:** Q49: "Prospective socio-tropic economic evaluation: (1) get a lot worse; (5) get a lot better".

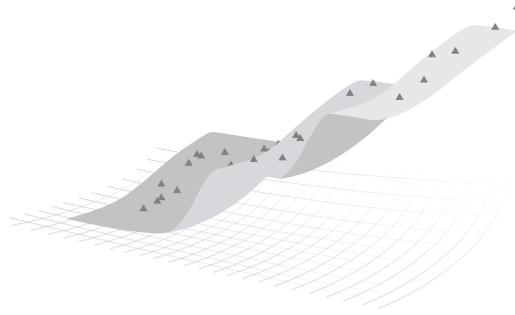
**Income should be redistributed:** Q63: "Income and wealth should be redistributed towards ordinary people: (1) strongly disagree; (5) strongly agree".

**Immigration should be decreased:** Q67: "Immigration to the Netherlands should be decreased significantly: (1) strongly disagree; (5) strongly agree".

**Satisfaction with democracy in NL:** Q84: "Satisfaction with democracy in the Netherlands: (1) very dissatisfied; (2) very satisfied".

**Satisfaction with democracy in EU:** Q85: "Satisfaction with democracy in the European Union: (1) very dissatisfied; (2) very satisfied".

**Subjective standard of living:** Q120: "Subjective standard of living: (1) poor family; (7) rich family".

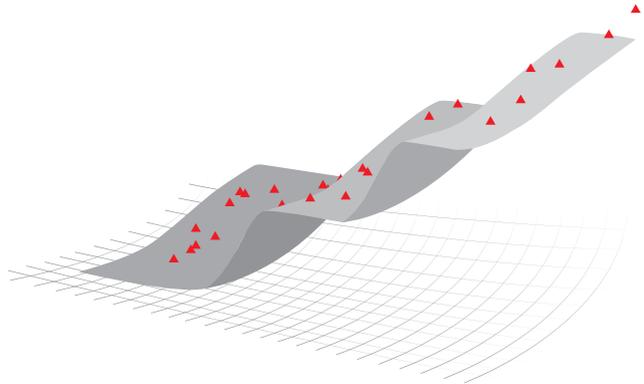


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



John HALPIN & Ruy TEIXEIRA

# **Creating Majority Coalitions in the United States and Europe: is there a Blueprint for Progressives?**



**Keywords:**

**Barack Obama – Progressives – Demographics - Traffic-light Politics - Social Democracy**

**Abstract:**

With the historic re-election of President Barack Obama in 2012, American progressives have succeeded in mobilizing a diverse and growing electorate behind a political vision focused on the effective use of government to advance individual opportunity, address economic inequality, promote economic growth, and create a more sustainable form of capitalism. Rather than tack right on social or economic issues, the Obama model provides evidence that progressives can win by promoting socially liberal policies that defend the rights of all people; "middle class"- focused economic policies that invest in education, job creation, and health and retirement security; and an environmental agenda that addresses climate change and energy transformation. And as President Obama stressed in his second Inaugural address, these values and polices are the core of what has made America great throughout its history - a patriotic vision sometimes lacking in progressive discourse. This paper explores the dimensions of the U.S. model of progressive politics with detailed examination of demographic trends fueling progressive strength and the policies necessary to address remaining challenges. The paper then applies these ideas to the process of potentially creating a unified European progressive agenda combining the best ideas of social democratic, liberal, and green politics with a realistic assessment of which groups of voters will most likely determine future elections in European nations.

In 2012, President Obama won reelection with 50.9 percent of the popular vote and 332 Electoral College votes, the first Democratic president since Franklin Delano Roosevelt to win two terms with more than 50 percent of the total vote. But unlike Democratic victories of the past, Obama was able to achieve victory with a historically low percentage of the white vote. According to the national exit poll, Obama achieved victory by carrying 93 percent of African Americans, 71 percent of Latinos, 73 percent of Asians, and only 39 percent of whites - slightly less than former Democratic presidential nominee Michael Dukakis' share of the white vote in 1988.<sup>1</sup>

These structural changes in the American electorate have not yet produced a full partisan or ideological realignment in U.S. politics, however. **President Obama and Democrats are currently facing a significant roadblock to their agenda due to rising reactionary sentiment from the conservative Tea Party movement and its putative hold over the Republican Party.** The constitutional separation of power in government allows the minority GOP to disproportionately control legislative proceedings and priorities while the federal division of power between the national and state governments offers multiple ways for conservatives to block the President's priorities and agenda. This is most clearly seen by the refusal of dozens of Republican-controlled state governments to implement the Affordable Care Act, President Obama's signature expansion of health insurance to low-income and uninsured Americans. The inability to move forward on the President's agenda in a clear and effective manner due to this obstructionism has in turn reduced public support for government overall thus potentially hobbling progressive governance in the future on things like economic growth, climate change, and immigration.

Despite these near-term challenges, **progressives enjoy several long-term strengths in terms of building and growing a viable electoral majority at the national level. The rising influence of minority groups in the U.S. in terms of their overall size, voting turnout and patterns, and ideological affinity clearly favors progressives and Democrats. So too do trends among unmarried and working women, younger voters from the Millennial generation, more secular voters and educated whites living in more urbanized states. And the continued economic problems facing lower and middle income Americans has produced greater acceptance of the need for government intervention, if not direct belief that these actions will always work. The on-going inability of conservatives and Republicans to adjust to these**

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<sup>1</sup> <http://elections.nytimes.com/2012/results/president/exit-polls>

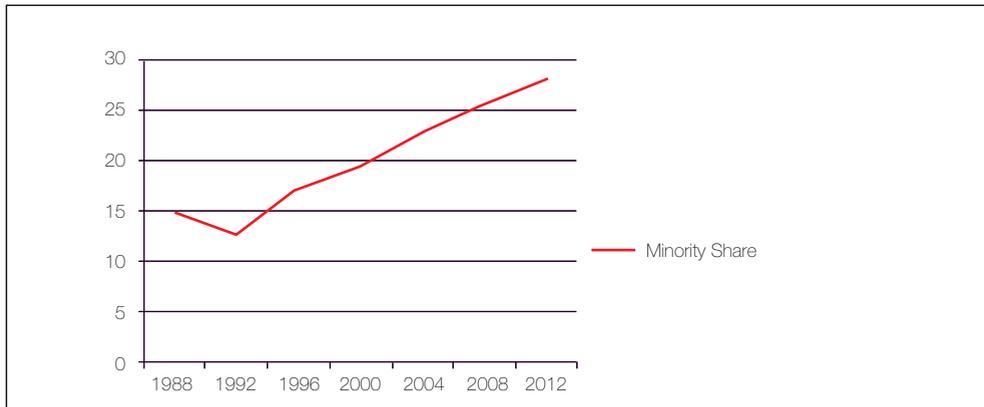
demographic and ideological shifts has left them with a declining bloc of voters who are increasingly outside of the mainstream of majority opinion on everything from jobs and the economy to social issues and the position of women in society.

The primary strategic question for US progressives is whether this coalition can be sustained going forward and, if so, what ideological vision and policy agenda will best ensure its long-term success. The question for progressives outside the US is whether the American success stitching together a majority coalition from such disparate constituencies elements can be replicated in other countries and, if so, how. This paper will examine both questions, starting with the American experience and moving on to the challenges facing European progressives.

## Minority Voters

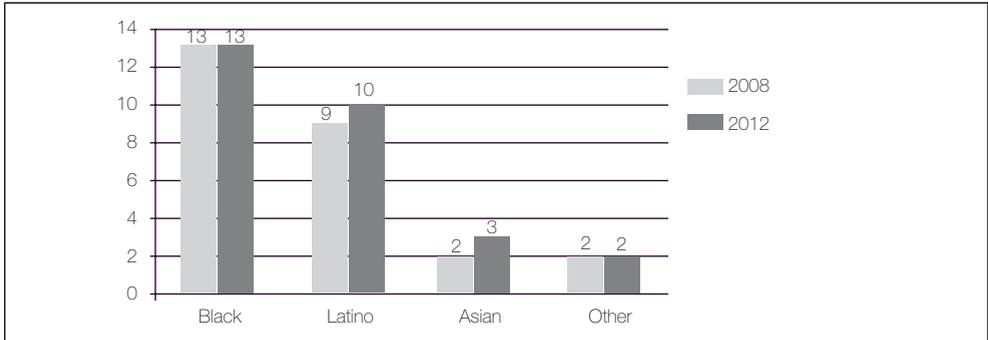
The strengths of the Obama coalition start with minority voters. The share of minority voters in the 2012 election increased by 2 percentage points, bringing their share of the voting electorate to 28 percent. That compares to just 15 percent of voters in 1988 (see chart). Except for 1992, the share of minority voters has gone up in every Presidential election since then, averaging the same 2 point rise we saw in 2012.

Minority Share of Voters, 1988-2012



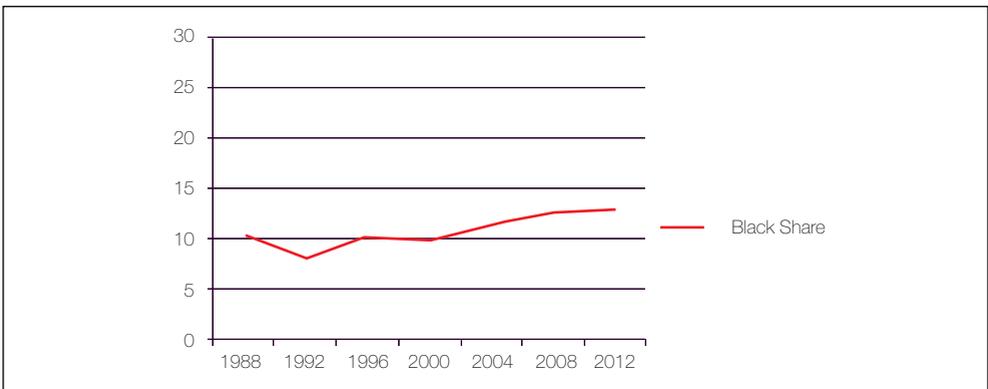
The minority vote broke down as 13 percent African-American (same as 2008), 10 percent Latino (up a point), 3 percent Asian (also up a point) and 2 percent other race (see chart).

### Share of Vote among Minority Groups, 2008-2012



The share of black voters remained steady, despite the predictions of many observers that black voter enthusiasm would flag and these voters would not turn out for the President. Black voter participation is now at a high point (see chart) reflecting enthusiasm for the first African-American president, as well as an increase in the black share of the overall population (up about a percentage point in the 2000-2010 period).

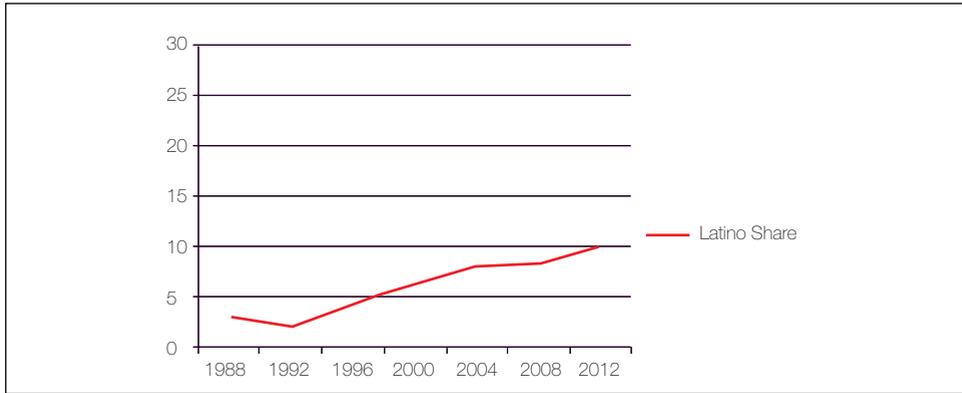
### Black Share of Voters, 1988-2012



Hispanics increased their share of voters in line with their rapidly growing share of the population (up 4 points in the last decade), despite similar skepticism about their level of voter enthusiasm. As the chart shows, the Latino share of voters has gone up every election since 1992, when they were only 2 percent of voters<sup>2</sup>.

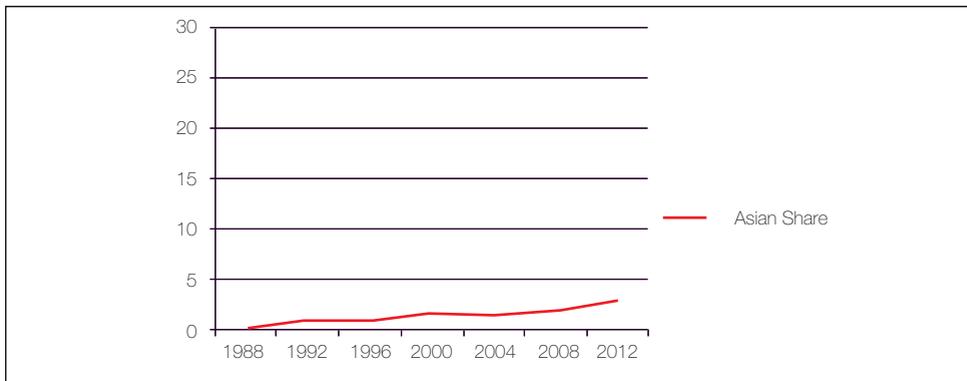
2 In addition, the exit polls changed the way they identified Hispanic respondents from 2000 on, when they added a question on Hispanic descent which helped identify more assimilated Hispanics who do not identify themselves as Hispanic on the standard race question. So some of the increase in Hispanics measured from 1996 to 2000 may be attributable to this change. See this discussion: [http://www.thedemocraticstrategist.org/donkeyrising/2005/06/hispanics\\_poised\\_to\\_move\\_democ.html](http://www.thedemocraticstrategist.org/donkeyrising/2005/06/hispanics_poised_to_move_democ.html)

**Latina Share of Voters, 1988-2012**



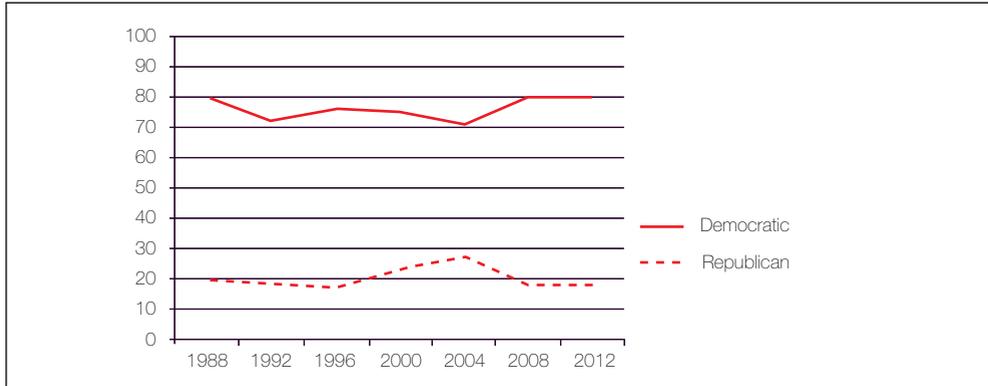
Asian voters too increased their share of voters, continuing a trend that goes back to 1988, when the Asian share of voters was too small to register in the exit polls. This trend reflects rapid growth of the Asian population, whose numbers increased as fast as Hispanics last decade (up 43 percent).

**Asian Share of Voters, 1988-2012**



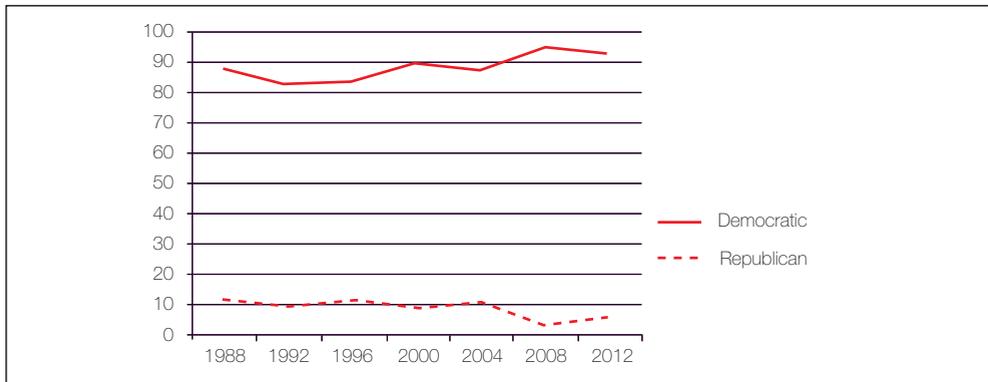
Overall, Obama received 80 percent support from people of color in 2012 just as he did in 2008. As the chart shows, that level of support is the highest registered since 1988, though support over the entire time period has been very high and has averaged about 76 percent. The 2012 performance is impressive in its own right but doubly so considering that the mix of minorities is shifting over time so that there are relatively more Latinos and Asians and relatively fewer blacks (who have the highest Democratic support rates).

### Minority Vote, 1988-2012



Obama's support among African-Americans was almost as overwhelming last November (93-6) as it was in 2008 (95-4). Support around 90 percent for Democratic presidential candidates is not unprecedented, as the chart shows, but the last two elections have been clear high points, no doubt reflecting the historic opportunity to vote for the first black president.

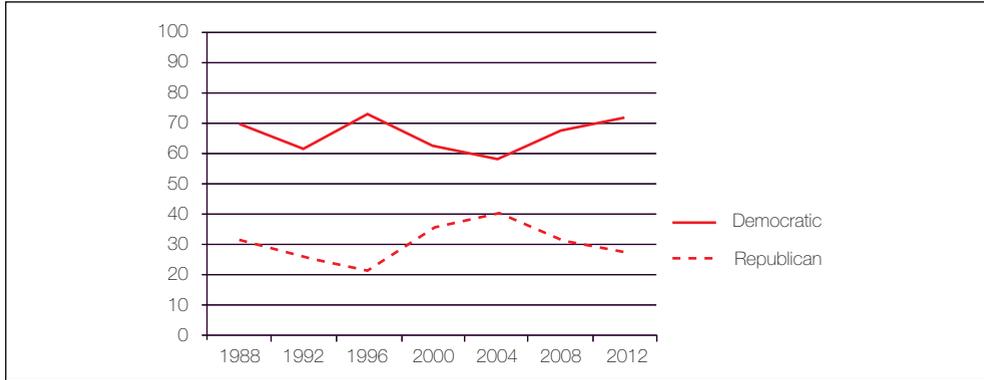
### Black Vote, 1988-2012



Obama's support among Hispanics (71-27) improved substantially over its 2008 level (67-31). Furthermore, it is possible his support among Latinos was even higher since exit polls tend to undersample Latinos who are Spanish dominant, poorer, and live in less assimilated environments. A Latino Decisions election-eve poll, which corrects for these sampling problems, found Latino support for Obama at 75 percent nationally and also found his Latino support substantially higher in various swing states (87 percent in Colorado versus 75 percent in the corresponding state exit poll).

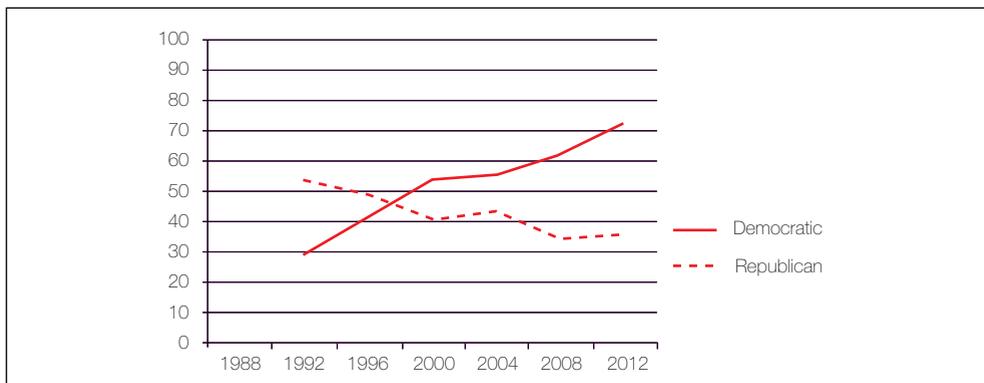
As the chart below shows, Latino support for Presidential Democrats has varied over the years, going as low as 58 percent in the 2004 election, which makes the high support level in 2012 particularly impressive<sup>3</sup>.

**Latino Vote, 1988-2012**



Finally, Obama achieved historic levels of support among Asian-Americans, carrying them by 73-26, compared to 62-35 in 2008. This is a remarkable trajectory for a group that, back in 1992, supported George H.W. Bush over Bill Clinton by a strong 54-30 margin. In every election since then, Asians have increased their support for the Democratic candidate, including elections like 2004 where most other groups, even progressive ones, were going in the opposite direction (see chart).

**Asian Vote, 1988-2012**



<sup>3</sup> Note also that the previous high point in support in 1996 came before a change in exit poll methodology for identifying Hispanics (a question on Hispanic descent was added), which captured more assimilated and conservative Hispanics. Thus the previous high point was based on a sample that was demographically inclined to be more liberal than today's sample. Again, this makes the high level of support in 2012 even more impressive. See the discussion cited in the previous note.

Adding to the power of the minority vote is the certainty of its continued growth. The level of growth has been averaging about half a percentage point a year or 2 points over a Presidential cycle. Given the latest Census population projections, we would expect growth to continue at roughly that level in the future. If it does, the share of minority voters in the 2016 election should be around 30 percent and, in the 2020 election, around 32 percent. In the immediate future, maintaining these levels of voter growth will depend on preventing falloffs in turnout, particularly among blacks, and continued mobilization of new voters, particularly among Latinos and Asians.

But how certain is it that minority voters will continue to lean so heavily toward the Democrats? Of course, change is always possible, but at this point those leanings look very solid. Consider black voters. Besides their historic ties to the party, they are strong supporters of active government, both to combat discrimination and to provide services and opportunity. In a mid-2012 Pew analysis<sup>4</sup>, their party identification was overwhelmingly Democratic: 87 percent of black registered voters identified with or leaned toward<sup>5</sup> the Democrats, compared to just 8 percent who identified with or leaned towards the Republicans, a yawning 79 point gap.

Hispanics also have historic ties to the Democrats if not as strong as blacks. But they are as strong or stronger in their support for active government, the safety net and generous provision of services. And the issue of immigration looms large, with Democrats viewed overwhelmingly as the party most favorable to immigrants. In the same Pew analysis, party identification among Hispanic registered voters was 61 percent Democratic to 29 percent Republican, a 32 point pro-Democratic gap.

Asians, perhaps surprisingly, are now almost as Democratic-oriented as Hispanics, showing strong support for Democratic stands on active government and immigration. In a detailed 2012 Pew study<sup>6</sup> of Asian Americans, Asians' party identification favored Democrats by 50-28, a 22 point margin. In addition, self-identified liberals (31 percent) outnumber self-identified conservatives (24 percent) among this group, in contrast to the general public where conservatives typically outweigh liberals by a substantial margin.

Republicans have tried to argue that today's GOP has considerable appeal to minorities and that, if they can just get their message out, Democratic support will be substantially eroded over time. Of course, that's what they said after the 2004 election, when Bush received 40 percent of the Hispanic vote. But that has turned out to be a false dawn and Democratic dominance today is clear and overwhelming.

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4 [http://www.people-press.org/files/legacy-detailed\\_tables/Detailed%20tables%20for%20Party%20ID.pdf](http://www.people-press.org/files/legacy-detailed_tables/Detailed%20tables%20for%20Party%20ID.pdf)

5 As numerous political science analyses have shown, independents who lean toward a given party are not truly independent and behave politically very much like weak partisans of that party. See: J. Petrocik, *Measuring Party Support: Leaners Are Not Independents*, [in: ] *Electoral Studies*, 26:4, December, 2009, pp. 562-572.

6 [http://www.pewsocialtrends.org/files/2013/01/SDT\\_Rise\\_of\\_Asian\\_Americans.pdf](http://www.pewsocialtrends.org/files/2013/01/SDT_Rise_of_Asian_Americans.pdf)

Consider the various approaches Republicans have taken to getting their message out, particularly to Hispanics whom they believe (correctly) are a much better target for conversion than blacks. A longtime favorite has been the idea that Hispanics are socially conservative and can be induced to vote for the GOP by emphasizing “values” issues like abortion or gay marriage. This has not been effective so far and there are no indications it will succeed in the future. Hispanics, it turns out, are actually much less likely than whites to vote on the basis of cultural issues<sup>7</sup>. In addition, Hispanics overall are not nearly as socially conservative as many believe. On the specific issue of gay marriage, for example, surveys have repeatedly shown that Hispanics are no more conservative on this issue than whites are<sup>8</sup>. And younger Hispanics are typically more progressive than their older counterparts on social issues, so generational replacement will make the tomorrow’s Hispanic population less socially conservative than today’s.

Another favored approach is to appeal to desires for wealth acquisition. Republicans have argued for years that Latinos should be naturally attracted to their tax and regulatory policies because of the high number of small-business owners among them. Republicans have also noted that, while there are differences among various groups, Asians on the whole have the highest average educational level and median household income of any racial or ethnic group in the United States, including whites.

According to this approach, Latinos’ and Asians’ self-interest and material aspirations mean that they should hate taxes and despise big government. But most Latinos and Asians do not despise government or desire more libertarian economic policies, as confirmed repeatedly by a wide variety of survey data.

These findings suggest that there is really only one way for the GOP to effectively compete for minority voters and it is a way that, so far, Republicans have rejected. **The party must, quite simply, become less conservative. They will have to jettison their bitter hostility to active government, spending on social services and immigration reform and develop their own approach in these areas that minorities might find appealing. If they do not, it seems likely that Democrats will continue to get 75-80 percent, leaning toward the high side of that range, of the minority vote.**

## **The Millennial Generation**

Millennial generation (born 1978-2000) voters are also a central component of the Obama coalition. Young voters in the 18-29 year old age group - all Millennials - defied skepticism about their likely levels of voter turnout, comprising 19 percent of voters in 2012, up from 18 percent in Obama’s historic campaign of 2008. In addition, since many

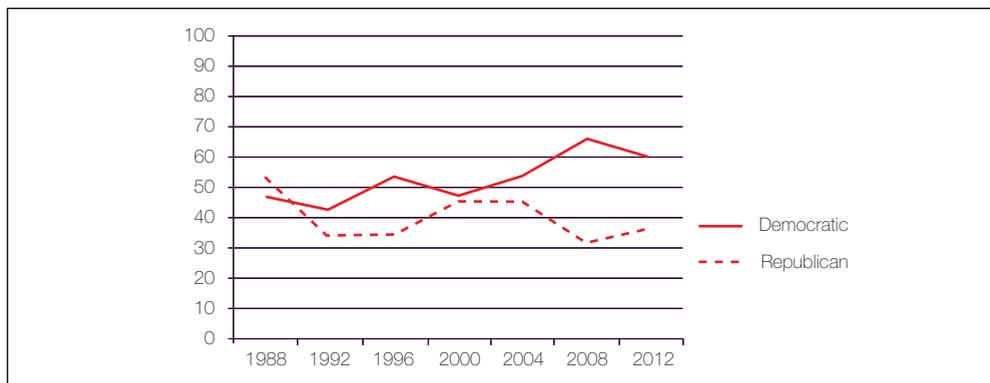
7 Pew Hispanic Center/Kaiser Family Foundation, *2002 National Survey of Latinos*, December, 2002.

8 N. Silver, *Hispanics Back Gay Marriage at Same Rates as Whites*, 538.com, May 26, 2009.

Millennials are now older than 29, the share of Millennials among voters is significantly underestimated by just looking at 18-29 year olds. Taking these older Millennials into account, the true share of Millennials in the 2012 electorate was probably around 26 percent.

Millennial 18-29 year olds supported Obama by a 23-point margin in the 2012 election (60 percent to 37 percent). This is strong support, by far Obama's best performance among any age group, just as was the case in 2008, when Obama performed even more strongly among these voters (66-32). It is also worth noting that Obama did about as well among 18-24 year olds (60-36) as he did among 25-29 year olds (60-38), indicating that younger members of the Millennial generation who are just entering the electorate have the same political leanings as their older counterparts.

### 18-29 Year Old Vote, 1988-2012



As with minorities, **we will see more and more of these voters in the electorate over the next several elections, as the number of Millennial eligible voters increases by about 4 million a year.** By the 2016 election, Millennials should be about 36 percent of eligible voters and roughly a third of actual voters. And by the 2020 election, Millennials should be nearly 2 in 5 (39 percent) eligible voters and around 36 percent of actual voters.

These trends could hardly be more positive for Democrats. Moreover, **this generation is not only growing rapidly and voting consistently Democratic but also leans heavily Democratic on party identification. In the Pew data referenced earlier, Democrats have a commanding 19 point lead in party identification over the GOP. And Millennials hold a raft of progressive positions in various issue areas that should continue to propel them toward the Democrats<sup>9</sup>.**

9 For data and discussion, see: D. Madland & R. Teixeira, *New Progressive America: The Millennial Generation*, Washington, DC, May, 2009. See also: Pew Research Center, op. cit.

## Size of the Millennial Generation

Millennial voting age population, eligible voters and estimated actual voters, 2008-2020

Year	Millennial voting age population	Millennial eligible voters	Millennial percent of eligible voters	Estimated millennial actual voters	Estimated millennial percent of actual voters
2008	55 million	48 million	23	25 million	20
2012	74 million	64 million	29	35 million	26
2016	93 million	81 million	36	46 million	33
2020	103 million	90 million	39	52 million	36

On social issues, Millennials support gay marriage, take race and gender equality as givens, are tolerant of religious and family diversity, have an open and positive attitude toward immigration, and generally display little interest in fighting over the divisive social issues of the past. Millennials are also notably progressive on foreign policy issues, favoring a multilateral and cooperative foreign policy more than their elders. On the role of government, Millennials, more so than other generations, want a stronger government to make the economy work better, help those in need, and provide more services. These views extend to a range of domestic policy issues including education, clean energy and, especially, health care.

But will Millennials remain as progressive as they are today? Some argue that Millennials will surely become more conservative as they age - a lifecycle effect will moderate their youthful progressivism and send them toward the GOP. While it is possible that the Millennial Generation may become more conservative as they age, evidence suggests that they are likely to remain largely progressive<sup>10, 11, 12</sup>. Dismissing Millennial progressivism as just the product of youth would be misguided.

As a New America Foundation report argues: *"It appears that we are witnessing a 'cohort change' in this new generation."*<sup>13</sup> This thorough review, by university academics, confirms

10 See for example, A. Campbell, Ph. E. Converse, W. E. Miller, D. E. Stokes, *The American Voter*. New York: Wiley 1960; J. M. Kent & R. G. Niemi, *Continuity and Change in Political Orientations: A Longitudinal Study of Two Generations.*, [in: ] *The American Political Science Review* 69 (4): 1316–1335, 2013 11 21; Next Left FG\_Final Paper\_TEXEIRA Ruy\_HALPIN John.docx ; R. G. Niemi, & B. I. Sobieszek., *Political Socialization.*, [in: ] *Annual Review of Sociology* 3: 209-233. 97 (1): 169–195, 1977.; M. Hooghe & B. Wilkenfeld, *The Stability of Political Attitudes and Behaviors across Adolescence and Early Adulthood: A Comparison of Survey Data on Adolescents and Young Adults in Eight Countries.*, [in: ] *Journal of Youth and Adolescence* 31, pp. 155–167, 2008.

11 L. M. Bartels, *A Generation of Political Learning.*, San Francisco: Annual Meeting of the American Political Science Association 2001; and A. Campbell, Ph. E. Converse, W. E. Miller, D. E. Stokes, *The American Voter.*, New York: Wiley, 1960.

12 A. F. Duane, & J. A. Krosnick, *Aging, Cohorts, and the Stability of Sociopolitical Orientations Over the Life Span.*, [in: ] *The American Journal of Sociology* 97(1), pp. 169-195, 1991.

13 P. Levine, C. Flanagan, & L. Gallay, *The Millennial Pendulum: A New Generation of Voters and the Prospects*

the idea that Millennials' views are more progressive than previous generations. As Levine, Flanagan and Gallay wrote: "*Millennials have a more progressive identity than did previous generations at their age and are likely to move the country leftward on economic and social issues for decades to come.*"<sup>14</sup>

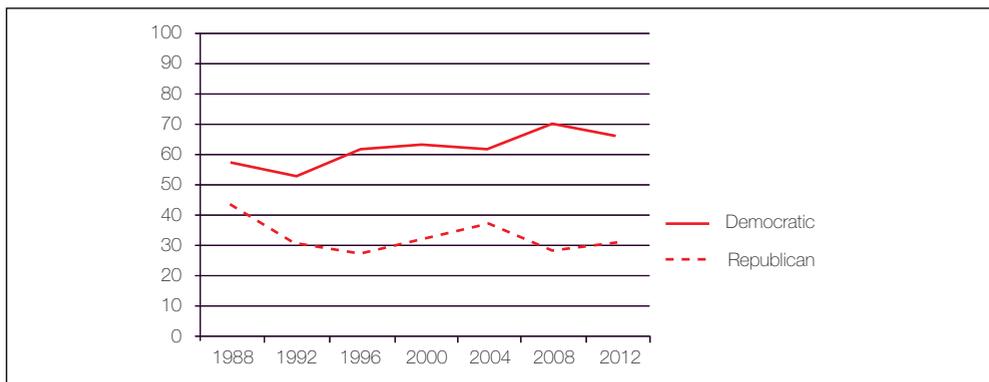
It therefore seems unlikely that aging will make this generation any more amenable to strict economic and social conservatism. Here, as elsewhere, the GOP will have to move to the center to compete for these voters and mitigate their current large disadvantage. And again, if they do not, Democrats should continue their domination among this generation of voters.

## Unmarried Women

As is well-known, Democrats typically do better among women than men. And in 2012, women voted 55 percent to 44 percent for Obama, compared to a 7 point deficit for Obama among men (45 percent to 52 percent).

**But Democrats do especially well among unmarried women, who have become a key part of the Obama coalition.** Obama carried this group by a wide 67-31 margin in 2012, not far off his 70-29 margin in 2008. As the chart below shows, recent levels of Democratic support reflect an ongoing increase in support among unmarried women since 1988.

### Unmarried Female Vote, 1988-2012

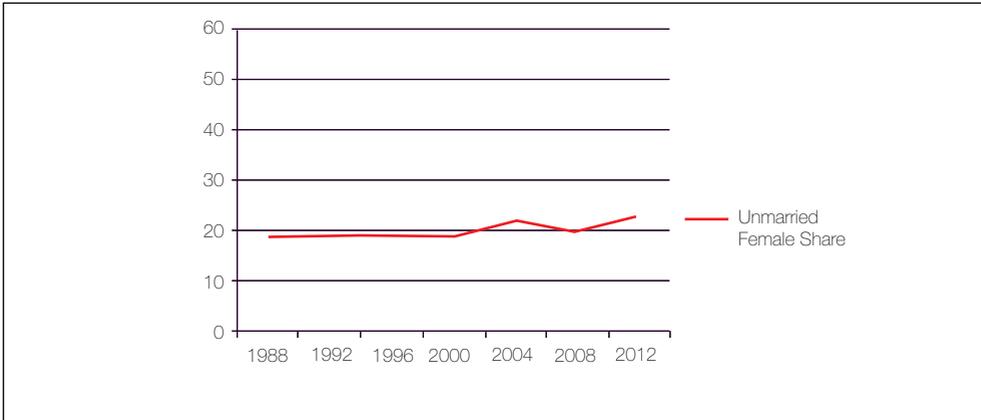


Unmarried women were also a larger share of voters, 23 percent vs. 21 percent in 2008 (see chart). This trend may continue in the future, since the growth rate of unmarried women is roughly twice that of married women. Indeed, since 1970, the percent of unmarried women among adult women has gone up from 38 percent to 48 percent.<sup>15</sup>

for a *Political Realignment*, New America Foundation, February 2009.

14 P. Levine et al., op. cit.

15 Authors' analysis of Census marital status data.

**Unmarried Female Share of Voters, 1988-2012**

There is every expectation that this burgeoning population of single women will continue to lean strongly Democratic in its politics. In the Pew party identification data, unmarried women give Democrats a 24 point party ID advantage. In addition, survey data consistently show this group to be unusually populist on economic issues and generally opposed to conservative' foreign policy and social issue positions.<sup>16</sup>

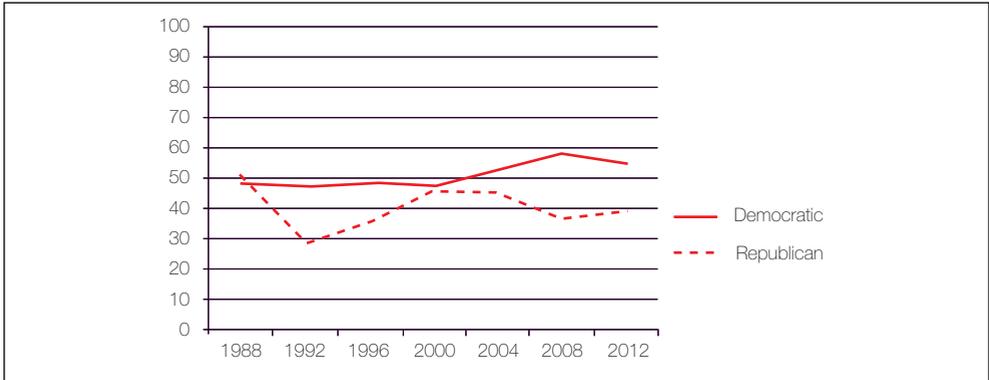
**Unmarried Men**

While not as strong for Obama as unmarried women, their male counterparts also favored Obama, giving him a healthy 56-40 margin, close to the 58-38 margin they gave him in 2008. Unmarried men also gave Democrats a 13 point party ID advantage in 2012, according to Pew data.

Unmarried men's Democratic leanings are not unique to the last two elections either. As the chart below shows, these voters supported Clinton twice, as well as Gore and Kerry. The last time they supported a Republican candidate was in 1988, when they gave George H.W. Bush a modest 3 point margin over Michael Dukakis.

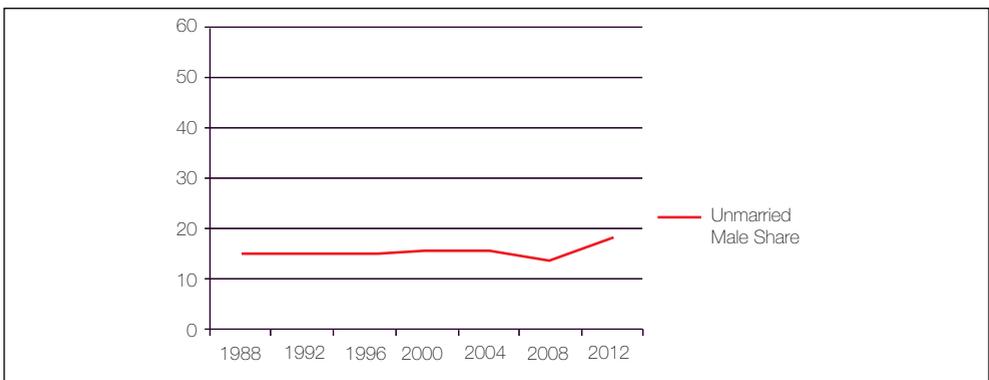
<sup>16</sup> Women's Voices, Women Vote, *Unmarried America*, 2007. For more recent data see: <http://www.democracycorps.com/attachments/article/944/dcor.wv.memo.032413.final.pdf>

### Unmarried Male Vote, 1988-2012



In addition, their share of voters went up even more than unmarried women, increasing by 4 points to 18 percent (see chart). All told, unmarried voters were 40 percent of voters in 2012, up 6 points from 2008's 34 percent share.

### Unmarried Male Share of Voters, 1988-2012



## Secular and Non-Christian Voters

In 2012, Obama received strong support from those of non-Christian faiths (72-27) and those with no religious affiliation (70-26). The unaffiliated also gave Democrats a 37 point party ID advantage in 2012, according to Pew.

These data are of considerable significance, given the ongoing rise of religious diversity. Every year there are increasing numbers of Americans who practice a non-Christian faith and increasing numbers of Americans who are secular or unaffiliated with any religion. A recent Pew report<sup>17</sup> sheds light on these important trends.

<sup>17</sup> [http://www.pewforum.org/uploadedFiles/Topics/Religious\\_Affiliation/Unaffiliated/NonesOnTheRise-full.pdf](http://www.pewforum.org/uploadedFiles/Topics/Religious_Affiliation/Unaffiliated/NonesOnTheRise-full.pdf)

The Pew report aggregates data from their surveys between 2007 and 2012. They found that those of non-Christian faiths have gone up from 4 to 6 percent over the time period, while those who are religiously unaffiliated have gone from 15 to nearly 20 percent of adults. This is an astonishing rate of change, particularly for the unaffiliated who, according to some projections, were only supposed to hit 20 percent around the middle of the next decade. This group's growth is clearly way ahead of expectations.

Part of the reason for this rapid growth is generational. Pew's study notes that, among the youngest Millennial adults - those born 1990-1994, over a third (34 percent) have no religious affiliation.

This trend, combined with growth among non-Christian faiths and race-ethnic trends, will ensure that in very short order the US will no longer be a white Christian nation. Even today, only about 55 percent of adults are white Christians. By 2024, that figure will be down to 45 percent.<sup>18</sup> That means that by the election of 2016 (or 2020 at the outside), the United States will have ceased to be a white Christian nation. Looking even farther down the road, by 2040 white Christians will be only around 35 percent of the population and conservative white Christians, who have been such a critical part of the GOP base, only about a third of that - a minority within a minority.

These developments will put increased pressure on the GOP to moderate its socially conservative stance. That stance may appeal strongly to a key segment of their base, but that segment will shrink substantially over time as religious diversity increases. A more moderate stance would have some chance of appealing to this diversity, rather than leaving the field wide open for the Democrats.

## Professionals

In addition, voters with a postgraduate education (a good proxy for professionals) supported Obama by 55-42 in 2012 and gave Democrats a 15 point party ID advantage, according to Pew. This occupational group typically has forthrightly liberal views on social issues as well as moderate, reformist tendencies on economic issues and distaste for aggressive militarism in foreign policy.

Fifty years ago, professionals were actually the most conservative occupational group. But over time, especially the last couple of decades, they have shifted to a strongly progressive stance. In the 1988-2000 presidential elections, professionals supported the Democratic candidate by an average of 52 percent to 40 percent. And in 2004, they

<sup>18</sup> Calculations based on author's analysis of data in Green and Dionne, op. cit. The Green and Dionne data include a grab-bag of religions in their other faiths category, ranging from Jews and Muslims to Mormons and Jehovah's Witnesses to Unitarians, Humanists and Ethical Culture. Since these groups cannot be disaggregated from the Green and Dionne data, they are all classified outside of the white Christian category.

moved still farther in this direction, supporting Kerry over Bush by a 63 percent-to-37 percent margin<sup>19</sup>.

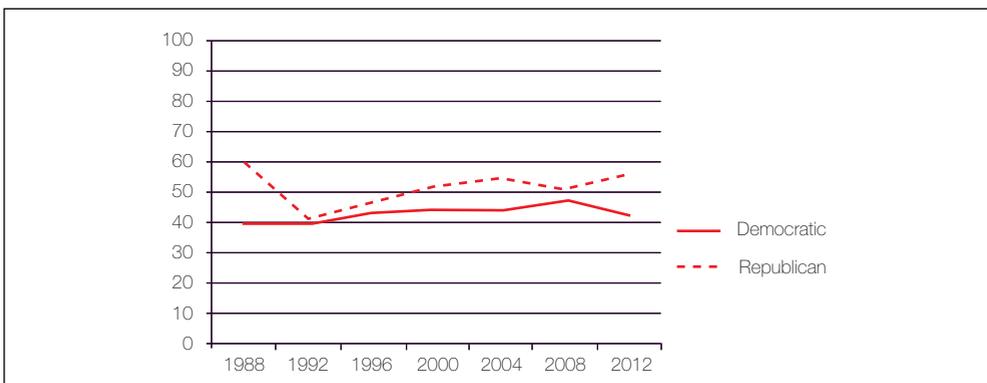
This is especially good for Democrats because professionals are a rising group in American politics and society. In the 1950s they made up about 7 percent of the workforce. But as the United States has moved away from a blue-collar, industrial economy toward a post-industrial one that produces more ideas and services, the professional class has expanded. Today it constitutes just under 17 percent of the workforce. In another 10 years, they will be 18 percent to 19 percent of the workforce.

This powerful and growing group of voters is likely to continue to lean strongly Democratic as long as the GOP retains a hardline conservative stance. But if Republicans adopt a more centrist, moderate approach, it may be possible for them to reduce currently high levels of Democratic dominance.

## White College Graduate Voters

Obama generally did poorly among white voters but the college-educated were a relative bright spot. He lost this group by 14 points (as compared to 20 points among all white voters) and did substantially better among white college-educated women, losing them by a modest 6 points. As the chart show, Democratic presidential candidates lost white college graduates by a massive 20 points in 1988, but since then have generally done quite a bit better among this group.

White College Graduate Vote, 1988-2012

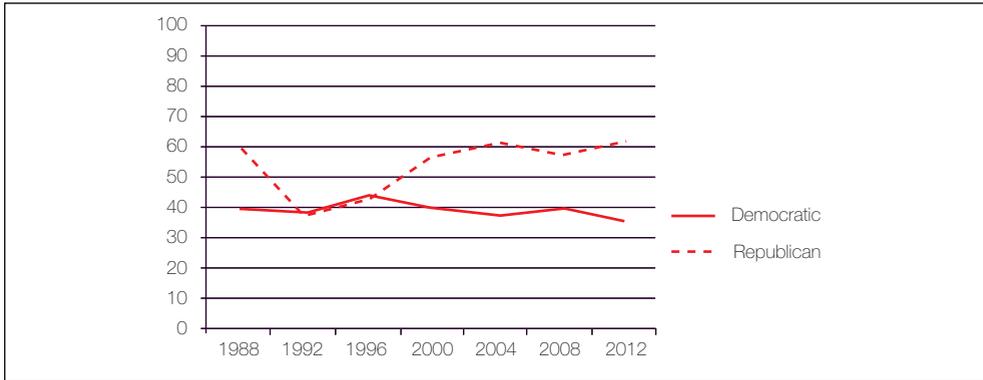


This contrasts quite sharply with Democratic performance among white working class (non-college) voters since 1988, which has generally been dismal (with the exception of

<sup>19</sup> Data in this paragraph based on author's analysis of National Election Study data. Data on occupational breakdown of the vote not available for 2008 due to confidentiality restrictions. For more discussion of professionals' political evolution, see: Judis & Teixeira, op. cit., Chapter 2.

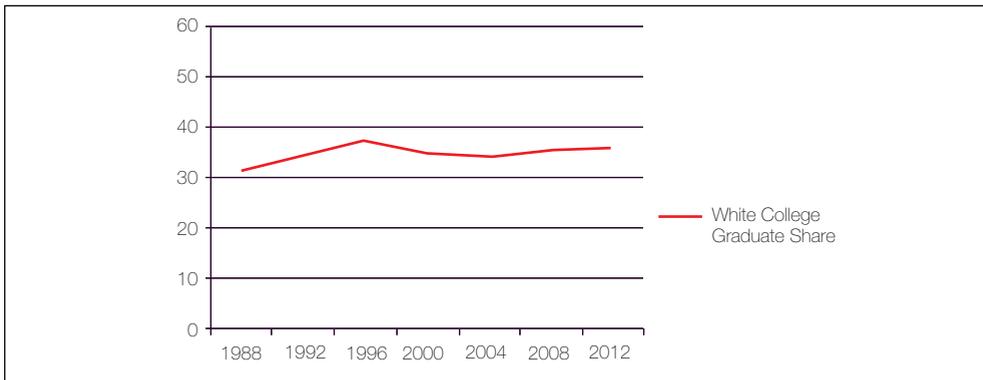
1992 and 1996, when the defection of many Republican-leaning white working class voters to Ross Perot allowed Clinton to split the white working class vote). In the last three elections, the Democratic deficit has averaged 22 points, with worst performance coming in 2012 when Obama lost this group by a staggering 26 points (62-36).

**White Working Class Vote, 1988-2012**



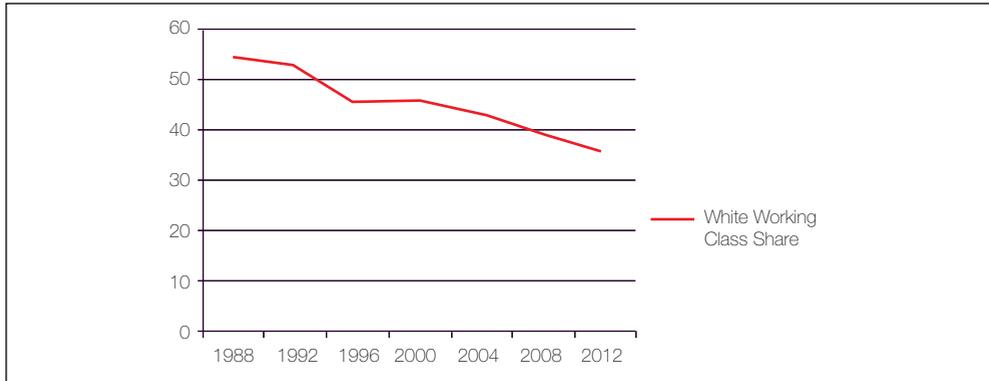
White college-educated voters have also been increasing modestly as a share of voters, even as the overall proportion of white voters has been declining. Based on historical patterns and projections of future educational attainment, we should continue to see increases in white college graduate voters for some time.

**White College Graduate Share of Voters, 1988-2012**



That means that the decline of white voters is being driven entirely by the decline of white working class voters. As the chart shows the decline has been precipitous and quite steady, amounting to about 3 percentage points every 4 years.

White Working Class Share of Voters, 1988-2012



The potential of this coalition is truly impressive, given its 2012 performance and how many of its constituent parts are likely to grow in numbers over the course of the decade. In contrast, the least sympathetic part of the electorate, the white working class, is on an ongoing decline.

But the word “potential” should be stressed. There is no guarantee that turnout and support levels will stay as high as they have been going forward. And there is definitely no guarantee that these constituencies will remain active and involved in the legislative battles that must be fought to turn progressive policies into law. Thus, implementing a progressive agenda will, to a large extent, be dependent on the mobilization level of the Obama coalition both in future elections and between those elections.

This is a big challenge, but Obama and his team have taken some significant steps to address it. These steps have been driven by the recognition that the best way to maintain enthusiasm and support is to deliver for the groups that put you in office. Thus, the administration has been aggressively pushing a number of policy priorities that resonate with the concerns of different groups in the coalition: immigration reform, curbing gun violence, same sex marriage, climate change and universal pre-K.

This strategy is a good one. These fights are all substantively important in policy terms and may, with luck, result in some important victories. And they should indeed pump up enthusiasm levels as different groups in the coalition see how strongly Obama is willing to fight for their priorities. Nor does it seem likely that a big political price will be paid for touching on issues that have a social dimension; the country has moved rapidly in a progressive direction on most of these issues and these issues lack the power they once had to elicit a backlash.

However, while we applaud the basic strategy, we also believe the strategy has to be supplemented by efforts not just to mobilize the Obama coalition but to *expand* it. And among the chief targets here is the white working class, just as it was for Bobby Kennedy in 1968.

The white working class was the key force behind the Republican landslide in 2010 - Democrats lost the group by 30 points. And they were a glaring weakness for Obama in 2012, when, as pointed out, he lost them by only a slightly more modest 26 points. 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 the 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.

But how can this be done? It is no doubt a substantial challenge, but one that can and must be addressed. At CAP, we are launching a project - the Bobby Kennedy Project - to do just that. The goal is to figure out how to reach both the white working class and more progressive-leaning demographic groups through unifying values, policies and messages.

**Our initial work suggests that a successful approach will require a relentless focus on social opportunity for all people and an economic agenda that puts the interests of working- and middle-class families first. In particular, the burgeoning research and policy agenda around “equity and growth” provides a good model for policies that can successfully unite a multi-racial, multi-ethnic, cross-class coalition. The evidence is increasingly strong that rising inequality has inhibited growth and that higher growth in the future is more likely with policies that broadly diffuse opportunity. These policies are America’s future and also perhaps the glue that can finally join a critical segment of the white working class to America’s rising demographic groups.**

No doubt this will be a challenging enterprise for the American left. But success so far in stitching together a majority coalition from disparate constituencies does provide some grounds for optimism. Now it is time to turn to examine the European situation and see if there is potential there for majority progressive coalitions along the same lines.

## Traffic Light Politics in Europe

We believe that in Europe, just as in the United States, there is an emerging progressive majority that can be mobilized over time. But to do so will require negotiating three major challenges that all European labor and social democratic parties face.

**The Decline of the Traditional Working Class.** The traditional blue-collar working class has shrunk so severely over time and is now so unreliable in its progressive inclinations that it can no longer be considered the leading force in the progressive movement. Most of that lost support has gone to conservative and populist right parties that can increasingly and fairly claim to be parties of the working class. It is time for socialists to stop their reliance on the working class; that era in progressive history is over.

**The Rise of Progressive Diversity.** Social democrats were hegemonic on the center-left in the 20<sup>th</sup> century, thoroughly dominating the progressive vote and agenda in European countries. That era too is over. Emerging progressive constituencies like professionals, the highly educated and aspirant middle class, the younger generation, immigrants and minorities, singles and seculars, unlike in the United States, cannot be captured by any one party. Instead, they fragment their vote among a multiplicity of red, green and yellow parties. The resulting progressive diversity must be accepted and built on with coordinated strategies that go far beyond what we have seen so far.

**The Failure of Growth.** The left has not had an effective growth model since the breakdown of the postwar Keynesian model in the 1970's. How do you have strong growth and full employment in a globalized era where the service sector dominates and part of it - the financial sector - is literally out of control? The left has had no answer and the result has been an era of conservative economic hegemony marked by slow and unequally distributed growth, relatively high unemployment and, finally, a devastating global financial crisis. Without an effective growth model, progressives will accomplish little in policy terms and continue to suffer politically.

The path forward for the left is to successfully adapt to these changes by embracing a new, unified approach to these profound structural changes - an approach we call "Traffic Light Politics". We contrast this approach with the hegemonic left approach over the last several decades: protecting the traditional welfare state, which has been particularly beneficial to mainstream left parties' old base (the traditional working class and public service workers), while allowing a greater role for the market and trimming benefits as needed to respond to fiscal pressures. It has been, in essence, a holding action, rather than a forward-looking program.

We would also contrast our approach to the most common reform efforts currently underway among social democrats. Essentially these efforts look within the social democratic movement for further modernization. This takes two forms. One is to urge a process of deepening modernization in domestic social democratic parties; parties in

individual countries must go beyond the modernization efforts of the 1990's ("The Third Way") and reconnect to the values of ordinary voters, while making the parties more open and less beholden to traditional constituencies. The other approach is to articulate a cross-country (typically pan-European) project for social democratic parties; all parties must embrace a common agenda that can successfully deal with the Europe-wide and international constraints on effective public policy.

These are worthy efforts, but they have intrinsic limitations. In our view, socialists must go beyond them and embrace the very progressive diversity social democrats wish would go away. The necessity of creating a new model of capitalist growth that is sustainable on both the domestic and global levels can be met by working on the industries and services of the future with the greens. The necessity to remove barriers to mobility and life-styles, even if some of these barriers benefit traditional constituencies, can be better argued in partnership with the yellows. Combined, a new progressive approach can be forged that is stronger than what reds, greens or yellows can offer on their own. **We believe in that fusion - Traffic Light Politics - lies the future of 21<sup>st</sup> century progressivism.**

**We believe in that fusion - Traffic Light Politics - lies the future of 21<sup>st</sup> century progressivism.**

Below, we make our case for Traffic Light Politics in detail, starting with our analysis of the three long-term changes European progressives must confront.

## **The Decline of the Traditional Working Class**

Across all countries, the size of the traditional or blue collar working class is declining sharply. For example, in Germany the proportion of blue collar workers in the workforce has been cut in half since the late 1950's to just over one-quarter of the workforce today, while the proportion of white collar workers has nearly tripled to 57 percent<sup>20</sup>. Similarly, in Sweden the proportion of blue-collar workers has been cut in half to one quarter of the workforce just since the mid-1970's.

Closely related to this trend, employment in the industrial sector has dropped rapidly across countries, replaced by employment in the service sector. In Germany, the industrial sector has declined from 55 percent of employment in 1950 to just 26 percent today. Similarly, in the Netherlands industrial employment dropped from 40 to 20 percent of the workforce between 1950 and 2003 and in the UK from 47 to 24 percent over the same period<sup>21</sup>.

20 Unless otherwise noted, data and trends cited in the Decline of the Traditional Working Class and Rise of Progressive Diversity sections are taken from the appropriate country paper in the Demographic Change and Progressive Political Strategy series on the CAP website at <http://www.americanprogress.org/issues/progressive-movement/report/2011/04/07/9424/the-demographic-change-and-progressive-political-strategy-series/>

21 A. Maddison, *Contours of the World Economy, 1-2030 AD: Essays in Macroeconomic History*, Oxford,

Finally, union membership has been steadily dropping across countries. In the Netherlands, union membership has dropped from 32 to 24 percent of the workforce between 1970 and 2009. In Australia, union membership has been cut in half just since 1990, declining from 41 percent to 20 percent of workforce.

Since labor and social democratic parties were built around unionized, blue collar workers in industry, these trends together signal a dramatic undercutting of the traditional voting base of these parties. Of course, the magnitude of these trends varies across countries and in some these trends are less severe than in others. But the fundamental fact remains that in all countries the traditional base of social democratic parties has been substantially eroded and is likely to erode further in the future.

Moreover, the problem of the declining working class is even more severe than that suggested by the raw numbers on decline. This is because even as the ranks of the traditional working class have thinned they also become less supportive of social democrats in many countries. In Sweden, the social democrats' share of the LO (blue collar workers union) vote has declined by 20 points from 1982 to 2010. In Denmark, social democrats' share of the traditional working class vote declined by 17 points from the 1960's to the 1990's, in the UK by 18 points from the 1960's to the 2000's and in France (second round Presidential) by 19 points from 1974 to 2007.<sup>22</sup>

Again, there is much variation across countries in the magnitude of this trend. Indeed, in some countries like Australia there has been only a modest diminution of working class support for social democrats. But in most countries, it is a serious problem.

There is also considerable variation in where the lost support from blue collar workers is going. Some of it is going to the traditional right but in countries with strong multi-party systems much of that lost support also finds its way to parties of the populist left (e.g., the Socialist Party in Netherlands, the Left Party in Germany) and right (e.g., the PVV in Netherlands, the National Front in France, the Sweden Democrats in Sweden, JOBBIK in Hungary), with the latter typically predominating over the former.

**Regardless of the destination, however, the overall pattern is clear: the traditional base of labor and social democratic parties is shrinking and providing less and less support for these parties. This trend cannot be reversed, only at best mitigated. Mainstream left parties have no choice but to accept this reality and change their strategy accordingly.**

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2007, Table 2.5.

<sup>22</sup> Authors' analysis of data in G. Moschonas, *Lower Classes or Middle Classes?: Socialism and its Changing Constituencies in Great Britain, Sweden and Denmark*, presentation to Council for European Studies, March 5, 2008; and A. Painter, *The New Progressive Imperative in Britain*, Center for American Progress, April, 2011.

## The Rise of Progressive Diversity

The decline of the traditional working class reflects a broad structural shift away from manufacturing and toward a postindustrial, knowledge-based society embedded in a global economy. Accompanying this shift have been changes in family and values norms - lowered fertility, diversity in family forms, rise of postmaterial values, decline of traditional religion - sometimes referred to as the Second Demographic Transition. Together these changes have given rise to an explosion of progressive diversity.

### Rising educational levels and white collarization.

In occupational terms, the other side of the decline in the traditional working class is the rise of white collar and professional workers (sometimes lumped in with shopkeepers and the self-employed and referred to by the catch-all phrase “middle class”). As mentioned earlier, the proportion of white-collar workers in Germany’s workforce has nearly tripled since the 1950’s and the rate of white *collarization* is not far off in other countries. This is a universal trend.

Closely-related to this is another universal trend: the rise in educational levels. Across countries there has been a sharp decline in the ranks of those with the lowest levels of education and a rapid increase in those with the highest levels of education - college and advanced degrees. For example, in the Netherlands, the proportion at this educational level rose 15 points between 1985 and 2009 and in France this proportion rose 14 points between 1982 and 2006. The highly-educated group is expected to continue its rapid growth in the future.

These are changes with profound implications for progressives. Simply on the level of numbers, the sheer size of the white collar population means social democratic parties have become far more dependent on white collar votes for electoral success than they were in the past. As political scientist Gerassimos Moschonas has shown<sup>23</sup>, as the traditional working class declined in size and reduced its support levels for social democrats, these parties did manage to compensate - at least partially - by attracting white-collar votes, frequently at higher rates than they did in earlier decades. As a result, the weight of white-collar voters among the social democratic electorate has increased dramatically. In Sweden, 67 percent of social democratic voters were blue collar in 1976, compared to just 27 percent who were white collar. By 2006, the blue collar proportion had dropped to 40 percent while the white collar share had risen to 49 percent.

**Perhaps the most progressive element of the burgeoning white-collar population is professionals, who have the highest educational levels. Since the highly educated are increasing so rapidly, this would appear to be good news for social democrats.**

23 G. Moschonas, op. cit.

The problem however is that professionals and the highly educated, while progressive, do not necessarily choose the social democrats when they vote progressive and there are viable choices. Instead, they frequently turn to social democrats' competitors on the center-left, especially liberals and greens. Because of this, social democrats actually tend to underperform among these constituencies relative to their overall electoral support, while their center-left competitors overperform. In an analysis of 2006 data on 12 European countries<sup>24</sup>-- Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Norway, Sweden, Switzerland and the United Kingdom - social democrats underperformed across countries by 2 points among the college-educated<sup>25</sup> and by a percentage point among professionals, while the rest of the center-left overperformed by 6 points among the college educated and by 8 points among professionals. In Germany in the 2009 election, social democrats did 5 points worse among professionals than among non-professionals and 7 points worse among the college-educated than the non-college-educated, while the greens did 8 points better among professionals and 9 points better among the college-educated than among those without these characteristics.

So, while the rise of professionals and the highly-educated may be a boon for progressives overall, it is not necessarily a boon for social democrats. Of course, this dynamic varies by country and is influenced, among other things, by the nature of the party system. Generally speaking, the closer to a two party system a country has, the more likely the main left party can capture these constituencies while the more robust the multiparty system, the less likely the main left party will dominate these constituencies (as, for example, in the Netherlands and Germany).

This contrast is neatly illustrated within one country, Australia. In the Australian system, the primary vote is a voter's first choice among all parties; the two party preferred vote is, in essence, which of the two main parties - the Labor Party or National Coalition - the voter prefers. In 2007, professionals gave Labor 43 percent of their first preference vote (2 points under the overall electorate) but gave Labor 58 percent of their two party preferred vote(4 points more than the overall electorate). The difference was an unusually high primary vote for the Greens among this group, which then translated into Labor support on the two party preferred vote.

## Immigrants and minorities

Over the last few decades, the immigrant and minority population has increased substantially across countries and in most of them is continuing to increase. In the UK, the

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<sup>24</sup> Authors' analysis of data from the 2006 European Social Survey. Data are population-weighted to take into account the varying sizes of the different countries.

<sup>25</sup> First or second level of tertiary education

nonwhite (black, Asian and minority ethnic or BAME) population is projected to reach 20 percent of the population by 2031, compared to 13 percent in 2001. In the Netherlands, the migrant population share is projected to reach 26 percent by 2040. In Spain, the immigrant population has grown from 200,000 to just under 6 million since 1981. In France, around 150,000 newly naturalized citizens are being added to the election rolls every year which could mean 750,000 newly naturalized citizens participating as first-time voters in the 2012 presidential elections.

Across countries, the general tendency is for immigrant/minority voters to vote left and especially for social democrats. There are differences however by country of origin. In Germany, for example, migrants from Turkey are particularly likely to vote social democratic while migrants from the former Soviet Union are least likely to do so. In France, migrants (and their children) of African origin are most supportive of the left. In the UK, those of Caribbean origin are most supportive of Labour, though all BAME subgroups display much higher support rates for Labour than the rest of the population. But regardless of variation, the overall tendency is clear and unambiguous. The rising immigrant/minority population is a boost for progressives in general and social democrats in particular.

However, there are several nuances to this trend that complicate this positive story. One is that the political effects of immigration, especially in terms of national elections, tend to be blunted by the non-citizen status of many immigrants. Second, the immigrant/minority population typically starts from a small base so even a fairly rapid increase in their numbers will have limited political effects, at least compared to the US. Finally, reactions to immigration are very, very complicated and can send traditional working class voters away from social democrats toward the right. And among progressive, culturally tolerant constituencies, social democrats may also find themselves losing votes - here to parties like the greens and liberals which have a stronger focus on diversity and an open society.

## Women

Historically, social democratic parties have done better among men than women. Across countries, this tendency is being reversed so that in recent elections social democrats tend to do better among women than men. However, in most countries this difference is modest, especially when compared to the US, and has also arrived far later than in the US, where women started voting more left than men back in the 1970's. But the uniformity of this trend is nevertheless striking, suggesting that women voters are likely to become increasingly important to progressive electoral success in most if not all countries.

One reason for the progressive trend among women is that the composition of the female population has changed in important ways. Most obvious is the entry of women into the labor force and out of a traditional home-bound role that tended to foster conservatism.

But it is also true the women have moved rapidly into the ranks of higher education and the professions, with their rate of advance frequently eclipsing that of men. Women are also more likely to be single or to remain single than they were in the past, another social change that promotes a more progressive viewpoint.

## **Decline of traditional family and traditional religion**

Across countries, the traditional family is declining and we are seeing a lot more single person households. In the UK, the number of single person households rose by 73 percent between 1981 and 2008. In the Netherlands, the proportion of unmarried voters in the 20-65 age group increased from 26 to 36 percent in just 12 years (1998-2010). In Australia, between 1991 and 2006, the proportion of never married or divorced women among 25-29 year old women rose by 14 points (25 to 39 percent).

By and large, single voters are more likely to support the left than married voters. And among single voters, divorced/separated voters are even more likely than never married voters to do so. Overall, it seems clear that the ongoing trend toward more single person households should benefit progressives.

But as with professionals and highly educated, these benefits may flow less to social democrats than to their center-left competitors in multi-party systems. In the same 12 European countries mentioned earlier social democrats underperformed across countries by 2 points among singles<sup>26</sup>, while the rest of the center-left overperformed by 7 points among these voters.

Along with the traditional family, traditional religion is declining and secularism is on the rise. In Australia, the proportion of those with no religion rose from 14 to 21 percent between 1991 and 2006. In the Netherlands, the proportion of those with no religion almost doubled from 23 to 44 percent between 1971 and 2009. Similarly, in France, those with no religion rose from 13 to 30 percent between 1988 and 2007. Other changes to the traditional religious universe include increases in those with non-Christian religious faiths and a general decline in religious observance among those who retain a Christian faith.

On one level, these changes indirectly benefit the left since they undercut traditional linkages between religion and politics, which have typically benefited conservative parties. More directly, secular voters tend to lean left politically. In the Netherlands, those with no religion favored parties of the left over parties of the right by 22 points in 2006. In Australia, secular voters gave Labor 65 percent of their two party preferred vote in 2007. In addition, voters with non-Christian faiths and unobservant voters also tend to lean left.

But in many countries, the benefits to social democrats in particular from these trends are diminished by competition from other parties on the center-left - greens, liberals and even the populist left. For example, in the UK liberal democrats do much better than Labour

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<sup>26</sup> Never married and never in civil partnership.

among those with no religion. And in Germany, in the 2009 election, social democrats did not receive disproportionate support from unobservant and secular voters, while the greens did 10 points better among unobservant Protestants than other voters and the Left party did 15 points better among seculars than among non-seculars. Even in Australia, where seculars gave such a high proportion of their two party preferred vote to Labor, their primary vote for Labor was 15 points lower due to an unusually high primary vote for the greens.

## **The rise of the Millennial Generation**

Into this brave new world steps the Millennial Generation (defined here as those born between 1978 and 2000). They compose essentially all of the 18-34 year old age group of voters and will continue to do so for another seven years, after which a new generation will start entering the electorate. In this generation, all the trends discussed thus far find their strongest expression. Compared to previous generations, Millennials are:

- Less likely to be working class
- More likely to be highly educated
- More likely to be professionals (or in training to be one)
- More likely to be of a minority or migrant background
- More likely to be single (compared to previous generations at the same age)
- More likely to be secular in religious orientation.

They are in short the vessels of modernity with an outlook - particularly among women - that is notably cosmopolitan, tolerant and open compared to previous generations. They are also of course a generation whose access to economic mobility bears a vexed relationship to the welfare state and to the older voters who are its chief beneficiaries.

The good news for progressives is that this generation appears to lean left in most countries. Of course, as a number of the country papers pointed out, it is difficult at this stage to disentangle the effects of age from cohort - that is, the extent to which young voters may be leaning left simply because they're young as opposed to part of an unusually progressive cohort. But **overall evidence suggests that in countries like France, Sweden, Australia and Germany, the Millennial generation is distinctively progressive as a generation.**

**The bad news is that, especially compared to the United States, the Millennial Generation is relatively small.** In most advanced countries, declining fertility has led and will continue to lead to an older age structure in their societies, where the relative weight of the young declines and the elderly increases. To give just one example, in the Netherlands in 1950, just 8 percent of the population was above 65, but by 2040 that number is expected to reach 27 percent. However, it's worth noting that by 2040 the Millennials will be ages 40-62 and on the cusp of dominating the ranks of seniors. This

could over time mitigate any conservative effects of a senior voter bulge. In addition, by that year the generation following the Millennials (2001-2020) will be fully in the electorate, a generation that should be even more affected by the modernizing trends that have shaped the Millennials. Depending on their politics, this new generation could, in tandem with the Millennials, make the long-term conservative political effects of societal aging far less daunting than they now appear. Still, it is undeniable that, for now, the relatively low population weight of the Millennials will limit their progressive political impact.

The further bad news is that in many countries progressive Millennial voters are looking past the main left parties to greens and liberals. In Germany in 2009, social democrats did 8 points worse among Millennials than among the earliest generation of voters, while the greens did 15 points better among Millennials than the oldest voters. In the same 12 European countries mentioned earlier social democrats underperformed across countries by 4 points among Millennials, while the rest of the center-left overperformed by 9 points among these voters. And most shockingly, in Hungary social democrats' current support among the Millennial generation is so low it is not significantly different from zero in a statistical sense.

The relative unattractiveness of social democrats to younger voters in their countries is resulting in a rapid aging of the support base for these parties. In the Netherlands, for example, half of the Labour party's supporters in the 2010 election were over 50 while just 17 percent were between 18 and 34. In Sweden, every successive generation has had a smaller proportion of social democratic supporters, inexorably driving the average age of party supporters upwards. Betting on older voters to keep social democrats politically viable is a risky strategy but it is, in effect, where many social democratic parties are currently placing their bets.

**The rise of progressive diversity is thus not benefiting the mainstream left parties. Indeed, mainstream left parties are caught in a kind of electoral pincers movement.** On the one hand, the traditional working class is declining as a share of the electorate and is giving less of its support to social democrats over time. On the other, social democrats are not getting their fair share, as it were, of progressive emerging constituencies, with much of that going to their center-left competitors.

The fact must be faced that the era of social democratic dominance is over. That does not mean that social democracy is in a state of terminal decline; in all likelihood these parties will continue to play leading roles on the center-left. But a return to their electoral dominance of the 1960's and 1970's is unlikely. The world has changed too much and their center-left competitors are too strong.

**This means that European social democrats face a daunting but unavoidable coalitional challenge. They must knit together the disparate center-lefts of different countries into dominant electoral and governing forces. Only in this way can center-left parties, including the social democrats, fully harness the power of rising progressive diversity.** Social democrats will achieve little success going it alone.

## The Failure of Growth

The primary achievement of post-war social democracy was the creation of the mixed economy and a strong welfare state to help harness the best aspects of capitalism and protect people from the worst aspects. This model varied across nations, of course, but all employed similar theoretical and practical models - Keynesian demand management, the provision of public goods, social security measures, and cooperative labor and management structures. The combination of sustained economic growth, full employment policies, industrial planning and social provisions generated unprecedented prosperity, peace and rising living standards for millions of people.

But that world is no more. Starting in the 1970's, it became increasingly difficult to manage tradeoffs between unemployment and inflation as the complications of a globalizing economy started to bite. These complications undermined the stable international economic relationships of the postwar Bretton Woods system, including fixed exchange rates. The *coup de grace* was administered by the OPEC oil price shock of 1973. Inflationary pressures that had been building up inside the advanced countries could no longer be contained, producing high inflation rates that could not be brought down by high unemployment. This combination of high unemployment with high inflation was termed "stagflation". European progressives at that time were unprepared with either an alternative to, or extension of, the postwar Keynesian system to fix this problem, which led to the end of the Keynesian consensus.

This was quickly followed by the conservative counterrevolution. Conservatives had never been happy with the Keynesian consensus. Ideologically, they were opposed to the idea that the unregulated market had intrinsic flaws that only government could correct. And many conservatives, of course, had economic interests that predisposed them to resist and resent government. So when the Keynesian system appeared to break down, they seized the opportunity to reinstate their views and discredit government's role. They succeeded beyond their wildest dreams, replacing the discredited Keynesian consensus with an economic program that emphasized the unregulated workings of the market, especially in the financial sector, a decreased role for social spending and a commitment to price stability over full employment.

This economic philosophy was obviously no mere reform or adjustment of the Keynesian system but a complete turnaround - a true counter-revolution. In short order, it came to dominate economic policymaking in advanced countries. Deregulation and privatization became the order of the day, while Keynesian fiscal policy, including the central role of public investment, was shunted aside.

The results of the conservative economic regime have not been good. Indeed, in every important way it has produced economic results far inferior to those of the Keynesian era. Living standards have grown more slowly since the mid-1970's and inequality has

risen, most spectacularly in the US and UK. Moreover, the post 1973 period compares poorly to the Keynesian era in terms of overall growth. In other words, it's not just that post-1973 growth has been poorly distributed; there's also been less of it. This fact is particularly damning for the conservative economics that replaced Keynesianism because that economics was supposed to unshackle the great capitalist growth machine from the heavy hand of government. Instead, real GDP growth has actually slowed down substantially: compared to the Keynesian era, the *annual* growth rate in the conservative era has been around 2.5 percentage points less in European countries and a percentage point less in America. A similar slowdown can be observed in real GDP per capita growth, down 2 points a year in Europe and half a point a year in America. Over several decades these slow rates have produced massive shortfalls in national wealth and severely cramped growth in living standards.

Conservative economic policy-making has been similarly unsuccessful in keeping down the unemployment rate. Despite encouraging the capitalist economy's allegedly natural tendency toward a full employment equilibrium, the conservative regime has proved incapable of producing sustained low unemployment. Across advanced countries but especially in Europe, average unemployment rates have been far higher in the conservative era than in the Keynesian era.

And of course the ultimate failure of the conservative economic regime was its inability to anticipate the financial crisis and Great Recession of 2007-09 whose effects still haunt the advanced countries today. These economic cataclysms were not supposed to happen according to conservative economic theory. Indeed, conservative doctrines not only failed to anticipate these events but also facilitated them by blanket deregulation of the financial sector. The resultant colossal destruction of wealth has made a mockery out of conservative claims to have mastered the modern capitalist economy. Their growth model has been tried and found utterly wanting.

## **Moving Forward to Traffic Light Politics**

**The demographic and economic basis for traditional social democratic politics therefore no longer exists.** In fact, there is no longer a basis for an effective social democratic politics that is not embedded in a broader progressive coalition and linked to a new strategy for growth. The era of social democratic dominance in Europe is over, but an era of progressive dominance may yet take shape with the rise of traffic light politics. Here are the key elements of such a politics.

First, **the coalitional challenge must be faced head on. Social democrats must pay far more attention to how they can work together with green and yellow parties - and even left socialist parties where they are committed to a responsible political**

**path - to form common electoral fronts around shared policy objectives.** This shouldn't wait until election results are in but rather pursued as an ongoing part of political-electoral strategy.

Second, **these shared objectives must centrally include a program for faster, more equitably-shared growth and full employment.** The time has come to reject the proposal that European economies are doomed to slow growth and high unemployment. With the proper policies in place - new investments in infrastructure, education and renewable energy and far-reaching labor market reform - it will be possible to usher in a Third Industrial Revolution based around clean energy and complete the ongoing transition to a high productivity, high wage, high employment service sector. More and better growth is possible and the new progressive coalitions must lead the way.

**A new growth model starts, of course, with a rejection of austerity economics. Whatever the short term compromises necessary to keep some countries afloat, austerity is not and cannot be a progressive growth policy - indeed the evidence is strong that it is not a growth policy at all. Social democrats must be clear on this and vigorously propose a well-defined alternative.**

That alternative must highlight the need for a coordinated growth agenda across countries. In Europe, that begins with a move toward fiscal union including minimally the creation of Eurobonds to defuse the financial contagion and instability wracking so many countries. Beyond that, a new international economic regime is necessary to protect individual countries and the global economic order from unrestricted flows of financial capital. Otherwise, growth will get choked off before it has really begun.

Then **social democrats must develop domestic economic plans that don't just include targets for deficit reduction (the current approach) but the mechanisms that might actually produce a spurt of new growth.** For example, if countries are going to restructure their welfare states and reform labor markets that should not be done simply to save money and unleash business. That is a necessary but hardly sufficient condition. Instead such reforms must be accompanied by investments and policies that help foster the industries of the future and ensure full employment, especially among the hard-hit younger generation and other labor market outsiders. Governments, far from playing reduced roles, must play stronger ones, dramatically increasing educational levels, channeling support to emerging technologies like clean energy, promoting labor market arrangements that match people with jobs as conditions shift and providing packages of smartly designed and efficiently delivered social benefits. Such an approach, pursued across many countries, is far likelier to produce an era of strong growth than simple budget-cutting.

Third, it is clear to us that the notion of solidarity that supported the great 20<sup>th</sup> century social democratic triumphs is dying. In a time of rapid economic change, voters are becoming increasingly decentralized, individualistic, and more family and community

focused in their worldviews. Choice reigns in all aspects of life and traditional social roots are deteriorating or being replaced by new models of social interaction, particularly among younger people. As much as we might fight against the trend, voters are not becoming more committed to shared national goals, common political platforms, or to building stronger European or global identities. Bonds of work, religion and class matter far less to people these days, and as we are seeing with the fierce immigration battles across our nations, the humanitarian and multicultural impulse underlying our progressivism is not easily extended to outsiders.

These developments can be addressed but it will require a radically different notion of solidarity - one that helps people understand the collective economic need for breaking down barriers to individual achievement and the moral basis for helping others reach their highest potential academically, professionally, and culturally. This is a strong form of solidarity but one that recognizes the importance of individual and localized lives. It is deeply progressive in its commitment to human dignity and equality but it is less class bound and more open to people of different walks of life. And despite short term challenges on issues like immigration, this **new vision of solidarity must embrace rather than reject the progressive commitment to diversity and individual freedom which are mainstays of the worldview of younger generations. Solidarity, as reconceived for a new era, will focus more on mutual responsibility and the need to foster individual achievement and community stability in an era of scarce resources and a rapidly shifting global economy.**

Finally, it seems clear to us that social democrats' traditional approach and reflexive defense of the welfare state are inadequate for addressing barriers to social mobility and concerns about environmental sustainability. As important as existing policies are for social democrats' working class base, it is not hard to see how a university student might scratch her head wondering what trade unions actually do and how she might use a manufacturing retraining program. She's probably more worried about rising fees and cumbersome labor market protections that make it hard for her to get a job. So she takes a look at the liberals. Or perhaps she's focused on sustainability and renewable energy production and likes what the greens have to say. Maybe she sees inefficient civil service procedures and bureaucratic waste and wonders why the state can't be more efficient as center-right parties argue.

It's no wonder the social democratic and labor share of the vote is collapsing across Europe. Traditional working class support is rapidly shrinking and rising progressive constituencies do not see social democratic and labor parties as visionary or distinctive in their approach. They often see *status quo* leaders, outdated party structures, and muddled policy ideas. Therefore, the identity, institutional outreach and agenda of traditional social democratic and labor parties does not fit with how younger, more mobile and more diverse voters see their world.

Progressive forces will always focus on the mixed economy, social protections and full employment policies. But they must do more to show new voters how progressive state action can enhance their individual life opportunities and help them build a solid middle class life through life-long educational opportunities, high wage, high skilled economies, the transformation of infrastructure and cities, clean energy, a more modern tax and labor market system, new international leadership, and the creation of a global middle class and new export markets. In short, they need a vision of an opportunity society that combines traditional security measures with new efforts to support greater social mobility, reduce social inequality and promote sustainable global growth.

That said, to help make an opportunity framework viable, social democratic arguments will still be necessary to make the case for long term industrial policy and to attack emerging laissez-faire governance. **A new era of opportunity will require a much stronger state role in making our economies more competitive with other nations through long term investments in education, energy infrastructure and transportation, and high wage jobs.**

Moreover, since individuals alone cannot contend with the forces shaping the global economy, social democrats, among the array of progressive parties, are particularly well placed to argue for the importance of serious public investment and strategic planning. They can also play a leading role in sustained intellectual and policy attacks on the underpinnings of conservative economics - the efficient markets hypothesis, deregulation, privatization, and supply-side tax policy - that contribute so much to instability and inequality in the world economy today. So in policy as well as electoral terms, green and yellow need red as much red needs green and yellow. That is the beauty of traffic light politics.

Finally, none of this new thinking, organizing, and campaigning will be possible without the creation of new structures to build and sustain a progressive majority. Here, as in previous eras, the role of international collaboration and organization will be key.

During the 1990s, the emergence of the progressive governance network, founded by Tony Blair, Bill Clinton and like-minded European leaders such as Gerhard Schröder, Giuliano Amato and Göran Persson, played a crucial role in refining the arguments of the Third Way, identifying best-practices in policy-making, and legitimizing sometimes contentious political reforms by embedding them within a larger, internationally agreed movement. With the inclusion, over time, of Jean Chretien and Paul Martin – Canadian Prime Ministers from the progressive-centrist Liberal Party – the network also extended international discussions beyond the traditional progressive family for the first time.

While today's challenges differ from those of the past, progressives can learn from the successes and shortcomings of this network. For one, the opening up of debate – to include more think tanks and non-traditional progressive partners – must be continued. A new progressive internationalism must be more inclusive in this regard. However,

while previous discussions have focused on policy, these essential discussions must now be complemented with a razor sharp focus on electioneering – as is the case with conservative international networks – and party and political reform. With regard to this final point, **the elitist nature of our political parties – and international coalitions - needs to be redressed as part of a larger change in mindset towards a more inclusive and open form of politics.**

As in the past, leaders struggling to promote this new politics will benefit from shared experience by embedding their attempts within a revised and renewed progressive internationalism, as well as achieving some measure of political cover from doing so. The road to the new politics will not be an easy one, but it will be far more difficult without effective international collaboration. The time is right to start building a new progressive international that institutionally embodies the progressive diversity of the 21<sup>st</sup> century.

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**FOR  
A CONNECTING  
PROGRESS  
AGENDA**

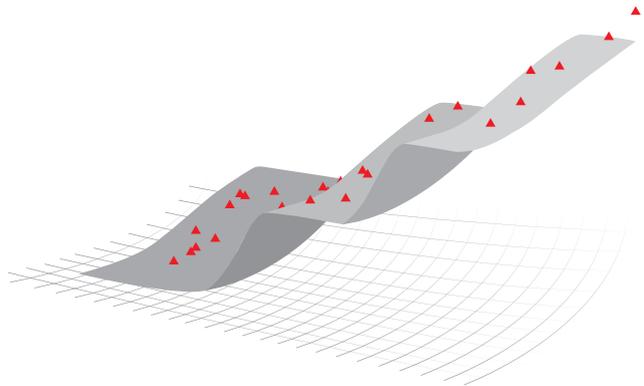
**Creating European Welfare  
– a Proposal of a Tangible  
Agenda for Equality**

**SIVE**



Ignacio URQUIZU

## European Union and Inequality



**Keywords:**

**Inequality - Redistribution - Welfare State - Eastern Countries -  
Monetary Union**

**Abstract:**

One of the challenges for a European social democracy is to enhance equity in the European Union. Why? Empirical evidence shows that inequality has increased in recent decades. Moreover, as this paper shows, it is not only a question about states, it is a question about citizens as well. If socialist parties want to solve this problem, they need a new agenda of redistribution. This is the main aim of this paper. After analysing why equity is important, this research presents new data that show the evolution of inequality in the EU. Finally, the last section summarises four proposals that try to solve this issue.

One of the main threats to the European Union (EU) is inequality. Why? If we look back, we'll observe that one of the factors that explains the decadence of the greatest empires and biggest states has been the existence of deep inequalities between territories and citizens. For instance, many factors played into the failure of the USSR, one of which was the great economic difference among regions. In 1991, the gap between the richest republic, Russia, and the poorest one, Tajikistan, was 6 to 1<sup>1</sup>. This ratio is bigger than other examples of regional difference, for instance in the United States, where the richest state has 1.5 times more income per capita than the poorest state. Or in Spain, where the economic difference between the richest and the poorest regions is 1.7.

However, as I show in the following sections, the economic variance among countries in the European Union is very high. In fact, it is greater than the difference observed in the USSR in 1991. Does this mean that the European Union is in danger of extinction? I do not think so. However, if we do not correct the economic variance between societies, inequality may represent a hazard for the future.

For this reason, I have decided to write a paper about equity in the European Union. In the first section, I summarise why inequality matters. Beyond the problem of efficiency, I present the positive consequences of an equal distribution of resources. In the second section, I show the evolution of inequality in the European Union. Using different indicators and data, I present a picture of the EU. Finally, in the third section I deal with possible solutions. Thus, I develop different proposals that may reduce the deep economic variance among countries and citizens.

In sum, this paper tries to contribute to the European debate about inequality. The problem is relevant and to find solutions will be a priority in following years. If Europeans do not resolve this question, the future of the European Union will become increasingly uncertain.

## Why does inequality matter?

For a long time, liberal economists and conservative politicians have pointed out that inequality is a moral or an ideological issue. This means that reducing social differences among individuals or countries is a decision that would be based on moral principles. Therefore, they have not considered this question as an economic or a political problem.

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<sup>1</sup> B. Milanovic, *Los que tienen y los que no tienen. Una breve y singular historia de la desigualdad global.*, Madrid: Alianza Editorial, 2012, p. 95.

According to this group of thinkers and politicians, if governments decide to reduce inequality, their choice will be based on ideological motivations.

Moreover, a second insight has reinforced opposition against equity. Several economists and rightist politicians claim that equality may have negative economic consequences, because it can produce inefficiencies. As R. Bazillier<sup>2</sup> summarises in another paper of the Next Left Focus Group, *'The idea of a trade-off between equity and efficiency comes from a long tradition in economics'*<sup>3</sup>. Thus, if governments pursued an equal distribution of resources, they would move markets from equilibrium.

However, empirical evidence shows that equality is something other than a moral issue. As I explain below, it has relevant political and economic consequences. Thus, where there are strong differences among individuals, several pathologies may emerge: corruption, authoritarianism, poverty, social injustice, and so on<sup>4</sup>.

The second objection to arguments against equity is that inequality may also produce economic inefficiencies. In other words, in societies with high levels of social differences, economic markets do not work properly. Therefore, the trade-off between equity and efficiency is questionable<sup>5</sup>.

In previous meetings of the Next Left Focus Group, R. Bazillier<sup>6</sup> dealt quite thoroughly with the problem of efficiency. For that reason, I am not going to develop this idea and I would refer readers to his chapter<sup>7</sup>. Rather, I am focusing on other political and economic consequences that may be found in the literature.

One of the main outcomes of equality is democracy. For a long time, political scientists have wondered why some societies become democracies<sup>8</sup>. Most of them have concluded that **there is a strong relationship between economic development and democracy**. Thus, either the origin of the democratic system or the survival of democracy would be the result of economic growth and high income per capita.

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2 R. Bazillier, *Equality must be the core of economic policies.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *For a New Social Deal.*, FEPS Next Left Book Series, Vol. 6, Poland: FEPS and Renner Institut, 2013, pp. 102 – 133.

3 Ibidem, p. 106.

4 A. Alesina & R. Perotti, *Income distribution, political instability and investment.*, *European Economic Review*, 40 (6), 1996, pp. 1203-1228; L. M. Bartels, *Unequal Democracy. The political economy of the New Gilded Age.*, Princeton: Princeton University Press, 2008; R. Wilkinson & K. Pickett, *The Spirit Level. Why equality is Better for Everyone.*, London: Pearson 2010; J. Stiglitz, *El precio de la desigualdad. El 1% de la población tiene lo que el 99% necesita.*, Madrid: Taurus 2012.

5 R. Bazillier, op. cit., 2013.

6 Ibidem.

7 Ibidem.

8 S. M. Lipset, *Some social requisites of democracy: Economic development and political legitimacy.*, [in: ] *American Political Science Review* 53, 1959; S. Huntington, *Political order in changing societies.*, New Haven: Yale University Press, 1968; A. Przeworski & F. Limongi, *Modernization: Theories and Facts.*, [in: ] *World Politics*, 49 (2), 1997, pp. 155-183.

Nevertheless, this academic debate is far from being closed. As Boix and Stokes<sup>9</sup> point out, economic development influences the probability of being a democracy. However, they add a new variable: equity. After analysing 135 countries from 1800 forward, the authors observe that equality explains the origin of democracy. Their empirical evidence shows that equal distribution of agricultural property and high quality of human capital increase the probability of transition to democratic systems. In sum, equality has positive effects on the origin of democracies.

However, equity influences democracy in another way. **In addition to the establishment of democratic systems, equality has positive effects on the quality of democracy and the reduction of corruption.** How does it work? The literature on social capital has not paid attention to the relationship between social capital and economic equality. It exists, however, and Nordic countries provide the examples<sup>10</sup>. Thus, equity would create a virtuous cycle wherein social policies and welfare benefits would lead to solidarity and social trust. In turn, this social engagement would move citizens to pay taxes, support a welfare state and respect formal and informal rules. In sum, from this point of view, economic equality would be the causal mechanism that permits the relationship between social capital and quality of government.

**Another positive outcome of equity is safety.** This means something other than a lack of violence, robberies or insecurity. It is true that there is a relationship between economic equality and the absence of violence. Nevertheless, we need to widen our view about the meaning of safety.

Individuals are unsure about the future. They do not know the risks and the problems that they will face. In this uncertain world, equality may reduce future threats. Economic equality may function as Rawls' veil of ignorance. Individuals are unaware about what their social position or their social status will be in the future. They do not know if they will have good luck or bad luck. Thus, equity ensures that they do not drop below a minimum social level. Therefore, economic equality is an insurance against uncertainty and insecurity.

**A final positive feature of equity is justice.** I do not, however, refer to social justice as synonymous with redistribution and equal opportunities. I understand that a social system and its institutions are fair if they guarantee the feasibility of society. Thus, justice means that individuals ought to perceive that the institutional design and its outcomes permit equal opportunities. If citizens consider that their social system is unfair, instability will emerge. In other words, the feasibility of societies depends on the support of their members. If individuals point out that economic and social outcomes are not appropriate

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9 C. Boix & S. Stokes, *Endogenous democratization.*, [in: ] *World Politics*, 55 (4), pp. 517-549, 2003.

10 B. Rothstein & E. M. Uslaner, *All for one: equality, corruption and social trust.*, [in: ] *World Politics*, 58 (1), 2005, pp. 41-72.

to the principles of equal opportunities and effort, they will refuse that social order. For this reason, equity is a question of justice and the feasibility of societies.

To sum up, equality is a relevant value for politics and society. To pursue this goal will improve our democracy, will reduce our uncertainty and will ensure the feasibility of our modern societies. All of these issues will have positive effects on the construction of the European Union. After 60 years, the EU needs a new motivation. Moreover, one of the main problems of the economic crisis is that cracks appear in the European project. One of these cracks may be the increase of inequality between European countries and among European citizens. Therefore, European institutions ought to pay attention to equity. This is not merely a short-term issue; equity policies will have implications in the middle and long term as well. As Milanovic points out, '*A political union will be feasible if similar conditions of life exist among the member states*'<sup>11</sup>. In other words, if the conflict around redistribution remains, Europe will face difficulties with further integration.

## **The evolution of inequality in the European Union**

Before presenting the possible proposals, we need to know how inequality has changed in recent decades in the European Union. In this section, I show the data that I have collected from different sources<sup>12</sup>. Thus, I have created different indicators that summarise the socio-economic differences between European countries.

A clarification is required before analysing the data. One of the most important issues in the evolution of the European Union is the territorial extension. In 1957, seven countries formed the EU<sup>13</sup>. As of 2013, the number of European countries is 28. We may observe the same process in the European Monetary Union (EMU). At its beginning, in 1999, 11 countries took part in the EMU. As of 2013, 17 countries take part. It is necessary to account for these territorial extensions if we want to understand the variations in the evolution of inequality.

In order to measure inequality, I use two different data sets: Gini index and income per capita<sup>14</sup>. The Gini index does not need justification. It is one of the most relevant indicators that measure the economic differences between individuals. The Giniindex is a 0-100 scale in which 0 corresponds to total equality and 100 to extreme inequality.

11 B. Milanovic, op. cit., 2012, p. 205.

12 World Bank: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> and the World Income Inequality Database (this data comes from the Luxembourg Income Study, European Commission and Atkinson studies): [http://www.wider.unu.edu/research/Database/en\\_GB/wiid/](http://www.wider.unu.edu/research/Database/en_GB/wiid/)

13 Austria, Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

14 The unit of measure of income per capita is the dollar, and it takes into account the Purchasing Power Parity (PPP). Thus, I compare different countries and different years.

Why, though, is income per capita a good measure of equity? First, if we want to compare countries, we need an indicator that summarises wealth and income. In a few numbers, income per capita gives a lot of information for a society. Second, income per capita correlates with the most important indicators of welfare, education and health<sup>15</sup>. Thus, income per capita presents a good picture of the economic situation of societies.

Graph 1 (line) shows the evolution of median income per capita since 1960 in the European Union. We observe that, at the beginning, the median income was around 1,200 dollars. It has increased over the last 60 years and, at this moment; it is close to 26,500 dollars. Most of the drops in the graph coincide with territorial extensions. Thus, in the 1980s the median income per capita decreased because of the admission of Greece, Portugal and Spain. The same effect happened in 2004, when Eastern countries joined the European Union. The rests of the drops are explained by economic crises.

A second relevant piece of data appears in Graph 1. The bar chart shows the number of poor countries in European Union. How do I consider that a country is poor? Like the scale used for individuals, an economy is poor if it is under the 60 per cent mark of the median income. We observe that the number of poor countries has increased since the 1970s. Thus, before the admission of Eastern countries, the poor economies were between two and three (Greece, Portugal and Spain), depending on the year. But once Eastern countries joined the European Union, the number of poor countries has increased and, at this moment, is numbered at six: Lithuania, Hungary, Bulgaria, Romania, Poland and Latvia. Estonia and the Slovak Republic exceeded the 60 per cent mark of median income per capita in 2011 and 2010, respectively.

In sum, from the first graph we may draw two conclusions. **On the one hand, in spite of territorial extensions, European income per capita has increased dramatically in the last 60 years. On the other, the number of poor economies has increased as well. This means that a new problem has emerged in the EU.**

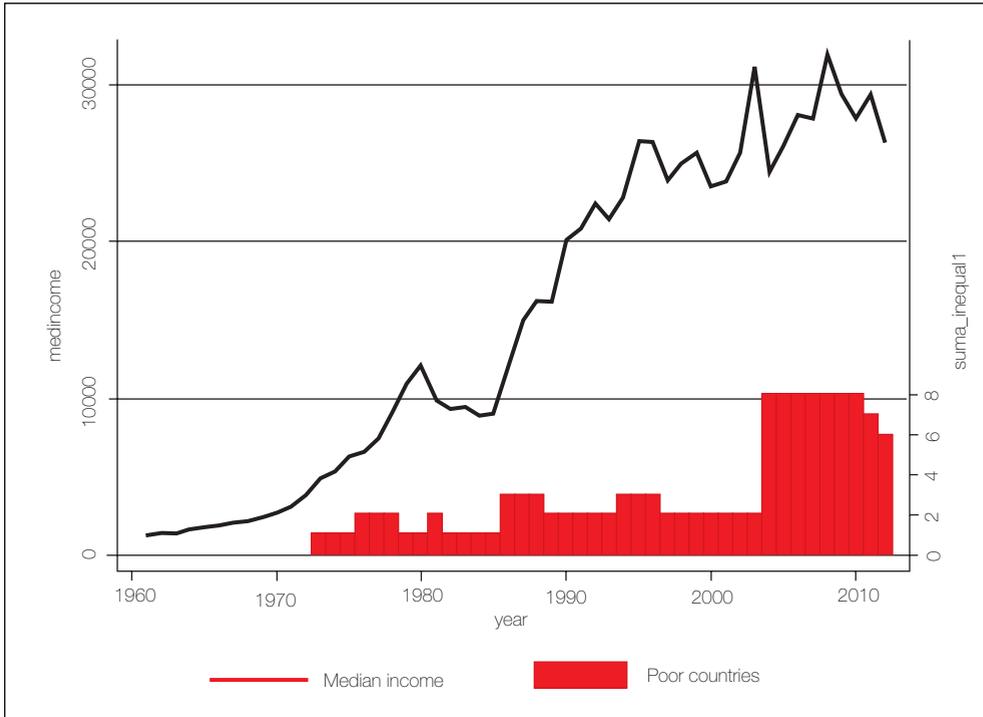
Graph 2 shows the difference between the richest and the poorest countries in the European Union. How did I calculate this? Taking into account incomes per capita, I divided the highest one by the lowest one. Thus, we may know by how many times the richest country exceeds the poorest one. In the European Union, the richest country has always been Luxembourg, while the poorest country has changed through time. This may explain the evolution of Graph 2.

Until the 1980s, the economic gap between the richest and the poorest nations was between 2 and 3 times. At the birth of the European Union, Italy had the lowest income per capita. Once Ireland joined, it took over the last position of ranking of income per capita. The economic difference increased, although it was not a big change. Since the 1980s,

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15 J. Fernández-Albertos & D. Manzano, *Democracia, Instituciones y Política Económica.*, Madrid: Alianza Editorial 2010, p. 19.

Graph 1. Median income per capita and poor countries in the European Union

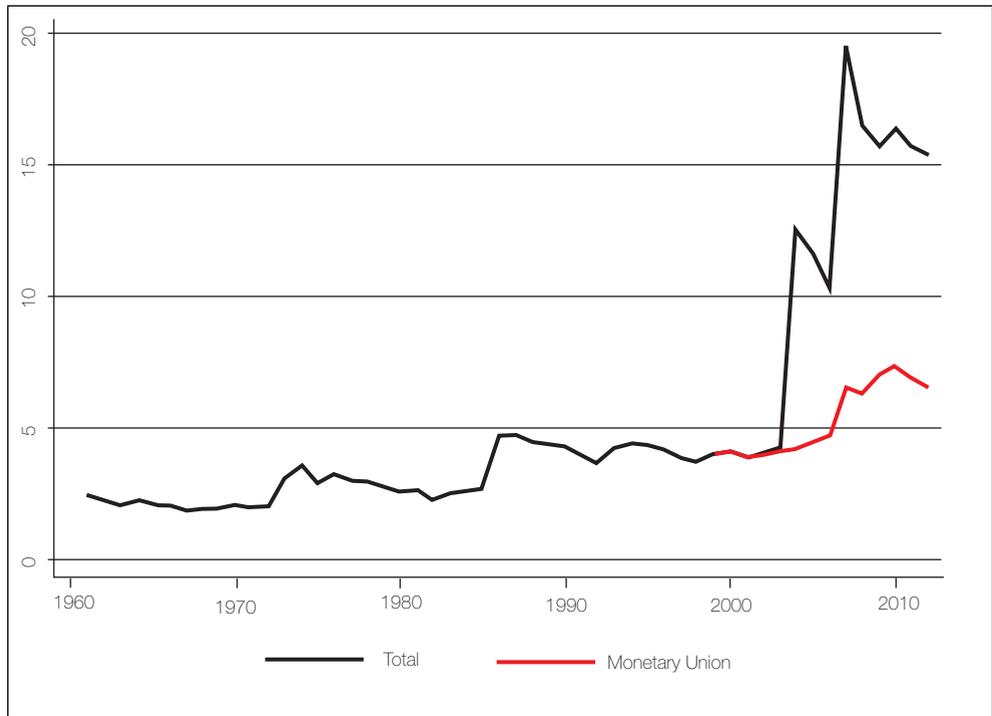


Source: World Bank

the poorest countries have been Greece and Portugal. Upon their admissions, the socio-economic gap between the richest and the poorest nations moved to around 4 times. The greatest change came in 2004. With the incorporation of Eastern countries, as we can see in Graph 2, the economic difference grew. The poorest country, Latvia, had the same income per capita (5950.13 dollars) as Portugal in 1989 or Germany in 1975. In 2007, the economic gap increased again, and now Bulgaria has been relegated to the last position. Its income per capita is lower than Latvia's in 2004.

In Graph 2 there is a second line that is also relevant. This line measures the economic gap among the richest and the poorest European countries for a smaller group: the Monetary Union. If we compare this line with the entire European Union, we may observe that economic differences are lower. There is, too, a second difference: these groups follow different trends. In the most recent years, the economic gap in the whole European Union has decreased. However, the gap in the Monetary Union has increased. The territorial extension explains part of this increase. However, the economic crisis and the design of the Monetary Union are relevant factors as well.

Graph 2. Difference between the richest and the poorest countries in the European Union



Source: World Bank

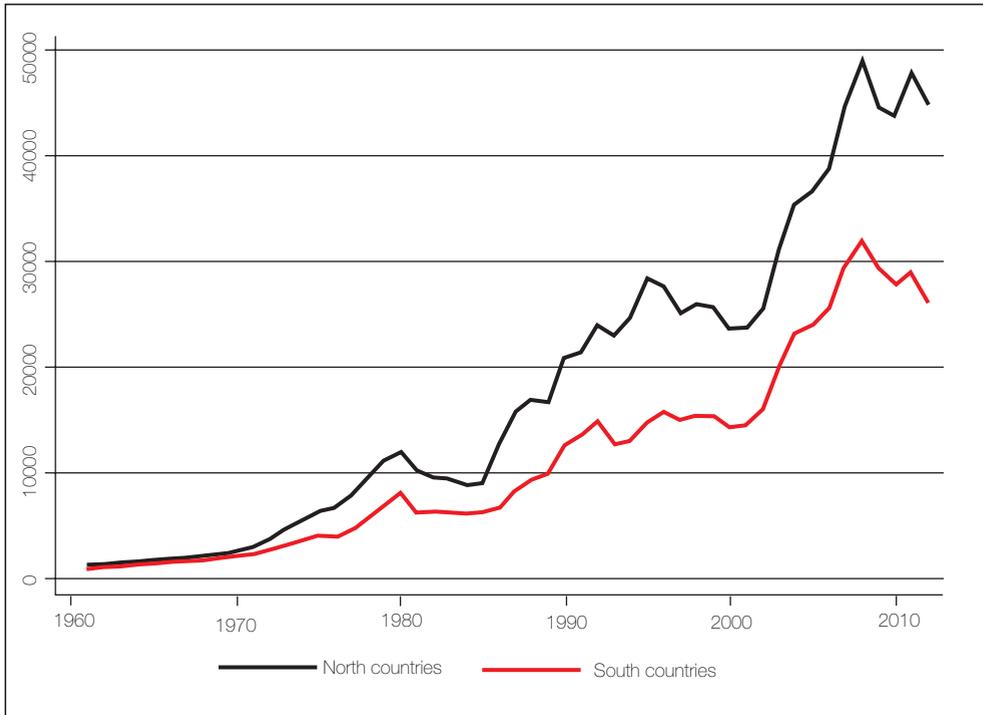
Graph 3 completes Graph 2. In this new graph, we observe the evolution of average incomes per capita in Northern<sup>16</sup> and Southern<sup>17</sup> countries. All of them take part in the Monetary Union. We may observe that the difference among them has increased since the beginning. Nevertheless, this gap has gotten bigger in recent years, after the economic crisis began. At the birth of the Monetary Union, the economic difference remained constant. However, following the arrival of the Great Recession, the gap between North and South grew. The question that emerges is: how do we explain this evolution? Are the Southern countries responsible for the increase of the economic differences? Or does the design of the Monetary Union explain some part of this gap? Perhaps both statements are true. I will develop these ideas in the next section.

Another means of analysing inequality is to measure economic difference in a country. Thus, we study the income distribution of a nation's residents. The indicator that best shows us a picture of each European country is the Gini index. As I said before, this is a 0-100 scale in which 0 corresponds to total equality and 100 to extreme inequality.

<sup>16</sup> As Northern countries, I have included Germany, Austria, Belgium, the Netherlands and Finland. One of the requirements is that they take part in the Monetary Union.

<sup>17</sup> As Southern countries, I have included Portugal, Spain, Italy and Greece.

Graph 3. Income per capita in Northern and Southern European countries



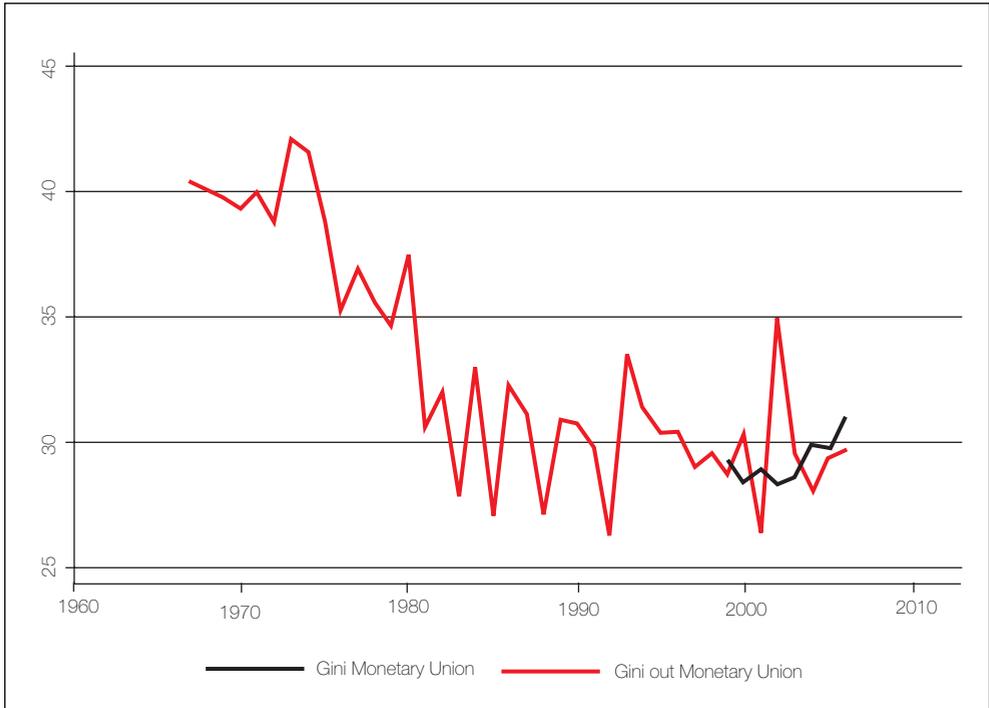
Source: World Bank

Graph 4 shows the evolution of the average Gini index for European countries. We observe that this number was greatly reduced between the 1960s and 1970s. Since the 1980s, however, it has remained mostly constant, although we may observe a zigzag trend. In the Monetary Union (small line), the Gini index has increased in recent years. How do we explain this evolution, especially in the Euro countries? It is very likely that we may apply the same explanations as we did for Graphs 2 and 3.

In order to complete Graph 4, I have analysed the Gini index by country (Graph 5). This may provide more information about how inequality has changed in the European Union. We observe that each country has followed different trends. Thus, in Germany, Belgium, the United Kingdom, Portugal and Finland, inequality has increased. However, in France, Italy and Spain, it has decreased. In Luxembourg, the richest country in the world, equality has remained constant, in spite of an overall zigzag trend. To explain the different evolutions by country is not the main goal of this paper. However, it gives us a more complete picture of inequality in the European Union. I prefer to focus on a second relevant issue: all of these nations have a similar Gini index.

This conclusion is important. If in 2006, the last available data, we compare the highest (Latvia: 39) and the lowest (Sweden: 23) Gini indices, we observe that there are not large

Graph 4. Evolution of the Gini index



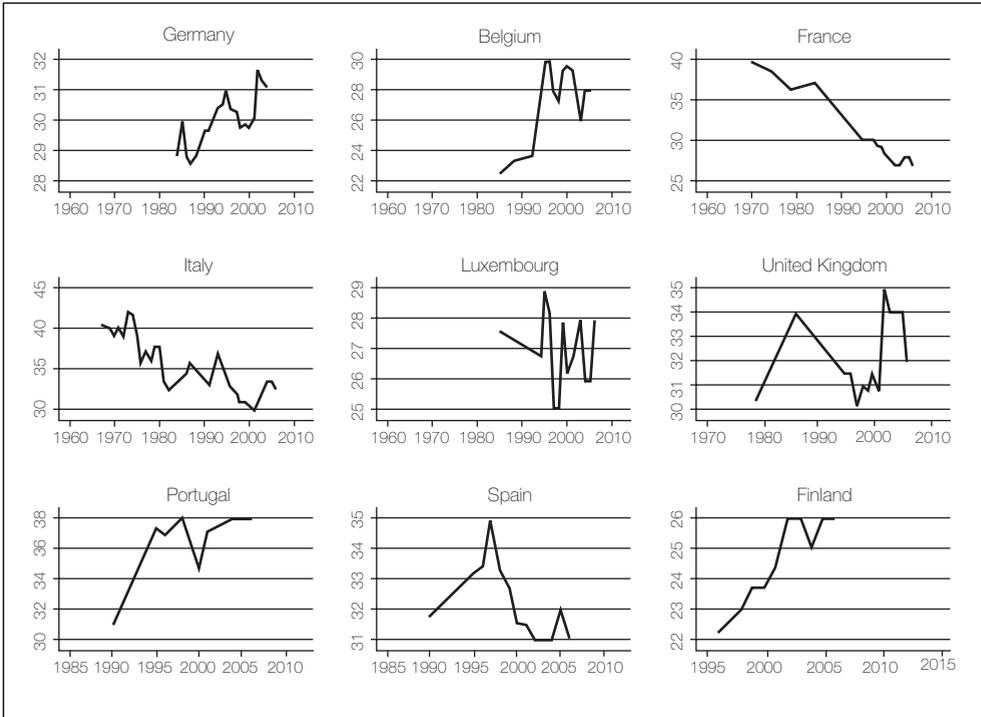
Source: World Income Inequality Database

economic differences in comparison with other regions of the world. For instance, in Latin America, the lowest Gini index is in Uruguay (45) and the highest in Brasil and Bolivia (60)<sup>18</sup>.

**In sum, if we compare Member States, inequality has increased in the last decades. Regardless of economic indicators, the data show that the number of poor countries has increased. Moreover, the socio-economic gap among rich and poor countries has grown as well.** If the analysis focuses on individuals, however, inequality has actually decreased in the last decades, although we observe variations between countries. Finally, the European Monetary Union is a key factor. Data show that economic differences among Euro countries have grown since the beginning of the 2008 economic crisis.

<sup>18</sup> B. Milanovic, op.cit., 2012, p. 203.

Graph 5. Evolution of the Gini index by country



Source: World Income Inequality Database

## How can we reduce inequality in the European Union?

Once we have seen the evolution of inequality in the European Union, the next step is to develop proposals that may solve this problem. Why, though, is it a problem? As I said in the introduction, one of the reasons for the decadence of the greatest empires and biggest states has been the existence of deep inequalities between territories and citizens. In other words, as Milanovic points out, '*A political union will be feasible if similar conditions of life exist among the member states*'<sup>19</sup>. Therefore, in this new era, as the European Union begins to face new threats, one of these threats is inequality. In fact, it seems to me that the feasibility of the EU could depend on its capacity to reduce economic differences between European citizens.

I consider that a unique solution to this problem is to develop different programmes of redistribution and to improve our monetary and economic union. I develop these ideas below.

<sup>19</sup> B. Milanovic, op. cit., 2012, p. 205.

### *Toward a European welfare state*

One of the main challenges facing the European Union is the development of a European welfare state. This is not a new thought. In 1961, the Council of Europe signed the European Social Charter, and it was revised in 1996. This Treaty guarantees social and economic human rights - but it is not enough.

**The most important problem that European countries are going to face is the feasibility of their welfare states.** The root of the problem is a demographic one. In a few decades, most of the European societies will have aged. For instance, in Spain in 2013, there are 4 persons of working age per each pensioner. But the forecasts of the National Institute of Statistics show that in 30 years, there will be 1.7 persons of working age per each pensioner. And pension systems are not the only social policy in danger. Who is going to maintain the welfare state?

The European demography varies greatly among countries. Tables 1 and 2 show the proportion of population aged 65 years and over and the median population age. We observe that the oldest country is Germany and the youngest is Ireland. These demographic differences may be an advantage if we think about the demographic basis of the European Welfare State, because it may guarantee the future. Why?

Our pension systems are based on solidarity between generations. This means that the working population maintain the social benefits. If the employed population decreases dramatically, our welfare states will be in trouble.

**If we want to establish a European welfare state, we will have to start with a pension system that covers most of the European pensioners. This has a positive consequence: we may establish common retirement criteria across the whole EU.** Moreover, as I said before, we will solve the demographic problem.

**There is another reason that justifies making the pension system the first step toward a European welfare state. If we compare the different social policies and measure their capacity for redistribution, we'll observe that the pension system is the most redistributive one<sup>20</sup>. Thus, if the primary aim is to fight inequality, the best option is to introduce policies that are effective.**

The most difficult part of this proposal is determining how to finance this European pension system. My suggestion is that this budget could be financed in a two-part manner. Each member state would contribute a certain amount per pensioner, and in addition, the EU would create a tax to finance part of this pension system.

However, I am conscious of the difficulties. This proposal is quite ambitious and, since its beginning the best method of development for the European Union has been a step

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20 Fundación Alternativas, *1er Informe sobre la Desigualdad en España 2013.*, Madrid: Fundación Alternativas 2013, p. 223.

**Table 1. Proportion of population aged 65 years and over**

Germany	20,6	Estonia	17.2
Italy	20.6	Switzerland	17.2
Greece	19.7	France	17.1
Portugal	19.4	Hungary	16.9
Bulgaria	18.8	United Kingdom	16.9
Sweden	18.8	Serbia	16.9
Latvia	18.6	Slovenia	16.8
Lithuania	18.1	Czech Republic	16.2
Finland	18.1	Netherlands	16.2
Austria	17.8	Norway	15.4
Spain	17.4	Romania	15
Belgium	17.3	Poland	13.8
Denmark	17.3	Slovakia	12.8
Croatia	17.3	Ireland	11.9

Source: Eurostat

**Table 2. Median age of population**

Germany	45	Sweden	40.8
Italy	43.8	Spain	40.7
Bulgaria	42.7	Hungary	40.3
Greece	42.6	France	40.2
Austria	42.4	Czech Republic	40.1
Portugal	42.3	Estonia	40
Finland	42.2	United Kingdom	39.7
Slovenia	42	Romania	39
Latvia	41.8	Norway	38.8
Switzerland	41.8	Poland	38.4
Croatia	41.7	Slovakia	37.7
Netherlands	41.3	Ireland	35
Belgium	41	European Union (28 countries)	41.5
Denmark	40.8	Euro area	42.4

Source: Eurostat

by step one. For this reason, the first stage in this process would be to establish some common social policies. For my proposal, this means making pension systems uniform, establishing a similar age of retirement and developing a common formula for calculating the economic amount of each pension.

In spite of difficulties, **a European welfare state ought to be one of the features of a European social democracy.** In order to set up such a system, as I have justified, working on the pension system may be the first step. This would solve one of the main problems of the European Union: ageing. Moreover, it would maintain solidarity among generations.

## **A new Monetary Union**

As we observed in the previous section, the Monetary Union has created several asymmetries. Once the economic crisis started, the economic gap between Southern European countries and Northern European countries has increased. The design of the Monetary Union explains part of this distance.

When economies expanded between 1999 and 2007, their financing was not a problem. Thus, strong and weak economies alike had good conditions for their loans and public debt. Once the recession began, however, weak economies faced difficulties when they looked for borrowed money. Financing interests were very high for poor countries, while countries with strong economies got loans under very good conditions. Moreover, the European Central Bank could not help weak economies, as its purpose was not to buy public debt. In an international crisis, this scenario is a relevant problem if we take into account that most European countries have current account deficits.

As we observed in the data, this monetary asymmetry has contributed to enlarged inequality between European countries.

The solution may be to change the role of the European Central Bank. It may be necessary to include in its statutes the possibility of lending money to Euro countries. Eurobonds may be part of this solution. This would mean creating a European public debt that would be supported by the whole eurozone. Each Euro state would be able to buy these Eurobonds until reaching 60 per cent of its public debt. In other words, in order to avoid irresponsible behaviours, Euro states may finance with these Eurobonds only 60 per cent of their public debt. If a nation wishes to get into debt above this percentage, it will have to look for money in private markets. The great advantage to such a system would be that this 60 per cent portion would be financed at a lower interest than they would get in other markets.

Therefore, **the main aim would be to use monetary policy as a redistribution instrument. Social democracy cannot neglect employing monetary institutions in**

its objectives of equity. The decisions of monetary institutions have winners and losers. If leftists do not account for this fact, inequality will increase in the bosom of the European Union.

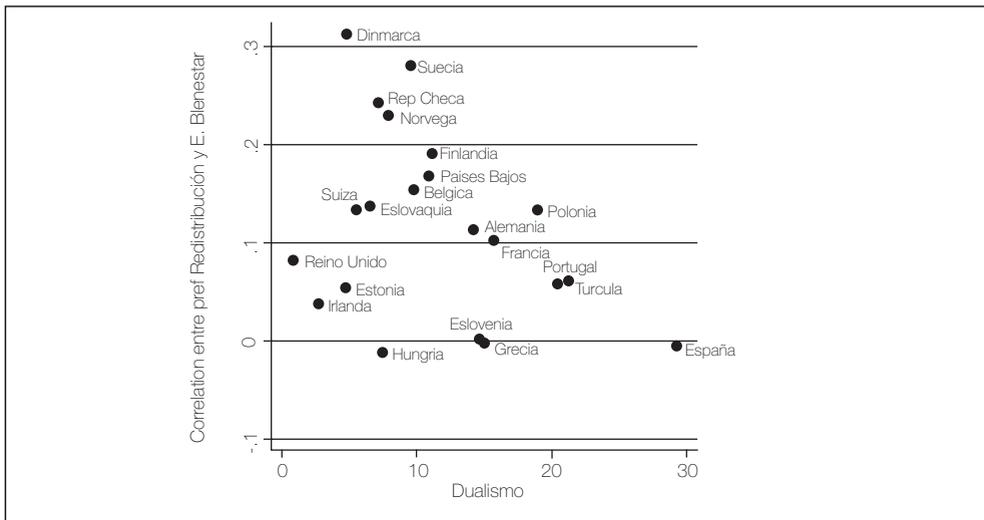
In sum, the main goals would be to share risks, to avoid asymmetries and to reduce inequalities in bad economic circumstances. If European countries want to have the same currency, they need a complete monetary union. And, at this moment in the eurozone, we are missing economic instruments that complete our Monetary Union.

### The European Labour Market

A third challenge is to develop a common European labour market. Economic theory says that in competitive markets, economies with low salaries would attract foreign investment. Thus, poor economies would benefit from this competition. However, if we analyse data, we will see that this statement is not true. Milanovic shows that between 2000 and 2007, Africa received 20 dollars per person as foreign investment, India received 6 dollars per person and China received 45 dollars per person. However, at the same time, developed countries received 800 dollars per person as foreign investment<sup>21</sup>. Therefore, low salaries do not improve economic development.

The second problem of the European labour market is that it creates a great difference between workers. In other words, dualism appears as a relevant trouble. We have workers with a lot of benefits (insiders), while others (young people and women) have precarious

Graph 6. Relation between dualism and support of welfare state



Source: Fernández-Albertos y Manzano (2012)

21 B. Milanovic, op. cit., 2012, p. 125.

jobs. Besides inequality, this situation has a second consequence: dualism reduces the support of a welfare state. Graph 6 shows the relationship between these two variables. We observe that as dualism increases, the support of welfare states in the survey decreases. This state of public opinion is a relevant problem for a social democracy.

For all these reasons, **to homogenise labour markets ought to be a priority for European socialist parties. This implies the creation of common labour laws, the reduction of differences among national minimum wages and the aspiration to a 'single contract' for all European workers. It is not only a question of inequality - public opinion about a welfare state may be jeopardised as well.**

## **European programmes of Redistribution**

Finally, **the European Commission would have to develop European programmes that enhance redistribution. But these programmes would have to put their efforts into citizens and cities, beyond states.**

The empirical evidence shows that most of the redistribution is among citizens and solidarity between states is so small. It has an explanation. The researches about public opinion show that people prefer to benefit their own compatriot than redistributing to foreigners. Thus, solidarity inside European Union is not an easy decision.

But, difficulties cannot be an obstacle. As I said before, if equity among states does not improve, the future of European Union is uncertain. Therefore, European institutions need to develop programmes that increase equality among countries.

One possible proposal is to develop social programmes that benefit Europeans citizens and, at the same time, they reduce socio-economic gaps among states. How can we get the two aims at the same time? The main idea would be to establish social programmes where the beneficiaries would be cities and regions. Thus, all states would be potential recipients of these European programmes, although poor states would receive more benefits than rich states.

In order to develop this proposal, European institutions must focus their budget in programmes that maximise redistribution. The question that arises is: Which social policies produce more equality? Empirical evidence shows that education and health services are the social policies that produce the greatest redistribution<sup>22</sup>. Why? These services are more often consumed by those of low social classes, old people and the less educated.

Nevertheless, this does not mean that the European Union ought to develop its own educational and health services. The main idea here is that the EU would finance infrastructures that guarantee these social policies. Thus, the European budget may

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22 G. Verbist et al., *The Impact of Publicly Provided Services on the Distribution of Resources. Review of New Results and Methods.*, *OECD Social, Employment and Migration Working Papers* 130., 2012.

allocate part of its corpus to build hospitals, schools and nurseries. Cities and regions would demand this financing and, after building these infrastructures, states would support the services.

The thought that lies beneath this proposal is similar to the first: the best method for building the European Union has been a step-by-step process. Unlike the first proposal, though, the main goal in this policy is not to create a European welfare state. Rather, its purpose is to reinforce national welfare states, because subsidiarity is the best option for educational and health systems. National, regional and local governments are more prepared to manage these social policies: they know where hospitals, schools and nurseries are most needed.

In sum, **the European Union will contribute to the expansion of national welfare states among state members if it finances some infrastructures of education and health services.** This would enhance the strategy of improving equity in the European Union, reducing socioeconomic differences between states.

## Conclusions

The main purpose of this paper has been to note the importance of equality and redistribution for the process of building the European Union. Thus, I have shown why equity is relevant, and I have explained the evolution of inequality in the bosom of the EU. The empirical evidence has shown that equality has decreased in recent years, and that it has not been only a question of the economic crisis. How, though, can we correct this trend?

**This paper suggests four different parallel strategies: a European welfare state, a new monetary union, a European labour market and new European programmes of redistribution. It is true that these proposals are ambitious.** For that reason, the paper points out the need to follow the most successful strategy of the EU: a step-by-step process. This means that the first challenge is to establish some common social policies, to homogenise social services and, after that, to transfer part of these programmes to the European institutions.

Moreover, the European Union can enhance national welfare states. In order to accomplish this, European institutions would develop social programmes that invest in educational and health services, building their infrastructures. However, their beneficiaries would be regional and local governments. Why? Solidarity among states is small, and developing programmes that benefit every state on an individual basis may be a solution.

In sum,

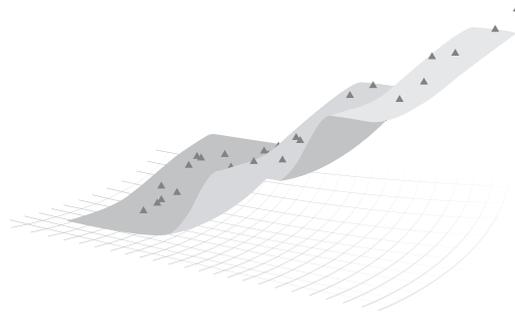
**European social democracy needs a new agenda. Its electoral results and prospects in the major European countries show that its political**

**project has to be revised. In this new agenda, equity and a new European ambition will play an important role.**

In order to fill this gap in knowledge, this paper has analysed the socioeconomic context of the European Union and has proposed different policies that may solve European inequality. Some may find the proposals herein overly ambitious. However, most of these suggestions are long-term goals. Thus, it is important to develop step-by-step strategies as the path to pursue significant aims. As John F. Kennedy said, '*Change is the law of life. Those who only look to the past or to the present are certain to miss the future*'.

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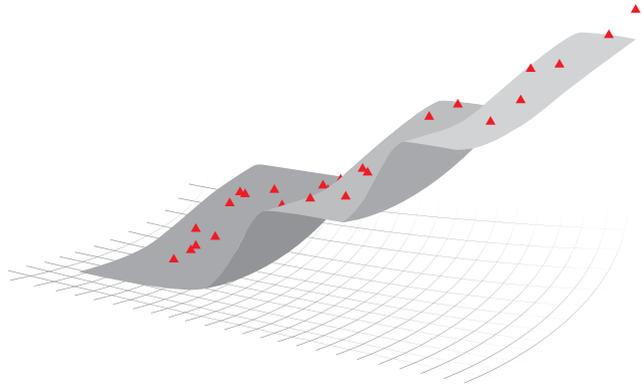


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Ronny MAZZOCCHI

# **Europe beyond Maastricht – The Role of Inter-State Transfers, Social Protection and Cultural Homogenization**



**Keywords:**

**Social Europe - Welfare State - Macroeconomic Imbalances - Economic Governance - Varieties of Capitalism**

**Abstract:**

Europe is not only a geographical expression. Europe is, first of all, an economic and social model that - even with the different characterizations - is a common element in the whole continent. With the outbreak of the crisis, the future of the European social model becomes a central topic in the public debate. The dominant view is that Europe can no longer afford its social security system, both for reasons of financial sustainability and because the welfare state is still seen as a kind of obstacle to the free operation of the market. However, if we look at the type of capitalism that characterizes Europe and if we analyze the insurance role of welfare systems, we could say that the revival of the European social model is not only a possible way out of the crisis, but also an essential element for the construction of a political union in Europe.

## 1. Introduction

The European Union (EU) is probably the most advanced attempt ever made in the history to create an economic and Monetary Union among a plurality of nation-states. The events of recent years outlined two serious weaknesses of the EU: on one hand it has become evident to everyone that the maintenance of formal sovereignty at the national level and the simultaneous strengthening of economic integration have led to a particularly pronounced “governance deficit”, making clear the contradictions of an incomplete economic governance. On the other hand, it was noted that, when it becomes necessary to the exercise a common direction and a supranational power to cope with the explosion of the crisis, this has occurred in conditions of serious “democratic deficit”<sup>1</sup>.

The presence of these two weaknesses is not surprising. An effective way to present the challenges posed by the process of economic integration is the so-called “impossible trilemma”, i.e. the identification of three options or solutions that can be combined in pairs of two, but never all together. Rodrik<sup>2</sup> has recently proposed a version of the trilemma that concerns the globalization process and that involves both the political and democratic dimension. In this case, the three terms that cannot coexist at the same time are the integration of markets, the exercise of sovereignty at the national level and democracy, i.e. the ability to implement policies that meet the democratically-expressed wishes of the citizens. The Bretton Woods period (1944-1971) is represented as a happy compromise in which the exercise of autonomous decisions at the national level based on democratic consensus was allowed by a moderate level of economic integration. The growing integration of markets for goods and inputs started during 1960s made such a system no longer feasible. The maintenance of state-level decision making and the deeper economic integration has made more and more complicated the exercise of democracy, which was still confined within national borders. This is the situation that we still face. Rodrik calls this combination “golden straitjacket”: countries are driven by global competition to pursue those policies that can better win the “trust of markets”, and thus attract capital investment and improve the competitiveness of their goods. The crowding-out effect in national policies is manifested by the reduction in the taxation on mobile factors (e.g. corporate tax), the

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1 R. Mazzocchi, *L'Europa e la difficile uscita dalla crisi.*, [in: ] R. Gualtieri & J.L. Rhi Sausi (eds.), *La difesa comune europea dopo il Trattato di Lisbona*, Il Mulino, Bologna, 2011, pp. 205-244; *The Twin Deficits of the EU.*, [in: ] E. Hillebrand (ed.), *A Progressive Vision for Europe*, Friedrich Ebert Stiftung, Berlin, (forthcoming).

2 D. Rodrik, *The globalization paradox.*, Norton & C., New York, 2011.

downsizing of social policies and the abandonment of active policies for development. It also includes the attempt to isolate important levers of economic policy by the risk of political interference, and thus the assignment of political responsibility to technical and “independent” institutions. The result is a reduction of the exercise of democracy itself.

A way out of this golden straitjacket is to abandon the nation-states in favor of some form of democratic global governance. In this perspective, the challenge is of course to create institutions of global governance with some democratic legitimacy. This perspective is not entirely new and has long been debated by political scientists. However, in describing this latter perspective, Rodrik does not hide his pessimism. Compared to the possibility of a global government, his objection is that there is too much diversity in the world, and thus that it is not possible that the nations can be forced within the confined space of common rules, even when the latter were the outcome of a democratic decision. In this way, it is very likely that the attempt of global governance would result in an agreement on the lowest common denominator of rules and standards, which will be inadequate and weak compared to what would be required.

This problem has occurred identical within the EU, without finding so far a clear solution. The tireless work of producing common rules removed almost all barriers to the free movement of goods, capital and people. The pursuit of market confidence has pushed national governments to transfer the power to (apparently) non-political institutions, such as the ECB and the European Commission. Democratic control was then gradually reduced. However, this institutional arrangement has proved to be totally inadequate to prevent first - and deal later - the economic and financial crisis. The European Treaties have built tall and strong firewalls against the excesses of public finance, but the fire broke out in the private sector, and has spread quickly without any resistant obstacles and any appropriate economic policies to address them. Financial markets, which had to punish the irresponsibility of government policies, have proved to be a very undisciplined judge: instead of preventing crises, they have created it. The economic policies implemented in the last two years have been the worst treatment of the disease. The combination of austerity and structural reforms, which was presented as the right medicine to revive the economic cycle and to start the fiscal consolidation, has only increased unemployment and public debt of member countries. The victory of populist parties in many national elections of the last years have highlighted the weakness and the unsustainability of this arrangement also from the political point of view.

In face of this unsustainable *status quo*, Europe should make a choice. The trilemma presented above helps us to consider the three main options that are open for the EU. First, we should not forget that there are those who look favorably on a situation where governments are subject to market discipline. These people believe that a reduction of the financial markets' pressure could reduce the determination with which governments are

implementing the “necessary reforms”. It is a position that is consistent with the idea that well-being and economic growth are better secured from operating of market competition rather than by government action, and the problem is therefore to limit the ability of politics to influence the economy. It is the orientation that has recently inspired the economic governance reforms as well as the original layout of the Fiscal Compact, with its emphasis on automatic penalty mechanisms.

A second option, considered by both right-wing and left-wing parties - though not necessarily for the same reasons - is a decline in the integration project. In this case, the Monetary Union would have to be abandoned: this would allow nation-states to immediately resume the control of monetary policy, to renegotiate the public debts with creditors, to restore competitiveness using the control of exchange rates. The premise of this position is that the construction of the euro was a reckless choice, that did not take into account the absence of conditions that usually defined an optimal currency area<sup>3</sup>. Therefore the current crisis is the result of a misstep. In defending this, some left-wing parties have emphasized that the continuation of austerity policies would lead to a dismantling of the welfare systems, while a return to national currencies would reallocate the sovereignty where democracy is really exercised. This position presents persuasive arguments, but it is not very convincing. First, “dismount” the euro is not the contrary of its construction. It would be like trying to put the toothpaste back in the tube. It is well known that the transition from the single currency to a variety of national currencies would have destructive effects on the financial system, since between the announcement and its implementation there would be a run of savers to the banks and a capital flight from countries with weak currencies to those with strong currencies. Moreover we should not forget that economic history of the last century has shown that abandonment of a fixed exchange rates regime and the consequent recovery of monetary sovereignty has not always been a success. After the release of European Monetary System (EMS), in Italy the wage share fell by eight percentage points of GDP in just two years, and other countries (Turkey, Mexico, Argentina, Indonesia and South Korea) who have experienced a change of exchange rate regime, the real wages have fallen from 10% to 44%<sup>4</sup>. Of course, this perspective can be avoided, but this would lead to the – partial or total - questioning of those elements that form the basis of the EU: free movement of goods, capital and people. Finally, it is really difficult to imagine that each country could play alone in a world that, since the 1980s, has seen the emergence of new global powers - especially China , India and Brazil - and has significantly reduced the influence of those nation-states that dominated the political and economic scene after World War II.

3 R. Baldwin & C. Wyplosz, *The Economics of European Integration.*, McGraw-Hill, London, 2012.

4 E. Brancaccio, *L'euro è ormai un morto che cammina. Occorre tentare una exit-strategy da sinistra.*, URL: <http://www.emilianobrancaccio.it/2013/02/26/euro-e-ormai-un-morto-che-cammina-occorre-tentare-una-exit-strategy-da-sinistra>. 2013)

The last option is similar to what we have seen at the global level: we should gradually replace nation-states with (new) European institutions with a solid and evident democratic legitimacy. Of course, all the doubts that Rodrik has expressed on the forms of global governance can be replicated - at least in part - for the European level. Nevertheless in this paper I try to show that some of these problems can be solved. But it is necessary to change course with respect to what circulates in the current European public debate. It should be rejected the idea that Europe can no longer afford its social security system, both for reasons of financial sustainability and because the welfare state is still seen as a kind of obstacle to the free operation of the market. On the contrary, it should be emphasized that the social security system could be not only a possible way out of the crisis, but also an essential element for the construction of a political union in Europe.

The paper is organized as follows. In section 2 I present the genesis of European Monetary Union by identifying precisely in the Maastricht Treaty and in all the institutional frameworks that follows the origins of the current crisis. In Section 3 I show the economic difficulties of the euro area and the imbalances that have occurred in it during the last decade. In Section 4 I present some solutions to overcome the crisis that are alternative to the currently dominant view. In particular, I will show that we need to recover economic policy as a coordination mechanism. In Section 5 I outline the risk-sharing role of welfare systems to empower the discussion on social security systems from the purely redistributive function. In Section 6 I describe why social security system could play a key role to build an European political union. In Section 7 I explain why U.S. model is unfit to led the EU. Section 8 concludes.

## 2. The Wrong Design: the Maastricht Treaty

When the financial crisis began to show its disastrous effects throughout the Western part of the world, the dismay of all public opinion was summed up very well by the exclamation of Queen Elizabeth of England in front of the professors of the London School of Economics: *"How is it possible that no one has noticed that this terrible crisis was getting on?"*. Economists were considered the main guilty of the disaster. To be honest, it would have been unreasonable to expect a "prediction" of the crisis: economists are not astrologers or seers. Nevertheless, we cannot deny that for the majority of scholars the possibility of a crisis was not even considered<sup>5</sup>.

However, an equally severe judgment would not be fair if we look at the current euro crisis. The feasibility of a Monetary Union in the heart of Europe was viewed with great suspicion by most economists since 1980s. The conditions that determine a so-called

<sup>5</sup> D. Acemoglu, *The crisis of 2008: structural lessons for and from economics.*, CEPR Policy Insight n. 28. 2009; R. Mazzocchi, *Colpe vere o presunte degli economisti.*, [in:] *TamTam Democratico*, 5, pp. 95-101, 2012.

*optimal currency area* in the sense indicated by Robert Mundell<sup>6</sup> - in particular the mobility of labor - were almost entirely absent. Moreover the difficulty of correcting the imbalances that would emerge between countries bound to the same monetary policy were been described by many scholars<sup>7</sup>.

The reasons why, despite these doubts, it was decided to adopt the euro were numerous, and only partially due to economic considerations. The limits of the experience of the EMS and the “German problem” (i.e., the exchange between the renunciation of the Deutsche Mark and the endorsement to the reunification of the two Germanys) undoubtedly played an important role. But the central idea was that it was an important and decisive step within the process of political and economic integration<sup>8</sup>.

While many commentators attacked the objections of skeptical economists with surface arguments (for example, the fact that many of them, as Americans, should be prejudicially hostile to the design of the euro), others played an important role in convincing people and policymakers that Europe would have passed the test. The dominant view assumed that sooner or later the economic institutions of European states would be adjusted to the new circumstances<sup>9</sup>. However, the idea that there would be a spontaneous adjustment of the institutions admits different interpretations. If the adoption of a common currency would have excluded the use of the realignment of currencies as a “safety valve” against imbalances and asymmetries, the adjustment would have to go through other channels, and should have been in some way prevented and corrected by other mechanisms. How these mechanisms should be centralized and coordinated and, on the contrary, how much should be the result of a non-cooperative process between nation-states was a debated question.

With the signing of the Maastricht Treaty the debate took a clear direction. It spread an extraordinary distrust in the ability of political institutions to govern these processes. The coordination problem was thus solved by introducing a set of rules which bound more and more the discretion of governments. While there was a strong pessimism about economic policy, on the other hand there was optimism about the workings of market mechanisms. The removal of a number of policy levers, far from being a problem, would have forced the nation-states to deal with their critical elements through institutional competition. Therefore, European countries had to implement reforms that would make them compatible with the

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6 R. A. Mundell, *A theory of optimum currency area.*, [in: ] *American Economic Review* 51(4), 1961, pp. 657-65.

7 W. Godley, *Maastricht and All That.*, [in: ] *London Review of Books* 14(19), 1992, pp. 3-4.; P. Krugman, *Lesson from Massachusetts for EMU.*; [in: ] F. Torres & F. Giavazzi (eds.), *Adjustment and Growth in the European Monetary Union*, Cambridge University Press, Cambridge 1993, pp. 241-266.

8 R. Tamborini, *Dal Rapporto Delors al Trattato di Maastricht e oltre. Cosa hanno da dire gli economisti?*, [in: ] *Economia Politica* 3, 1997, pp. 361-76.

9 J. A. Frankel & A. K. Rose, *The Endogeneity of the Optimum Currency Area criteria.*, [in: ] *Economic Journal* 108, 1998, pp. 1009-25.

new context. Once removed the ability to operate through economic policy, only market adjustment would have been possible.

Thanks to the increased competitive pressure, Europe would have also overcome all those structural limitations that restrained growth and that many scientific publications identified in an excess of regulation and markets protection, as well as in exaggerated levels of public spending. Since the 1990s the term “Euro-sclerosis” became a neologism used to link the high European unemployment together with the excessive rigidity of the continental labor markets<sup>10</sup>. Europe’s difficulties were not due to the construction of the EMS, but to the slowness of the supply-side reforms. The introduction of the euro would push the most reluctant countries to reduce regulation in the labor market, to increase competition, to open their markets to foreign investment, to liberalize public services. The European disease was basically due to the specificity of the continent, namely the high level of public spending - which had created a “culture of dependency” – a historic resistance to change and a lack of confidence in the market. When compared to the Americans, the Europeans were working too little - both in terms of persons employed and in total hours worked - and the reason for this phenomenon was to be found in the excess of income taxation and an excessive regulation that “distorted” the choices of people, depressing the production capacity and thus impoverishing the European economy.

The arrival of the crisis has led to different reactions. While there was a recognition of some serious mistakes made in the process of construction of the Monetary Union, there are also those who has found a confirmation of their positions. Some people have seen in the spread of the crisis in Europe the proof that the single currency was a bad idea, and that the decision to adopt the euro was a reckless choice that prevent, rather than promote, the integration project. However, the prevailing position was to focus once again on public finance and market rigidities, and the crisis has been explained by an insufficient discipline with respect to the Maastricht Treaty and the Stability Growth Pact. The risk of insolvency has thus become an opportunity to impose to some countries those structural reforms insufficiently implemented in the early years of the euro. For this people, the crisis - rather than a disaster - would be an opportunity to rebuild a Europe consistent with the *Maastricht design*. It is a position strongly present in the orientation of some governments (mostly right-wing oriented), and in certain circles of the European institutions (the Commission and the Central Bank). It is expressed in the so-called *austerity policies*. The premises upon which this thesis is built are always the same. On the one hand, there is the idea that Europe’s problem lies in its social model, characterized by high public spending and intrusive regulation. On the other hand, there is the belief that Monetary

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10 A. Alesina & F. Giavazzi, *Goodbye Europa. Cronache di un declino economico e politico.*, Rizzoli, Milano 2006.

Union can work even without a fiscal union – or, better, a fiscal union in the proper sense - relying mainly to market-based adjustment mechanisms.

These premises are often uncritically accepted, sometimes for cultural conformity and other times for convenience. However, they are pretty weak if not unfounded. The first thing to do to demonstrate the weakness and the groundlessness of that framework is to present a different reconstruction of the reasons of the euro crisis. This is what we are going to do in the next section.

### 3. Europe and the Crisis

**The attempt to ascribe the responsibility of the current difficulties of the eurozone to the lack of discipline of the national governments is a very clever way to hide the true causes of the crisis.** Public finances in almost all European countries were in fact slowly - but steadily - improved since 2002. The dramatic worsening of the budgets since 2009 has been almost everywhere due to the fallout of the banking crisis and the recession that followed<sup>11</sup>. **Rather than a cause of the crisis, the “fiscal indiscipline” can be seen as one of its consequence. It is the lack of macroeconomic governance within the EU that determined the fragility of the Monetary Union.** The introduction of the euro has certainly allowed national governments to rely on the expansion of the single market and on the easy financing of private and public budgets. But they have forgotten the problem of the *real convergence*.

Since the introduction of the euro, in the European Monetary Union have emerged a growing trade imbalances between countries that tended to show a structural surplus in the current account, and countries that instead showed a systematic deficit<sup>12</sup>. For many years it was believed that the widening trade imbalances within the Monetary Union was due to the increasing financial integration of the member countries. In other words, it was believed that countries with a lower level of per capita income would attract greater capital than richer ones, and that this would allow an improvement in the labour productivity and thus a higher rate of growth in the future. Therefore, the widening of the trade deficit was not seen with concern, nor should be reason to require corrective action of economic policy, but rather it was the signal that the integration and efficiency of the financial markets of European countries had been reached<sup>13</sup>.

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11 R. Mazzocchi, op. cit. 2011

12 European Commission, *Competitiveness Developments within the Euro Area.*, [in: ] *Quarterly Report on the Euro Area* 8(1) 2009; *The Impact of the Global Crisis on Competitiveness and Current Account Divergences in the Euro Area.*, [in: ] *Quarterly Report on the Euro Area*, 9(1) 2010.

13 O. Blanchard & F. Giavazzi, *Current Account Deficits in the Euro Area: The End of the Feldstein-Horioka Puzzle?*, The Brookings Institution 33(2), 2002, pp. 147-210.

For its part, financial integration - which allowed banks in Northern Europe to buy assets issued by the public and the private sector in the periphery countries - has fueled the illusion that a greater liberalization of the markets, together with a minor taxation on capital income and a less expensive social protection system would attract more resources with beneficial effects on growth, employment and incomes, thus closing the gap with richer countries. In fact, banks' access to funding from the ECB at a very low nominal interest rate - together with the support of the Structural and the Cohesion Funds - have had the effect of favoring especially the expansion of traditional and low-tech sectors. In the last decade only Spain and Ireland have been able to show the expected convergence. But in these countries the run-up to the per-capita income level of Europe's most advanced areas was based not so much on the development of a solid production base, but rather on fragile driving factors like the real estate and financial bubbles, which have shown their inconsistency as soon as the crisis began.

The effects of financial integration have been further strengthened by the divergent dynamic of inflation and real interest rates. In fact, the increase in internal demand has led the inflation rate of peripheral countries above the European average, and this has led to a lower real interest rates in face of a virtually identical nominal interest rates throughout the euro area. The result has been a further increase in the current account deficit of almost all the Mediterranean countries. In contrast, countries with an inflation rate below the average have faced a period of high real interest rates, which have ended up in a lower domestic demand and thus in a lower flow of imports, improving the trade balance.

Most of the analysis that has been conducted on the dynamics of the European economies after the introduction of the euro started from the consideration that these trends reflect the increasing competitiveness differentials between countries. An indicator traditionally used to analyze the competitiveness of an economy - the evolution of the real exchange rate - has highlighted that, since 1999, a small group of countries have increased their competitiveness (Germany and Austria), while all the others have gradually lost positions, with a real meltdown in Ireland, Greece and Spain.

The divergence in price and cost competitiveness has come to determine a change in the export share of each country and, consequently, a growing trade imbalances within the Monetary Union. These imbalances do not impress only for their entities - the maximum since 1970s - but also for their persistence over time. The European Commission explains this persistence by the impossibility to carry out monetary devaluations, as it was possible to do both in 1970s in the 1980s<sup>14</sup>.

Nevertheless we should not think that the trend of the real exchange rate is the only determinant of market shares adjustment. The European Commission<sup>15</sup> admits that over

14 European Commission, op. cit. 2010.

15 European Commission, op. cit. 2009.

60% of the changes in the market shares of the various countries can be explained only through the use of non-price factors. The influence of these factors varies from country to country, but the common feature is that to determine the trend in the trade balance is mainly domestic demand, while price competitiveness and technology do not seem to be particularly important. In other words, the divergent trend in the current account, which has been observed since the introduction of the euro, can be attributed largely to the significant and persistent differences in the strength of domestic demand among the member countries. The most affected countries were those in deficit, with a very high volume of imports, while the effect seems to have been more limited in those countries with trade surplus. The European Commission<sup>16</sup> also suggests a precise time schedule, which - for countries like Greece and Spain - see first the increase domestic demand, resulting in a worsening of the current account, and only later a decrease in the the competitiveness of these countries, with adverse effects on their ability to export. Further reinforcement came from effects related to the income distribution: the share of wages over GDP has declined throughout the EU, but more markedly in countries such as Germany and Austria, where we observed also an increases the propensity to save, especially firms.

In conclusion, **the persistent real divergence in the Monetary Union has shown that the main weakness of the eurozone still remains the asymmetric distribution between costs and benefits of the single currency.** On the one hand, there is a leading country who presents - for reasons related also to the institutions that characterize its specific capitalist model - a continuous real depreciation which favors exports and growth. On the other hand, there are the peripheral economies, characterized by a continuous real appreciation that hurts exports and development opportunities. It is this divergence between growth paths that undermines confidence in fiscal sustainability of some countries and the chance of survival of the euro. The explosion of *spreads* between the yields on government bonds and the pressure of financial markets, rather than the result of an alleged

**The error was not the euro, but the insufficient institutional structure built with the Maastricht Treaty and never corrected in the subsequent twenty years.**

fiscal irresponsibility, are therefore the result of an incomplete and contradictory european project. **The error was not the euro, but the insufficient institutional structure built with the Maastricht Treaty and never corrected in the subsequent twenty years.** This architecture offset – and in some cases even cancelled - the benefits that the common currency could lead to European economies. It would be necessary to monitor the trade balance of the euro zone countries and support with appropriate policies the run-up of the peripheral economies to the higher per-capita income of more advanced countries. But the negative bias towards economic policies led policymakers

<sup>16</sup> European Commission, op. cit. 2010.

to forget the fundamental and irreplaceable role they can play in containing the effects of the shocks and in accelerating structural changes.

#### 4. The Way out from the Crisis

The exit from the crisis is closely linked to the solution that will be given to the eurozone's problems. To be called into question is the severe lack of governance that has characterized the first twenty years of the Monetary Union. In this sense, the example of California and Greece is emblematic. For over a decade, California is close to bankruptcy. Why the collapse of public finances in an important state like California has no consequences on the financial markets, while a similar situation for a much smaller and economically less relevant country like Greece has generated a massive attack not only against Greek bonds, but against the whole Euro area? California shares with the rest of the United States the same currency as well as Greece shares the euro with other 17 countries. Why financial markets have put pressure on the euro and not on the dollar? The difference between Greece and California is that the role of Washington is different from that of Brussels. The Greeks have undoubtedly benefited from the introduction of the euro, from an unified capital market and from the free trade with other Member States of the EU. But Greece may not have automatic access to an European lender of last resort as is the case of California with the Federal Reserve Bank. Its citizens do not receive unemployment benefits from Brussels as what happens between Washington and California, when California goes into a recession. Finally, given the language and cultural barriers, the Greeks unemployed can not move easily in a neighboring and more prosperous country as opposed to what Californians can do with New Jersey or Ohio.

Europe faces now not only a problem of fiscal crisis in a member country, but also - and above all - a serious problem of inadequate institutional framework. As we will see later, forms of risk-sharing associated with asymmetric shocks and monetary transfers able to compensate for differences in production structures or insufficient labor mobility are two essential elements to build an economic and monetary area which can be sustainable over time. From this point of view, the situation of the Monetary Union is certainly not good. Comparing it with that observed in the United States - which can be considered a *quasi* optimal currency area - it can be observed that among the countries of the EU there is a rather limited level of risk-sharing, given that about half of the shocks are not absorbed<sup>17</sup>. Moreover, we should also consider the fact that the nature of the shocks hitting the euro area is different from the one that hit the United States. Various studies have documented the existence of a high degree of asymmetry in

17 J. Mélitz & F. Zumer, *Interregional and international risk sharing and lessons for EMU.*, CEPR Discussion Paper 2154, 1999.

the shocks hitting the countries of the Monetary Union<sup>18</sup>, much greater than is the case in the U.S.<sup>19</sup>. We observe a greater asymmetry in the peripheral countries, while this phenomenon is very low for Belgium, Germany, Netherland and France. This asymmetry between center and periphery increases the potential instability of the whole Monetary Union. The adoption of the euro has eliminated the exchange rate policy as a tool to correct the shocks. Without intra-Community transfers of resources and given the public-finance constraints imposed by the Maastricht Treaty and the Stability and Growth Pact, the only tools to cope with asymmetric shocks and economic crises were labor flexibility, wage deflation and access to markets financial and banking services in other member countries. The crisis of 2007-08 and the consequent loss of trust within the European Union itself has made impossible the use of this last channel, charging the full cost of adjustment on the labor market.

To find a way out, it is necessary to abandon the simplistic view of the correction processes of asymmetric shocks and imbalances based on the idea that the market - that is, factor mobility and deflation in prices and wages - is the only institution capable of achieving a fast and smooth convergence process. On the contrary, *economic policy* should be reconsidered as a viable alternative. The priority should be so reversed: the whole Maastricht approach assumes that the convergence process should take place in each country independently of the others. Instead, it should be the European institutions to be designed so as to achieve the objective of speeding up the process of convergence and cohesion among the European economies.

It would not be a novelty: the Delors Report, recognizing the structural diversity of European economies and the risks inherent in the abandonment of monetary sovereignty, pointed the way to a proper articulation of fiscal transfers between center and periphery so as to balance the need of fiscal discipline with that of macroeconomic stabilization. The reasons for taking this new path are simple. In the Monetary Union, we can distinguish two different mechanisms to promote adjustment: the first is what we might call "nominal/real" mechanism, which operates through a change in the terms of trade, in local prices and the amount of output produced by each country. On the contrary, the second mechanism is the one that operates through the "banking/finance" system. In the face of the persistence of structural differences among the euro-zone, it was precisely this second channel that ensure the survival of the Monetary Union in its first decade, generating a sort of *private-transfer-union* that moved financial resources from rich countries towards the poorest.

However, the presence of a highly integrated banking and financial system has not been able to achieve the adjustment process. On the contrary, as I show in the previous

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18 R. Helg et al., *How much (a)symmetry in Europe? Evidence from industrial sectors.*, [in: ] *European Economic Review* 39, 1995, pp. 1017-1041.

19 T. Bayoumi & E. Prasad, *Currency unions, economic fluctuations and adjustment: some empirical evidence.*, *CEPR Discussion Paper* 1172, 1995.

section it determined a form of perverse incentive that has led governments and EU authorities to underestimate the emergence of systematic current account deficits. The nominal/real and the banking/finance channels are complementary and both essential to make the Monetary Union sustainable over time. But the market alone was not able to operate neither the first nor the second.

The crisis has certainly undermined the functioning of the banking/finance channel. In addition to the slowdown in the collection of funds through supra-national financial intermediaries, even interbank activity has substantially decreased. Banks located in the peripheral countries continue to lose funds that flow instead to the richer countries. Also the link between banks and government debt securities has grown exponentially. The reason is simple<sup>20</sup>. Banks are among the largest investors worldwide. From economic theory we know that the portfolio of any investor requires the presence of a solid basis of risk-free assets, able to compensate for the fluctuations of more profitable - but also more risky – securities. For a long time this risk-free asset was represented by government bonds of European countries, including those of the so-called PIIGS group. The serious disruption of the private financial system and the increase in government borrowing that followed, determined an increase in the risk of these securities, depriving investors of a major anchor of their expectations.

In this situation the implementation of a common monetary policy for all countries has become almost impossible. It is clear that this problem needs to be solved as soon as possible. The so-called “banking union” certainly goes in the right direction. However, it must be clear that it will not be sufficient to ensure a proper functioning of the banking/finance channel. It is also necessary to ensure that government bonds will return safe and reliable. In investors’ portfolios should be reconstituted the solid basis of risk-free assets without which we cannot even calculate revenues and spreads. In the real world, however, there is nothing absolutely risk-free and it is necessary to invent it through what Paul Samuelson called “social contrivance”. To do this, we need to create a public financial asset - for example, the stability bonds<sup>21</sup> - that is not at the mercy of market forces (starting first of all by the rating agencies) and, if necessary, by subjecting it to a system of administered prices by institutions responsible for monetary and financial stability. There are several proposals, first of all the pooling of the European public debt with compensatory mechanisms that are able to avoid costs and penalties for virtuous countries<sup>22</sup>. Meanwhile, to calm the financial markets, it was necessary the intervention of Mario Draghi. The governor of the ECB, saying on several occasions that the euro will be

20 B. Eichengreen & C. Wyplosz, *The Stability Pact: more than a minor nuisance?.*, *Economic Policy* 13(26), 1998, pp. 65-113.

21 European Commission, op. cit., 2011.

22 V. Visco, Hearing of Professor Vincenzo Visco at the Committee on Economic and Monetary Affairs (ECON) of the European Parliament on Innovative Financing at a Global and European Level, 2011 January, 10.

saved “at all costs”, has effectively eliminated most of the speculative component linked to the risk of failure of the Monetary Union. It is no coincidence that, after that statement in July 2012, the spreads on government bonds have dropped anywhere up to converge towards the consensus values that the various national central banks had estimated taking into account the so-called “fundamentals” of the economy.

As we said above, the increase in the degree of banking and financial integration is just one of the channels they can ensure the sustainability of the euro area. *Real* components – first of all, production and employment - and their prices play a key role in infra-European rebalancing. The “market” adjustment may not be the fastest and most effective way to ensure the sustainability of Monetary Union. An analysis of these elements is therefore crucial to understand the limitations of the approach used so far, and to analyze possible ways out. For simplicity, the “nominal/real” adjustment mechanisms can be summed up in the following double-entry table:

	Nominal Adjustments	Real Adjustments
Market	Liberalization of goods and labour markets	Labour mobility
Economic Policy	Exchange rate Income policies	Fiscal transfers Demand management

As is known, in the Monetary Union the option due to the change in exchange rates is no longer viable. So far the European Commission, the EU Council and the ECB have moved in the first row of the table, arguing that the only possible adjustment mechanism is the *market*, or by the relative reduction in prices and wages or through labor mobility across countries. However, labor mobility in Europe is very low<sup>23</sup> and take actions on this item is difficult, mainly because it depends on a number of “sticky” factors as the culture, language, social relationships or family ties<sup>24</sup>. Therefore, it would remain only nominal deflation, which is in fact what has been suggested by European institutions to national government.

It is instead completely disappeared from the possible options the second row of the table, i.e. the one that calls for active *economic policy* as incomes policies, fiscal transfers and demand management at European level. It can be stated that the results obtained through a rebalancing by economic policy may be superior in terms of efficiency compared to a rebalancing left entirely to market forces. Two elements can give a strong theoretical support this claim. In the first place - and contrary to what usually stated - a market-driven adjustment may take much longer than an economic policy intervention. In fact, the time variability of prices and wages depend respectively by the organization of

23 R. Baldwin & C. Wyplosz, op. cit. 2012.

24 M. Obstfeld & G. Peri, *Regional non-adjustment and fiscal policy.*, [in: ] *Economic Policy* 13(26), 1998, pp. 205-59.

the goods and labor markets. As mentioned above, both are not easily to change in the short run. Change the laws governing layoffs or questioning the type of industrial relations that characterizes a country - assuming that it is desirable to do, and it is not always the case - it is a process that can take years to show its results. Conversely, economic policy measures - either in the form of fiscal transfers or in the form of demand management - can be implemented much more quickly and promptly. Secondly, even if we believed in the effectiveness of supply-side interventions (deregulation, liberalization, privatization, facilities in layoffs, etc.), it is difficult to think that they can lead to a rapid “structural” adjustment. The increase in the degree of competition can at best make more efficient those local markets characterized by inefficiencies in prices and wages settings, but neither the theory nor economic history of the past three centuries can lead us to think that the market alone is able to eliminate the productive specializations in different countries and in different economic sectors, making everything not only homogenous but also doing it in a very rapid time interval. Conversely, if we look to the traditional theory of international trade, we should expect exactly the opposite, namely that free trade is a means to benefit from the local specialization. By allowing free movement of goods and inputs, each country should in fact tend to specialize in the productions in which it has a competitive advantage over the others. This is exactly the opposite of what we need in the Monetary Union to absorb internal imbalances.

**It is therefore more and more evident the need to abandon a strategy exclusively based on market solutions and the simultaneous need to develop a set of economic policies aimed to achieve some form of fiscal transfers from central European countries to the periphery and to implement a coordination between policies of the various member countries in order to determine a control of incomes and aggregate demand at European level.**

The problem of intra-European fiscal transfers was already addressed by the European Commission at the end of the 1970s, when the MacDougall Report<sup>25</sup> recognized that in all Monetary Unions, fiscal transfers had played a central role. In that years it became clear that an EU budget that can make net transfers between Member States could provide sufficient support to European integration. While considering as potential members of a futuristic Monetary Union a limited number of countries (only 9), the MacDougall Report had estimated that it would have been sufficient a EU budget of 5-7% of European GDP. This amount of resources was considered inadequate by almost all economists. Similar recommendations were contained in the Delors Report, also on the basis of the considerations of the American economist Martin Feldstein.

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25 European Commission, *Report of the Study Group on the Role of Public finance in European Integration Vol. I.*, Studies: Economic and Financial Series A13, Brussels 1977; European Commission *Report of the Study Group on the Role of Public finance in European Integration Vol. II.*, Studies: Economic and Financial Series B13, Brussels 1977.

In the 1990s many contributions emphasized the need of a system of transfers between countries. Once again, the attention was directed toward the analysis of the existing Monetary Unions and, in particular, to the United States. Early work<sup>26</sup> concluded that the transfers were very high and ranged between 28 and 40 cents per every dollar of wealth lost. However, in these studies there was no distinction between the insurance-transfer against shocks and redistribution-transfer for social purposes. It was Von Hagen<sup>27</sup> that introduced the distinction between these two types of transfers and discovered that in fact the insurance transfers among States were much lower than previously thought, at around 10 cents per every dollar of wealth lost. Not very different results were obtained by observing other countries such as Canada, Germany, Italy, France and England. All of these studies, which showed that the insurance-transfers within a currency area could be quantified in about 10 percent points of GDP, did not have much influence in the construction of the Monetary Union. On the contrary, the final result was even less than the little that had been advocated by the MacDougall Report: the EU budget amounts to just over 1% of GDP.

To stop the increase of the EU budget is often cited the moral hazard problem<sup>28</sup>. For example, Persson and Tabellini<sup>29</sup> argue that the availability of insurance against asymmetric shocks could induce the governments of the Member States to invest less in those projects that are able to improve the potential capacity of their economies. In other words, given that the structural reforms that will improve the flexibility of the local markets are politically costly for national governments, the availability of transfers from rich areas would reduce the political incentive to implement these reforms. However, this result is not always true and depends from both the type of reform and the context in which they are implemented. For example, Kletzer and von Hagen (2000) show that the incentive to implement deregulation policies on goods market is unaffected by the presence of a system of fiscal transfers. Conversely, the effects of fiscal transfers on reforms that affect the labor market depends on the degree of trade integration that has been achieved between the various member countries of the Monetary Union. If the level of integration is low, the incentive to undertake institutional changes is also low. On the contrary, if the degree of integration is high, a mechanism for fiscal transfers could even have a positive effect, encouraging - rather than discouraging - structural reforms.

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26 J. Sachs & X. Sala-i-Martin, *Fiscal Federalism and Optimum currency Areas: Evidence for Europe from the United States.*, [in: ] M. Canzoneri, V. Grilli & P. Masson (eds.), *Establishing a Central Bank: Issues in Europe and Lessons from the US.*, Cambridge University Press, Cambridge 1991.

27 J. Von Hagen, *Fiscal Arrangements in a Monetary Union – Some Evidence from the US.*, [in: ] D. Fair & C. de Boissieux (eds.), *Fiscal Policy, Taxes, and the Financial System in an Increasingly Integrated Europe*, Kluwer Academic Publishers, Deventer 1992.

28 J. Migué, *Federalism and Free Trade.*, Hobart Paper, London: Institute of Economic Affairs, 1993.

29 T. Persson & G. Tabellini, *Federal fiscal constitutions: risk sharing and redistribution.*, [in: ] *Journal of Political Economy*, 104(5), 1996, pp. 979-1009.

In addition to the fiscal transfers, **it is necessary to develop an effective strategy that allows the Monetary Union to boost their growth rates so as to ensure a satisfactory level of employment. So far the choices have continued to insist exclusively on the problem of internal competitiveness. The supply side policies - that were the key objectives of the Lisbon Agenda of 2000 - were re-introduced in the Europe 2020 strategy. But a strategy of this kind can only be effective in the presence of a satisfactory trend in the aggregate demand, but neither Europe nor the rest of the world seem to be able to guarantee it.** The liberalization of goods and service markets by themselves do not seem enough to balance the loss of purchasing power generated by the restrictive fiscal measures. Cutting welfare-state benefits may then encourage forms of precautionary saving, with depressant effects on domestic demand. On the other hand, the situation outside Europe is not good: U.S. does not seem to be able to be the driving force of international growth, and it is difficult to think that China - without a serious reform of the international monetary system - can become in the coming years the locomotive of the world (Rossi, 2013). In addition, economic history teaches us that virtuous monetary regimes are those based on a geographical area able to govern alone its economic cycle, without being dependent on fluctuations in global demand. The EU does not satisfy this fundamental requirement, and this should encourage the euro area to support its own internal demand.

On this point there are several proposals: the revival of the European development plan proposed by Jacques Delors at the end of 1980s and a more active role of the European Investment Bank (EIB) and of the Marguerite Fund, consisting of banks and savings & loans of major European countries. It will inevitably also include a more balanced income distribution both between and within countries. The competitive pressure due to the rapid globalization of markets, the high mobility of capital (which has shifted the burden of taxation on labor), the compression of social rights, the weakening of trade unions and of collective bargaining have considerably reduced the bargaining power of the middle classes and have a major impact on the reduction of the wage share in the various European countries, with adverse effects on private domestic demand. In addition, the purchasing power of households were also affected by the difficult access to public services. The latter could remedy to inefficient market solutions and to solve problems related to the protection against social risks that are not insurable in private form.

In order to find a solution to these problems, it could be necessary also to use the other channel of imbalance correction - the nominal one - which could operate through a rational income policy. In Europe we observe two different way of wage setting<sup>30</sup>: on one side, we have the Nordic countries and Germany that, thanks to the role played by trade

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30 W. Carlin, *Real exchange rate adjustment, wage-setting institutions, and fiscal stabilization policy: lessons of the eurozone's first decade.*, CEPR Discussion Papers 8918, 2012.

unions and by the high degree of coordination that characterizes these economies, have developed institutions able to set in a rational way the wages, making them compatible with the maintenance of the competitive position of the country. On the other side, we have the Southern European countries that did not develop these institutions and are characterized by backward-looking adjustment mechanisms that adversely affect the real exchange rate and thus the current account. In the past these imbalances were compensated by fiscal interventions and/or by monetary devaluations. With the advent of the euro and the introduction of increasingly stringent public finance constraints, the Mediterranean countries were forced to cut wages and weaken their welfare state systems. The current situation is well known: the Central and Northern European countries fix the wage to determine the level of (full) employment, while the peripheral countries are forced to create unemployment to determine the wage level compatible with the balance of their external accounts. The way out from the downward spiral is the adoption of generalized systems of remuneration based on agreements between trade unions and employers, providing for adequate welfare benefits and forms of collective insurance. It is an opposite way out not only to that suggested by the European institutions to peripheral countries, but also to the recent labor reforms approved in various countries which have introduced greater decentralization of bargaining and a weakening of the welfare system.

## **5. Welfare State as a form of insurance**

Making clear that the origin of the difficulties of the peripheral countries is due mainly to a misconception of the European institutions can also help us to acquit the unjust culprits, i.e. the public expenditure and the *welfare systems*. Provide an overview on the effects of public spending on growth, and on the benefits of a vast and universal social security system is beyond the scope of this paper<sup>31</sup>. However, it is necessary to clarify the role that a social security system can play in modern economies. We are often led to consider the welfare systems as the backbone for the redistribution of income and wealth among citizens. It is a vision that is typical of conservative movements but, over the last two decades, it has also entered into the lexicon of many left-wing political parties. While maintaining the desire for a more equitable distribution, even the left has been fascinated by competition as a system of discipline and social regulation. This version of the so-called “Third Way” has resulted in a conceptual framework in which the allocative problem (i.e., how to use the resources) is entirely left to the market, while to the State is granted the right to intervene ex-post, to correct the too unequal outcomes, to rescue the drowned in the development process, to soothe the wounds of social selection. In other words, the activity of redistribution is seen as

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31 M. D’Antoni & R. Mazzocchi, *L’Europa non è finita. Uscire dalla crisi rilanciando il modello sociale europeo.*, Editori Riuniti, Roma 2013, chapters 2 and 3.

a process as much as possible separated from the operation of the market, and it must be avoided that the first activity interferes with the second.

There is no doubt that the purpose of redistribution plays a central role in the public action. However, this interpretation is, at least, simplistic. The well-known American economist Richard Musgrave explained very well that, alongside redistributive activity, there are two other functions that the nation-state can and should play: economic stabilization and the pursuit of efficiency in the allocation of resources<sup>32</sup>. If the redistributive function is due to the inability of the market to produce satisfactory results in terms of fairness and to the fact that an increase in inequality could undermine the social cohesion, market failures in terms of efficiency are serious enough to justify the other two functions. A large part of the public intervention is due to the necessity to provide coverage against the risks that individuals cannot find in private insurance. This also applies to many of the interventions which tend to be highlighted exclusively for their distributive aspects<sup>33</sup>. Therefore, **social spending should be properly understood as a response to the incompleteness and failures of private insurance markets, and to their inability to provide a long run protection compared for fundamental risks related to health, old age, unemployment. In this respect, the solutions represent a certainly imperfect public response, but almost always preferable, in terms of efficiency and fairness, compared to market-based alternatives**<sup>34</sup>.

Of particular importance is the need for individuals to ensure what are their main assets: human capital, skills and experience, the ability to work. This wealth is exposed to the risk of disease and disability, but also to the risk to be depleted by long periods of inactivity or by the need to accept jobs and tasks that do not allow to update and maintain these skills. Social spending thus plays an important role in encouraging risk-taking and in the adoption of decisions that otherwise the individual would be very reluctant to undertake. If adequate protection from risks is an essential condition for the development of those skills that ensure growth and productivity, the extent and the manner in which such protection is assured are not uniquely determined. They depend on the set of institutions and specificity that define a particular *model of capitalism*. Different types of capitalism generate a different application for the protection of risks related to individual investments in human capital. The research field of “varieties of capitalism”<sup>35</sup> shows how the acclaimed model of liberal market economies, characterized by low social protection and limited

32 R. A. Musgrave, *The Theory of Public Finance: A Study in Public Economics*. McGraw-Hill, New York 1959.

33 K. J. Arrow, *Uncertainty and the welfare economics of medical care.*, [in: ] *American Economic Review* 53, 1963, pp. 941-73.

34 R. Artoni & A. Casarico, *Stato sociale e teoria economica.*, (in : ) *Studi economici* 87, 2005, pp. 59-90.

35 B. Dallago, *Sistemi economici comparati.*, La Nuova Italia Scientifica, Roma 1995; P. A. Hall & D. Soskice, *An introduction to varieties of capitalism.*, [in: ] P. Hall & D. Soskice (eds.), *Varieties of capitalism: the institutional foundations of comparative advantage.*, Oxford University Press, Oxford 2001.

market regulation, is only one of the possible ways of organizing capitalist production. In continental Europe has prevailed a different form of capitalism, which makes more use of explicit coordination mechanisms among stakeholders (businesses, workers, financial institutions) and which require increased protection both in terms of regulations and in terms of public insurance.

Belonging to a type of capitalism depends on how economic and social relations are organized. In this field, the first important institution is represented by the so-called "industrial relations" that govern also the relationship between capital and labor: it is determined by labor legislation, the degree of employment protection, and the strength and orientation of unions. Secondly, we have the educational system, which can be oriented to provide specialized skills in close cooperation with the production system, or more "generic" and "liquid" skills. The third element is the corporate governance, which is the way in which the relations between the firm and its lenders (banks, shareholders, financial intermediaries) are governed: there are countries where there may exist a direct involvement of the latter in the management, and others in which the relations are mainly mediated by financial markets. Finally, in the definition of the type of capitalism assumes great importance the welfare system.

The prospect of varieties of capitalism emphasizes the connection between institutions (labor market, finance, business, welfare), the degree of specificity of investments and the productive specialization. In this respect, the relevant notion is that of complementarity and "institutional equilibrium"<sup>36</sup>: an institutional solution is never optimal at all, but it becomes optimal in a certain context, given the presence of institutions that are complementary to it. It is particularly interesting the relationship that exists between institutions and productive specialization. The presence of a coherent set of institutions can create more favorable conditions for the development of certain activities than other. According to Hall and Soskice<sup>37</sup>, *coordinated market economies* - such as those of continental Europe - offer a relatively more favorable context to the so-called "incremental innovations". In fact, they require a workforce with high skills with in-depth knowledge of the production process, and adequate incentives to participate in its improvement. Moreover they need control structures that provide greater stability and lenders that are long-term oriented. Conversely, the *liberal market economies* - which provide a context characterized by greater mobility of labor, fewer restrictions in mergers and acquisitions, a concentration of power on the upper floors of the company - will favor those technologies and sectors dominated by radical innovations. The different distribution of innovative activity in Germany and in the U.S. seems to confirm this interpretation.

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36 U. Pagano, *Organizational Equilibria and Institutional Stability*., [in: ] S. Bowles, H. Gintis & B. Gustafson, *Markets and Democracy*., Cambridge University Press, Cambridge, 1993, pp. 86-166.

37 P. A.Hall & D. Soskice, *An introduction to varieties of capitalism*., [in: ] P. Hall & D. Soskice (eds.), *Varieties of capitalism: the institutional foundations of comparative advantage*., Oxford University Press, Oxford 2001.

Thanks to the more stable relations between employees, suppliers and entrepreneurs, in coordinated market economies there is a more favorable environment for the production of goods in which quality prevails over the price. Conversely, liberal market economies are favored in areas where demand is more sensitive to price, given the ability to react quickly with rapid reductions in the workforce. For this reason, coordinated market economies are those in which is greater the benefit from the protection of human capital investments. Therefore, in such economies we will have a greater demand for protection of the workplace, a greater propensity to adopt centralized solutions in the wage-setting, and a greater demand for welfare and “social rights” (in particular, health care and education). As we shall see in the next section, these elements are essential in the construction of a political Europe.

## **6. Toward a political union: the key role of social security system**

We have seen above that the greater mobility between jobs and sectors in liberal market economies depends on characteristics of the production structure and on a large set of institutions that are complement each other. Conversely, in coordinated market economies, specific investments in human capital make mobility much more expensive. With regard to the topic of European integration, this element raises the further question of geographical mobility. In perspective, this problem is not entirely new. Something similar took place in the modern age with the construction of nation-states. As pointed out by Ernest Gellner<sup>38</sup>, the creation of nation-states was an essential condition for the development of the capitalist economy. Agrarian and capitalist societies do not differ much in the degree of division of labor, which was accentuated also in the former, but for the fact that the “creative-destruction” process of the capitalist system requires much greater mobility in the use of resources. Agrarian societies were characterized by a strong cultural diversity both horizontal (geographical) and vertical (social), which made extremely difficult to use some skills outside of the local context. The presence of the cultural and linguistic differentiation between social classes as well as between regions and even villages, and the consequent reduced mobility prevented an efficient allocation of the different capacities. Far from being a problem in the pre-industrial economies, such rigidity favored the unchanged reproduction of social structures over time.

The novelty introduced by nation-states was to spread - and sometimes invent - a homogeneous culture and traditions, removing barriers that restricted both horizontal

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38 E. Gellner, *Nations and Nationalism*, Blackwell, Oxford 1983; E. Gellner, *Nationalism*, Phoenix, London 1998; E. Gellner, *The Coming of Nationalism, and its interpretation. The Myths of Nation and Class.*, [in:] S. Bowles, M. Franzini & U. Pagano (eds.), *The Politics and the Economics of Power*, Routledge, London 1999.

and vertical mobility<sup>39</sup>. In turn, the mobility has helped to strengthen a cultural homogeneity. The extension of common communication codes – i.e. sharing the same language and a homogeneous culture - and the adoption of the same institutions and common rules, has encouraged investments in human capital. The ability to respond to adverse shocks through the geographical and intersectoral mobility made investments in skills and abilities much less dependent from the performance of a specific local specialization, and therefore less risky. The ability to move more easily from one place to another made possible to escape the lack of jobs, poverty, social exclusion and allowed people to improve their personal situation. The fact that the creation of these macro-institutions has not been an easy process is evidenced by the fact that the agricultural institutions have dominated much of the history of human civilization. Overcoming these forms of economic organization was only possible in favorable historical conditions, which allowed also the coincidence of political and cultural unity.

Nevertheless, the cultural homogenization and the creation of a common national identity - which were obtained in many cases at the expense of minorities and with large investment of resources in education - was not the only tool in the hands of nation-states to mitigate the risks arising from the creative-destruction process generated by markets integration. The nation-states have historically operated through a second lever: they have created a *system of social protection* that can absorb - and then neutralize - the risks associated with capitalist development. National governments have exploited the ability to distribute those risks on a large population and in many cases they have used their coercive power through the imposition of obligations that could overcome the limits of private law solutions.

The two levers of social protection and common languages and standards were mutually-reinforcing: the sharing of rules, language and culture has positively stimulated the sense of economic solidarity and consensus for adequate social protection. The latter - in turn - has fostered the cultural integration of the population. On the other hand, it is clear that the use of each of these two elements faces limits. The gradual standardization of languages, codes and rules, creates the risk of losing features that could be useful in certain contexts. Similarly, the extension of social protection cannot be pushed to the point of compromising the basic incentives of a market economy. We could say that if, on one hand, the homogeneity makes economic solidarity less expensive in terms of consensus, on the other hand the demand for economic solidarity and social protection is greater the lower the mobility between geographical areas and sectors. Since both are directed to the same purposes, the more intense use of one of the two instruments reduces the need for the other<sup>40</sup>.

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39 E. Hobsbawm, *Nations and Nationalism since 1780.*, Cambridge University Press, Cambridge 1992; U. Pagano, *Cultural diversity, European integration and the welfare state.*, [in:] P. Van Parijs., *Cultural Diversity versus Economic Solidarity.*, Proceedings of the Seventh Francaui Colloquium. De Boeck, Brussels 2004.

40 M. D'Antoni & U. Pagano, *National cultures and social protection as alternative insurance devices.*, [in:] *Struc-*

The challenge that Europe faces can then be read as an attempt to bring to a higher level the traditional task of nation-states. National borders have become barriers for those markets which they had initially favored. Therefore an appropriate response requires to think to new institutions for an adequate neutralization of the risks associated with the operation of the Monetary Union. The legacy of nation-states that make up the EU mixes a high level of social solidarity *within* the individual states with a strong linguistic and cultural diversity *among* them. On this point, the difference is much more pronounced than, for example, in the U.S., characterized by a combination between mobility of resources and social protection which is significantly biased in favor of the former. On the one hand, in the United States the size of the market and the presence of a homogeneous legal and cultural space have greatly strengthened the "liquidity" of resources. On the other hand, the stratification of ethnic groups has severely limited the economic solidarity and the possibility of adequate investment in social protection. The high cultural horizontal homogeneity (between states) is not accompanied by the vertical homogeneity (between social classes), which was an important feature of traditional nation-states. The geographic homogeneity makes relatively indifferent the choice of the region to live in, while ethnic differentiation - also due to relatively recent immigration - makes difficult to ensure adequate forms of social protection. In the case of asymmetric shocks the presence of an adequate federal budget realizes an automatic redistribution between the various regions of the country. But the insurance that American citizens have over the loss of their jobs and over other risks lies more in the liquidity of their investments in human capital and in their ease in moving from one place to another than to forms of social protection.

In spite of the elimination of formal barriers between states, the mobility in Europe is still very low<sup>41</sup>. Therefore it is unthinkable that it may provide an adequate substitute for social protection, on which then the Europeans will have to rely on much greater extent than Americans. On the other hand, because of the still weak sense of belonging to the same community, even the mutual insurance between European states is less significant than the one guaranteed by a traditional federal budget<sup>42</sup>. In recent years the absence of a real willingness to economic solidarity that goes beyond national borders is - if possible – even more evident. The crisis and the populist rhetoric of some governments have increased the mutual distrust between European citizens.

Although forms of mutual insurance and inter-state transfers will still be necessary to

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*tural Change and Economic Dynamics*, 13, 2002, pp. 367–86; P. van Parijs, *Cultural diversity versus economic solidarity*, De Boeck, Bruxelles 2003.

41 R. Baldwin & C. Wyplosz, *The Economics of European Integration.*, McGraw-Hill, London 2012.

42 J. Von Hagen, *Fiscal Arrangements in a Monetary Union – Some Evidence from the US.*, [in:] D. Fair & C. de Boissieux (eds.), *Fiscal Policy, Taxes, and the Financial System in an Increasingly Integrated Europe*, Kluwer Academic Publishers, Deventer 1992; M. Obstfeld & G. Peri, *Regional non-adjustment and fiscal policy.*, [in:] *Economic Policy* 13(26), 1998, pp. 205-59.

ensure the sustainability of economic and Monetary Union, we will remain for a long time away from the creation of a European welfare state that can replace the existing national systems. This means that the response to the people's demand for security and insurance against the risks will be – at least for a certain period - a task for individual states. The dismantling of social protection systems offered by nation-states - far from being a way out from the crisis, as it is widely supported by some EU institutions - is likely to be the death blow for the European integration project.

An adequate level of redistribution is, however, also necessary to enable a more widespread distribution of the benefits of economic integration. In this regard, it should not be underestimated the risk of a growing gap between the interests of some citizens (the “cosmopolitan”) - which may found in the enlargement of the opportunities offered by the European Union a compensation of the loosening of social protection - and other (the “provincial”) which would pay the costs of competition, of the gradual disintegration of social cohesion policies and of immigration. The opening of international markets, even when it generates positive net benefits, rarely distributed fairly advantages and disadvantages. The effects of globalization on the level of inequality are an obvious example in this regard<sup>43</sup>.

It is clear that, in a context of economic and monetary integration, the provision of social protection by nation-states, though necessary, is a *sub-optimal* solution. **A form of insurance among the citizens of the Union, as it would be with an European welfare state, would in fact have the advantage of allowing a wider distribution of risks, able to cope the effects of asymmetric shocks between countries.** It must not be forgotten that the ability of states to insure themselves is a decreasing function of the degree of specialization: the higher the concentration of production in a small number of sectors, the greater the exposure to risk. An asymmetric shock that affects a given sector of the economy is enough to plunged into crisis the whole nation. Unfortunately, this is a very common phenomenon in developing countries that depend exclusively on a specific resource. Unfortunately, markets integration in the EU, rather than promoting the reduction of risks, pushes towards an even more accentuation of their specialization: indeed each country is concentrated in the productions of goods and services in which he presents a comparative advantage. This is also an element that needs to take into account<sup>44</sup>. A public policy that fosters an adequate diversification of production is certainly difficult to implement, but should not be ruled out a priori and should be part of a gradual progress towards integration.

Finally, there is the problem of political institutions. Since the sovereignty of the EU Member States on economic policy is only formal, the creation of a democratic European

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43 OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD Publication Service, Paris 2008.

44 S. Bowles & U. Pagano, *Economic Integration, Cultural Standardization and the Politics of Social Insurance.*, [in: ] *Quaderni del Dipartimento di Economia Politica* 408, Università di Siena 2003.

government could overcome the problem of the two twin deficits, i.e. the governance deficit and the democratic deficit<sup>45</sup>. Nevertheless the consequences of such a step would not be painless. In particular, it will be difficult to replicate the same representation mechanisms of nation-states. Even without going into the details of the discussion of the future institutional structure of the EU, it would be enough to think about the difficulty of organizing forms of direct election that would require a public debate between candidates who speak languages not understood by the majority of voters to suggest that way of representation will have to be necessarily indirect and mediated. The process of democratic participation in the presence of a strong linguistic diversity must therefore find new forms. A too hasty transfer of the levers of political control at the European level risks to exclude *de facto* relevant segments of the population from the decision-making power. **We must never forget that the current sense of “European citizenship” - a necessary condition for the functioning of a political union - still tends to be confined to richer and more educated people. The sense of attachment to the local community, including the nation-state, is greater among individuals belonging to less advantaged groups. This circumstance corresponds to the fact that individuals with higher level of human capital tend to be more mobile by the international point of view, and thus they can benefit more from the existence of a very large market for their skills.** In short, the project of “United States of Europe”, often cited as a panacea for all the ills of Europe, is likely to result in an *elitist project*, so as to create fractures within countries. Indeed, this fractures have already arisen in occasion of the rejection of the European Constitution in 2005 in France and the Netherlands.

## 7. Why U.S. model is unfit to led Europe

Although the need to reassess EU is clear to almost everyone, and the prospect of strengthening political union is widely accepted, there is no convergence on the basic characteristics of the new Europe. The consideration of the two aspects on which I have dwelt more in this paper – i.e., the role assigned to the macroeconomic policies and the level of social protection - allow me to organize the various options as follows:

	High social protection	Low social protection
Economic Policy Risk sharing	European social model in a more integrated EU	US model (high mobility, low protection)
Maastricht Approach Constraints and competition	EU before the crisis (not sustainable)	Internal deflation (end of EU social model)

<sup>45</sup> R. Mazzocchi, op. cit., 2014.

The first decade of the euro has been characterized by a lack of macroeconomic policy, in line with what I called Maastricht approach. A Monetary Union built in that way could not hold for long. Countries have sought to provide social protection through their welfare systems, but the need to cover the needs posed by the crisis with their own budgets has highlighted the weakness and the unsustainability of this structure, represented in the bottom-left corner of the table. Until now the answer was the imposition of austerity policies and the implementation of “structural reforms”, i.e. the request to liberalize the labor market to allow recovery of competitiveness through the mechanism of wage and price deflation. The pursuit of these policies is pushing many countries to the situation described by the bottom right corner of the table. If we continue on this path the most likely outcome is a growing political and social instability. The rise of eurosceptic political parties is the most likely answer to this trajectory. Europe would face a fall of consensus that would push at the end of some country in the hands of populist parties.

The awareness of the unsustainability of such an outcome is pushing toward a revision of economic policy and political institutions, i.e. moving in the upper part of the table. Policymakers started to talk about a revision of European institutions, in particular the creation of a system of mutual surveillance on the policies of individual countries and the introduction of imbalances indicator and corrective measures. These are the first steps towards a fiscal union. It should however be stressed that there is not only one way to realize this process of fiscal and political integration. First, because there is a wide variety of types of governance and macroeconomic adjustment mechanisms. In addition, the weight that will be assigned to the social protection will have its own importance.

The American model - shown in the top left corner of the table - is historically characterized by a modest degree of protection and redistribution. It could be a natural outcome if the current direction of European economic policy will have the result in a reduction of public intervention in each country and in a further deregulation of the labour market. Nevertheless, as I have said before talking about varieties of capitalism, such an outcome is hard to reconcile with the characteristics of a coordinated market economy like the EU. In order to reach a satisfactory level of investment in human capital, it is necessary to provide a high level of social protection and an adequate insurance coverage against the risks of sickness, disability, unemployment. Therefore, I think that the final outcome should be that described from the upper right corner of the table.

## 8. Conclusions

Europe is at a crossroads between greater integration and the risk of a decline. The difficulties of the euro have spread a deep distrust towards the EU. This result is not surprising: the single currency has been identified by European citizens as the only

common element that is clearly visible. **The crisis has changed the perception of the euro from hope to nightmare. Relaunching Europe is to act to resolve the institutional weaknesses of the EU.** In this paper I have tried to provide some important elements in this regard. In order for the convergence process to be successful, it is therefore necessary to overcome the current phase of integration totally left to the market, and to switch to a macroeconomic governance capable of promoting a sustainable *financial* and *real* convergence. **Only with a sharing of sovereignty in public finances and in banking and finance it will be possible to imagine an end in the present crisis and a future for the eurozone.** However, we should be clear on the use (and the abuse) of the term *fiscal union*. The defenders of the Maastricht approach continuously agitate the problem of opportunism (moral hazard) to reject any proposal involving a real sharing of the risks and costs of the crisis. The emphasis put by some countries on supervision and sanctions show that they are - perhaps intentionally - confusing the concept of “fiscal policy” with that of “fiscal police”. Looking at the first ten years of the euro, we should note that the fiscal irresponsibility and the moral hazard have only marginally contributed to the current crisis. The crisis and its rapid spread across the continent, more than the result of opportunistic behavior, is derived from the fact that the stabilization devices provided by the Stability and Growth Pact do not work. This amplifies - rather than dampen - the failings of individual countries.

**The absence of forms of mutual insurance and the non-sharing of sovereignty are the result of an error: the underestimation of the degree of interdependence between the eurozone economies, and thus the belief that negative events hit only the others.** Behave well and be immune to negative events is not enough to avoid the risk. Paradoxically, it was precisely the monetary integration that has canceled the assumption that underlies all the EU's institutional architecture, i.e. the idea that each country is the unique and exclusive responsible of its economy. The Fiscal Compact, perpetrating the same mistakes of the Maastricht approach, is a conceptually wrong response to the unsolved problem of the lack of a second pillar alongside the monetary one, namely the fiscal union.

Nevertheless the attribution to the EU of powers which currently belong to nation-states have important effects on areas and spheres that go beyond the mere exercise of monetary and fiscal policy levers. As I just mentioned, the centralization of governance would require not only a higher degree of homogeneity of rules, standards and codes, but also of language, mindset and culture. If the evocation “become Europeans” may sound romantic and attractive to the cosmopolitan *elites* of the continent, one can not overlook how difficult this process can be, and how costs can be distributed differently among geographical areas, between different social groups, between individuals with different level of education.

**The creation of a European identity that supports the political and fiscal union will not be possible without actions to ensure a balanced distribution of costs and benefits, and this applies both horizontally (insurance and mutual solidarity between countries and regions) and vertically (between individuals, social classes, occupations).**

In the paper I tried to explain that progress in the direction of greater economic and political integration must take place along a narrow path, with constant attention to the need to dose in a balanced way the following three elements:

- a) strength the processes of cultural homogenization and regulations;
- b) provide mechanisms mutual insurance between states;
- c) support for the maintenance of national welfare systems to ensure adequate protection within the states.

None of these three aspects is negligible and each holds the other two<sup>46</sup>. **The creation of a European identity that supports the political and fiscal union will not be possible without actions to ensure a balanced distribution of costs and benefits, and this applies both horizontally (insurance and mutual solidarity between countries and regions) and vertically (between individuals, social classes, occupations).** This is not a wish, but a necessity. The economic history is full of examples of processes of political and economic integration that failed due to the inability to address the problem of the distribution and social costs and benefits. We do not want to add the EU to this list.

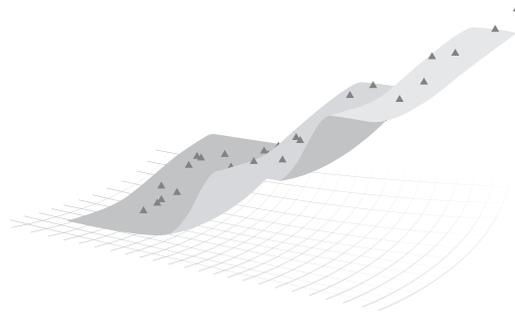
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46 M. D'Antoni & R. Mazzocchi, *L'Europa non è finita. Uscire dalla crisi rilanciando il modello sociale europeo.*, Editori Riuniti, Roma 2013.

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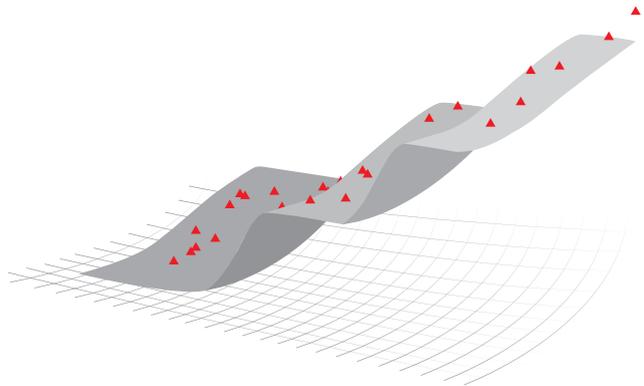


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Renaud THILLAYE & Patrick DIAMOND

## **Europe 2020, EU Governance and Progressive Reform**



**Keywords:****EU - Europe 2020 – Governance - Social (Europe) - Eurozone****Abstract:**

This paper examines one of the most important new regimes of EU governance, Europe 2020, in the light of the putative transition towards sustainable and socially cohesive European growth models in a climate of public austerity. The paper looks, first, at the processes and policy instruments underpinning the Europe 2020 Strategy. However, it observes that Europe 2020 suffers from the very 'capability-expectations' gap which afflicted the Lisbon Strategy. Despite growing support through the EU budget, national governments are crucial to delivering the 2020 strategy. Moreover, there is evidence of an inherent tension between the 'stability rationale' prevailing in the Eurozone, and Europe 2020's objectives concerning growth, employment and social welfare. The impact of austerity, fiscal consolidation, and structural reform on the delivery of the Europe 2020 strategy has been overlooked. The paper concludes that major reforms are required to safeguard the ambitions of the Europe 2020 strategy in promoting economic growth and jobs, instead of giving priority to austerity in the the Euro area. Finally, the paper insists that the social objectives of Europe 2020 are necessary to strengthen the political legitimacy of EU governance, acting as a counter-balance against the free market of goods, services, capital and labour. European social democracy has to champion the cause of a Europe 2020 strategy that deploys social and economic institutions to counter growing inequality and social injustice throughout Europe.

Under the shadow of the Euro area debt crisis and the harsh economic climate prevailing in Europe, profound disagreement and divergent visions of the EU's role have re-emerged. For some, this is a 'federalist moment' where a core of EU countries must commit to greater sovereignty transfer and 'resource pooling' at the European level. For others (not least the British Conservative Party), this is a 'repatriation moment': a time to recover and restore national sovereignty.

Alternatively, it might be argued that abstract debates about constitutional legitimacy have distracted attention from the substantive challenges facing Europe. If anything, **the crisis demonstrated that growth models in Europe are not well adjusted to a more global age, and that markets should not be given too much leeway in destabilising a highly interdependent region such as the EU.** The far-reaching reforms of economic governance have sought to tackle these weaknesses, alongside a co-ordinated move towards more resilient growth models. The EU has also engaged in closer monitoring of national policies through the European 'semester' cycle, beyond a simplistic regime of nominal rules and sanctions. The Europe 2020 Strategy was intended to achieve greater strategic prioritisation.

At a time when the EU's legitimacy and trust in politics have reached record lows, there is a case for examining the importance of EU governance, identifying its untapped potential, and seeking to resolve its flaws. **The paper asks whether Europe 2020 represents a qualitative improvement in comparison to past EU economic governance.** To put it bluntly, do EU Member States actually require these rules, commitments and governing procedures to ensure economic and societal success in the 21<sup>st</sup> century?

While the policy emphasis of Europe 2020 can inevitably be questioned, the strategy nonetheless constitutes a clear set of objectives, which are intended to speak to the everyday concerns of citizens. The core argument is that European economies not only need stabilisation; they also have to fashion more sustainable and inclusive growth models. In debating the instruments of EU governance, policy-makers should not lose sight of their long-term aspirations. As Aiginger et al.<sup>1</sup> put it, a political vision for Europe must encompass:

- A higher quality of life and social inclusion for its citizens;
- Economies driven by innovation and strong human capital;
- An ecologically sustainable and financially more stable production model;

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1 Aiginger et al., *Reconciling the short and the long run: governance reforms to solve the crisis and beyond.*, *European Policy Brief*, 2012, [http://ec.europa.eu/research/social-sciences/pdf/policy-briefs-www-for-europe-122012\\_en.pdf](http://ec.europa.eu/research/social-sciences/pdf/policy-briefs-www-for-europe-122012_en.pdf)

- Reduced welfare gaps across countries and individuals - without hampering diversity;
- A stronger European voice in world markets and institutions.

This paper addresses across two substantive sections the opportunities and challenges raised by the new EU governance system. It begins with a brief analysis of 'governance' in an EU context and the EU's institutional innovation since the crisis. The second section assesses the goals, processes and financial instruments underpinning the Europe 2020 Strategy, in the light of the problems experienced by the Lisbon Strategy over the last decade.

## Governance in today's EU

The analysis of EU policy-making should draw on the existing literature about the concept of 'governance', and how it has been applied to the EU. In the wake of the popularisation of the governance concept through the World Bank in 1989, various definitions have been given. In political science, the term 'governance' is used to describe changing patterns of government, especially the importance of private actors and policy networks in the formulation of public policy, and the use of 'soft-law' instruments<sup>2</sup>. This approach suggests that governance equates to a less state-centric, less hierarchical and less bureaucratic form of government. Keohane and Nye use a broader, more inclusive definition<sup>3</sup>: they argue that governance represents 'the processes and institutions, both formal and informal that guide and restrain the collective activities of a group'. This understanding encompasses all forms of social interaction, applying to the governing processes of non-state actors from the local to the global level.

Governance accounts raise a number of questions for scholars and practitioners in public institutions. Offe<sup>4</sup>, for instance, notes that governance is 'subject-less': instead of an accountable representative government, it highlights various actors and processes that are difficult to hold accountable. The optimistic view about governance is that it increases the 'problem-solving capacity' of public actors and institutions. However, 'actual power relations and dependencies'<sup>5</sup> have not disappeared. Moreover, by avoiding open political conflict and enabling technocratic bodies to design policy solutions, governance may lack the underpinning of public debate and legitimacy. This is of serious concern to social democrats who have long championed the importance of accountable, responsive public institutions.

2 G. Peters & J. Pierre, *Governance, Politics, and the State.*, Palgrave Macmillan 2000.

3 R. O. Keohane & J. O. Nye, *Introduction.*, [in:] J. S. Nye & J. D. Donahue (eds.), *Governance in a Globalizing World*, Washington, D.C.: Brookings Institution 2000.

4 C. Offe, *Governance: An "Empty Signifier"?*, [in:] *Constellations*, 2009, Volume 16, No. 4, pp. 550-561.

5 *Ibidem*, p. 554.

## EU 'innovative' governance

In European studies, the concept of governance has been applied for two decades to better understand the changing nature of the EU. Contrary to expectations, the deepening of the Single Market, the launch of Economic and Monetary Union, and the involvement of the EU in a greater number of policy sectors has not led to a European super-state. For the 'multi-level governance' theorists, the EU is neither an inter-governmental organisation, nor a state-like political system. It is a *sui generis* polity based on non-hierarchical decision-making (negotiation and deliberation rather than voting); the involvement of various public and private actors at different levels; limited spending capacity; and a focus on regulatory policy<sup>6</sup>.

Beyond traditional legislation and financing, the EU has, indeed, developed an impressive range of decision-making and implementation procedures. A whole spectrum of 'innovative modes of governance' are today in use in the EU<sup>7</sup>. Börzel<sup>8</sup>, for instance, finds ten modes of governance interacting with each other, including supranational centralization, supranational joint decision-making, mutual recognition, intergovernmental cooperation, the Open Method of Coordination, delegated self-regulation, and private interest government. EU treaties only partially recognise this diversity: articles 3 to 6 of the Treaty on the Functioning of the European Union (TFEU) establish a distinction between 'exclusive', 'shared', coordinated and optional competences. In practice, however, several modes of governance cut across a single competency.

The added-value of the EU's multi-level and multi-method governance is a matter of debate in the governance literature. If the EU can 'tax and spend', and 'command and control' only to a limited extent, should it really limit Member States' room for manoeuvre in so many policy areas? Political scientists generally observe that new modes of governance have been introduced precisely in these salient, 'market-correcting' policy areas in which Member States divergences are high and the 'hard-law' Community method appears to have reached an impasse<sup>9</sup>. To some commentators, this affirms that the EU is biased towards 'market-making' approaches, limiting the problem-solving capacities of the

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6 G. Marks et al., *European integration from the 1980s: state-centric v. Multi-level Governance.*, [in: ] *Journal of Common Market Studies*, 1996, Vol. 34, No. 3, pp. 341-78.; M. Jachtenfuchs, *The European Union as a polity (II)*, [in: ] K. E. Jørgensen, M. Pollack, & B. Rosamón (eds.), *Handbook of European Union Politics*, SAGE 2007, pp.159-174.

7 I. Tömmel & A. Verdun, *Innovative Governance in the European Union.*, [in: ] I. Tömmel & A. Verdun (eds.), *Innovative governance in the European Union: the politics of multilevel policymaking.*, Boulder, CO: Lynne Rienner 2008.

8 T. A. Börzel, *Policy networks: a new paradigm for European governance?.*, European University Institute, Robert Schuman Centre 2007.

9 B. Kohler-Koch & B. Rittberger, *The 'Governance turn' in EU studies.*, [in: ] *Journal of Common Market Studies*, 2006, Volume 44, Annual Review, pp. 27-49.; A. Moravcsik, *The Old Governance: Informal Institutions in the EU.*, New York University Worskhop: *Rule-Making in the EU and Global Governance*, Princeton University, 5 May 2010.

state without replacing it<sup>10</sup>. This diagnosis is not shared by all. Case-studies reveal that the intricate mix of soft and hard law mechanisms brings about contingent, sometimes unanticipated outcomes<sup>11</sup>.

The literature on governance, and the development of new modes of governance in the EU, raises three interrelated questions:

- What is the actual policy direction of EU multi-level governance?
- How great is the effectiveness of its various policy-making procedures? What is their direct or indirect impact on Member States' domestic policies?
- Is the EU governance system democratically legitimate?

This paper focuses on the first two and applies them to EU economic governance. It rests on the assumption that the EU's legitimacy depends to a large extent on the first two dimensions ('output-oriented legitimacy'), since there is little prospect of the EU political system getting closer to that of a democratic nation-state<sup>12</sup>.

## Europe 2020 and the socio-ecological transition: fit for purpose?

### Europe 2020's toolbox for the 'new growth' agenda

In 2010, the Commission judged that the Lisbon Strategy had suffered from an 'overly complex structure with multiple goals and actions and an unclear division of responsibilities and tasks'<sup>13</sup>. The focus on 'growth and jobs', and the introduction of country-specific recommendations after the 2005 mid-term review, did not off-set this inconsistent record. The ensuing analysis demonstrates that **the Europe 2020 Strategy strikes an effective balance between economic, social and environmental objectives, but that it does not represent a 'sea change' in relation to European governance. Moreover, the strategy will falsely raise expectations if Member States do not seek to enact it, individually and collectively, as a matter of priority.**

### Policy direction: the philosophy of Europe 2020

Europe 2020 is built around three pillars and five 'headline targets' which are, by and large, in line with the notion of a socio-ecological transition. As the Commission puts it<sup>14</sup>,

10 F. W. Scharpf, *The Problem-Solving Capacity of Multi-Level Governance.*, [in: ] *Journal of European Public Policy*, 1997, 4(4), pp. 520-538.

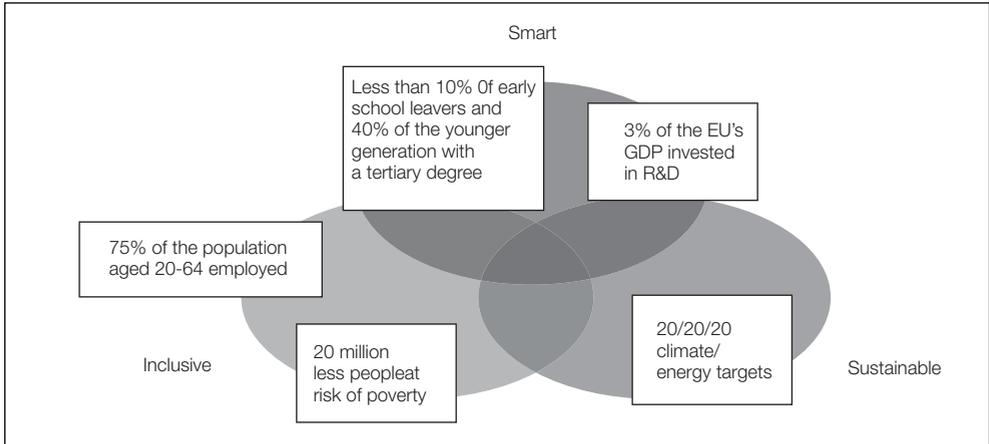
11 I. Tömmel & A. Verdun, op. Cit., 2008.

12 F. W. Scharpf, *Governing in Europe: Effective and Democratic?*, Oxford University Press, 1999.

13 EC 2010a, *Lisbon Strategy evaluation document.*, Commission staff working document, 02/02/2010, SEC(2010) 114 final, [http://ec.europa.eu/europe2020/pdf/lisbon\\_strategy\\_evaluation\\_en.pdf](http://ec.europa.eu/europe2020/pdf/lisbon_strategy_evaluation_en.pdf), p. 2.

14 EC 2010b, *Europe 2020. A European Strategy for smart, sustainable and inclusive growth.*, Communication

the three priorities are 'mutually reinforcing' and 'offer a vision of Europe's social market economy for the 21<sup>st</sup> century': better education propels higher employment, which itself helps to tackle poverty; investment in research and innovation increases the resilience of the economic system and is beneficial to employment in the long-run:



At first glance, the consistency of the Europe 2020 targets constitutes a significant yardstick to prevent national governments from sacrificing too much to short-term politics<sup>15</sup>. Policy-makers based in Brussels believe Europe 2020 makes EU institutions more mindful of the long-term. Europe 2020 was signed off by a majority of 'centre-right' governments, but the centre-left and green movements can reclaim ownership of the strategy. Arguably, this reflects the objectives enshrined in the EU Treaties, namely the vision of a 'social-market economy' promoting the 'well-being of its people', working for the 'sustainable development of Europe', pursuing 'economic, social and territorial cohesion' and fighting 'social exclusion' (Art. 3 TEU).

Inevitably, some authors criticise this 'consensus-orientated' approach. Pro-market voices like Erixon<sup>16</sup> think that any EU growth strategy should focus only on deepening the Single Market, the EU's *raison d'être*. He observes that Scandinavian countries are among the most open economies while at the same time performing well on social and environmental standards. This view is largely shared by Wyplosz<sup>17</sup>, who argues competitive pressures from other EU member-states and the rest of the world remain the most powerful drivers of reform. However, social policy experts criticise the 'inclusive growth' concept.

from the Commission, 03/03/2010, COM(2010)2020, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>, p. 8-9.

15 A. Atkinson, *In the 'Europe 2020 Agenda' the EU has a strategic plan to build a smart, sustainable and inclusive economy. Looking past current crises, we should re-focus on these long term goals.*, 29/02/2012, <http://blogs.lse.ac.uk/europpblog/2012/02/29/europe-2020-agenda/> [accessed 15 December 2012]

16 F. Erikson, *The Case Against Europe's 2020 Agenda.*, ECIPE Policy Brief, No. 01/2010, [http://www.ecipe.org/media/publication\\_pdfs/the-case-against-europes-2020-agenda.pdf](http://www.ecipe.org/media/publication_pdfs/the-case-against-europes-2020-agenda.pdf)

17 C. Wyplosz, *The failure of the Lisbon Strategy.*, *Vox EU*, 12/01/2010, <http://www.voxeu.org/article/failure-lisbon-strategy> [accessed 15/02/2012]

For Daly<sup>18</sup>, this notion does not result in a coherent social development strategy. Peña-Casas<sup>19</sup> finds that cohesion and social inclusion are, 'reduced to a basic function: to equip individuals with the ability to anticipate and manage change'. Finally, economists sensitive to political ecology are concerned that the EU does not prioritise public goods relevant to 'the well-being of populations'<sup>20</sup>. They warn against the dangers of peer-pressure and 'institutional Darwinism', calling for more co-operative approaches allowing greater investment in education and training, green technologies and infrastructure.

**As a result, Europe 2020 inevitably suffers from the limits inherent in political compromise. In particular, it does not distinguish clearly between what should be left to market competition, and what requires public intervention and investment. These pitfalls require further attention; political leaders and policy-makers will have to add substance to the broad socio-ecological direction and vision outlined by the Europe 2020 Strategy.**

### **Institutional processes: a patchwork of legal bases and methods**

With Lisbon Strategy's flaws in mind, the Commission dedicated a whole section to 'governance' in the Europe 2020 strategy document. This suggested that Europe 2020 represented an improvement in two key respects:

- Linking Community and national policies under a common thematic framework, namely seven 'flagship initiatives'.
- Placing the European Council in the driver's seat and increasing 'ex-ante' coordination<sup>21</sup>

We focus here on the first aspect, offering a critical overview of the 2020 pillars on account of the diverse modes of governance and legal imbalances cutting across them. The table in the annex (Annex 1) summarises the main elements of the seven flagship initiatives.

### **Smart growth**

The 'smart growth' pillar seeks to enhance the knowledge potential of European economies. It includes two targets on research and innovation (R&I) and education, and three flagship initiatives on innovation, the digital economy and young people. However, economic and educational objectives do not have the same legal basis.

18 M. Daly, *Paradigms in EU social policy: a critical account of Europe 2020.*, [in: ] *European Review of Labour and Research*, August 2012, vol. 18, no. 3, pp. 273-284.

19 Peña-Casas (2012, p. 162)

20 J. P. Fitoussi & E. Laurent, *Europe in 2040: three scenarios.*, OFCE/Sciences-po, 2009-21, Collection OFCE/ANR 10, 2009, p. 17-18.

21 EC 2010b, *Ibidem*, p. 26-27.

R&I and the digital economy correspond to shared competences between the EU and Member States as provided for by Article 4. EU law takes precedence over national law; binding measures can be imposed on national governments throughout the 'ordinary legislative procedure', known as the Community method; and qualified majority voting applies. In the communications detailing the 'Innovation Union' and 'Digital agenda for Europe' initiatives, the Commission commits to legislative proposals for an EU patent regime, greater standardisation in cutting-edge sectors, greater mobility of venture capital, and better cross-border access to public procurement. To reinforce the EU's action, Member States are expected to boost the effectiveness of their R&I systems and their capacity to leverage private funding. Country-specific recommendations covering these areas are based on Guideline 4, which is part of the Broad Guidelines of Economic Policy (BGEPP) under Article 121 TFEU. Member-states are faced with the prospect of policy warnings from the Commission: the Council can adopt recommendations on qualified majority voting.

The decision-making process is subject to a significant caveat, however. The 3% research spending target and the building of an integrated European Research Area – one of the main objectives of the 'Innovation Union' programme – cannot readily be enforced. In the TFEU, research is classified as a shared competence but with important qualifications: the Union is merely invited to 'define and implement programmes', and Member States cannot be bound by EU legislation. The responsibility to integrate national systems rests on the Member States' shoulders, and the Commission merely plays the role of 'facilitator'.

In relation to education, the EU again has limited influence. Article 6 of TFEU mentions 'education, vocational training, youth and sport' as a field in which the EU can only carry out actions 'to support, coordinate or supplement the actions of the Member States'. As a consequence, the flagship initiative 'Youth on the move' consists of non-binding recommendations to Member States such as ensuring '*efficient investment in education and training systems at all levels*' and '*reducing early school leaving*'<sup>22</sup>. Member States are urged to put in place 'youth guarantees' ensuring 'that all young people are in a job, further education or activation measures within four months of leaving school'<sup>23</sup>.

Country-specific recommendations are based on Guideline 9, which is part of the 'Employment guidelines' provided for by Article 148 of TFEU. In contrast to the economic guidelines, this cannot lead to any formal warning or sanctions. The Open Method of Coordination consists mainly of setting benchmarks, identifying best practice, and encouraging mutual learning. The Commission commits, for instance, to 'set up the modernization agenda of higher education including by benchmarking university

<sup>22</sup> EC 2010b, *Ibidem*, p. 11.

<sup>23</sup> EC 2010c, *Recommendation for a Council Recommendation on Italy's 2012 National Reform Programme and delivering a Council opinion on Italy's stability programme for 2012-2015.*, Brussels, 30.5.2012, COM(2012), 318 Final, [http://ec.europa.eu/europe2020/pdf/nd/csr2012\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/csr2012_italy_en.pdf), pp. 33-38.

performance'. It also envisages, '*a systematic monitoring of the situation of young people not in employment, education or training*'. But it is up to national governments to seize these opportunities. The relative weakness of this approach over the last decade casts a long shadow on the capacity of the EU to meet its education targets.

## **Sustainable growth**

This pillar includes the 20/20/20 energy targets and two flagship initiatives: 'Resource efficient Europe' and 'An industrial policy for the globalisation era'.

In the field of energy and the environment, the EU has had the capacity to pass legislation since the Single European Act. According to Articles 191 to 194 of TFEU, environment and energy are subject to the ordinary legislative procedure with the exception of fiscal matters. Two of the '20/20/20' targets enshrined in Europe 2020 originate from the Climate energy package adopted by EU leaders in 2007-2009. Key legislation was passed in 2010, such as the Renewable Energy Directive (2009/28/EC) and the Emissions Trading Scheme<sup>24</sup>. Each year, the ETS lowers the cap on CO<sub>2</sub> emissions by power plants and energy-intensive industries, so as to reach a 21% reduction from the 2005 level by 2020. To complement the ETS, Decision 406/2009/EC provides for national reduction targets in other sectors including agriculture, housing, waste and transport.

Only the target of 20% more energy efficiency was not formally part of the climate-energy package. This objective is central to the flagship initiative 'Resource Efficient Europe', which contains other proposals, such as a more integrated energy market, the 'greening' of the Common Agriculture Policy, and the revision of the Energy taxation directive. With the exception of taxation, all of these measures would follow the ordinary legislative procedure, leading to binding procedures. Nonetheless, more precise commitments such as the removal of environmentally harmful subsidies and the use of market-based instruments (such as taxation and procurement) to foster change in production and consumption habits are held to be the responsibility of Member States.

Overall, the EU appears well-equipped to foster environmental policies within Member States. The method of setting long-term targets and leaving it to Member States to decide how to achieve them is widely welcomed.

However, industrial policy suffers from much greater legal asymmetry between market-making and market-correcting measures. On the one side, the EU's exclusive competence for competition rules (Article 3 TFEU) and the strict supervision of state aid makes it difficult for Member States to adopt protective measures. On the other side, the competence for industrial policy remains national (Articles 6 and 173 TFEU). As a result, the EU cannot

<sup>24</sup> ETS, Directive 2009/29/EC.

steer any sectoral development at EU level. The 'Industrial Policy' Communication<sup>25</sup> suggests, 'bringing together a horizontal basis and sectoral application'. Nonetheless, the sectors identified are subject to extra EU resources for research and innovation. Member States, in contrast, are urged to facilitate the restructuring of uncompetitive sectors. The Commission commits merely to: '*launching a consultation of European social partners on a European framework for restructuring*'.

## Inclusive growth

The third and final pillar concerns the employment and poverty targets. Each one of them is underpinned by a flagship initiative. Policies pursued in these areas fall mainly under Article 5 of TFEU. The EU can co-ordinate Member States' employment and social policies, but it cannot adopt legislation. The 'Agenda for New Skills and Jobs' initiative mainly rests on non-binding 'road-maps' such as the Flexicurity Agenda initiated in 2008, and tools such as the 'European Skills, Competences and Occupations framework'<sup>26</sup>. The 'European Platform against poverty and social exclusion' initiative aims to transform the open method of coordination on social exclusion and social protection into a 'platform for cooperation, peer review and best practice'. Recommendations can be addressed to Member States on the basis of Guidelines 7, 8 and 10 under Article 148 TFEU, but there is no follow up in terms of warnings and sanctions.

As has long been observed<sup>27</sup>, **the EU has little influence over Member States' social policies. Although Social Policy in the TFEU is based on a broad objective of upward harmonisation of 'living and working conditions' (Article 151), the need to 'take into account the diverse forms of national practices' and to 'maintain the competitiveness of the Union' imposes strict limitations.** The union can adopt directives only when minimum requirements are necessary to the functioning of the Single Market (Article 4, Article 152). The Council can vote by qualified majority when dealing with working conditions. However, unanimity applies to issues related to labour law, social security for the unemployed, and the rights of trade unions. The emphasis in social policy is on the EU ensuring a baseline of social protection, but not on actively pursuing upward harmonisation.

As Vandenbroucke<sup>28</sup> contends, the fear of 'social dumping' expressed during the Rome treaty negotiations proved largely unfounded, as long as Member States could compensate

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25 EC 2010d, *EU Structural Funding for Growth and Jobs.*, Report to the European Council, 28-29 June 2012, [http://ec.europa.eu/commission\\_2010-2014/president/news/speeches-statements/pdf/council-201206/struc\\_en.pdf](http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/council-201206/struc_en.pdf) p. 4 and pp. 21-22.

26 EC 2010b, *Ibidem*, p. 17.

27 F. W. Scharpf, *op. Cit.*, 2002.

28 F. Vandenbroucke, *Europe: The Social Challenge. Defining the Union's social objective is a necessity rather than a luxury.*, OSE Paper Series, No. 11, 2012.

for any loss in competitiveness by bringing down their exchange rate. However, this option is not available to most EU countries attached to the EMU regime. The absence of a more stringent co-ordination mechanism for wages and social policy might be regarded as an obstacle to the achievement of social and employment targets in the Euro area.

### **Europe 2020 financial instruments: an increasing added value**

All of these legislative and procedural tools are supported by the EU budget. EU experts often insist that the EU is 'regulatory' in nature, and that the size of its budget imposes inherent limitations on EU action. The 2007-2013 budgetary commitments represented only 1.12% of the EU's Gross National Income<sup>29</sup>, while national public spending ranged from 35% to 57% of Member States' GDPs in 2011<sup>30</sup>. Moreover, two-thirds of the budget is redistributed as direct aid to agriculture and structural funds. A more nuanced assessment, however, is necessary. Substantial efforts have been made over recent years to increase the 'added value' of EU expenditure.

First, there has been an incremental shift from redistribution to long-term investment. The agreement reached in 2005 for the 2007-2013 budgetary framework has meant an increase in credits for infrastructure, research and innovation<sup>31</sup>. The 2014-2020 Multi-Annual financial framework adopted by EU leaders in February 2013 follows the same logic. The Commission explicitly linked its proposals to the achievement of Europe 2020 targets<sup>32</sup>. The Connecting Europe Facility has allocated €29 billion to finance transport, energy and broadband infrastructure, a 140% boost from 2007-2013. Funding for agriculture has been reduced by 12%, while credits for 'growth and jobs' have risen by 38%. According to the summit's conclusions, 'the funding for Horizon 2020 and ERASMUS for all programmes will represent real growth compared to the 2013 level'<sup>33</sup>. Finally, 'climate action objectives will represent at least 20% of EU spending in the period 2014-2020' (p. 6) making EU structural funds and the direct payments conditional on 'green' practices and investment.

The second development relates to the ever expanding use of the EU budget as a leveraging instrument. This is true for structural funds, which 'account for a very significant proportion of public investment in Europe- more than half of it in several Member

29 European Commission, *Financial Framework 2007-2013*, [http://ec.europa.eu/budget/figures/fin\\_fw0713/fw0713\\_en.cfm#cf07\\_13](http://ec.europa.eu/budget/figures/fin_fw0713/fw0713_en.cfm#cf07_13) [accessed 15/02/2013]

30 Eurostat, *'General government expenditure statistics'* [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/General\\_government\\_expenditure\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/General_government_expenditure_statistics) [accessed 15/02/2013]

31 Epha, *EU leaders agree a budget for 2007-2013.*, <http://www.eph.org/spip.php?article2079> [accessed 15/02/2013]

32 *A budget for Europe 2020*, EC 2011e, *A budget for Europe 2020.*, Communication 29.6.2011, COM(2011) 500 final, [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SPLIT\\_COM:2011:0500\(01\):FIN:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SPLIT_COM:2011:0500(01):FIN:EN:PDF)

33 European Council 2013, *European Council 7/8 February 2013.*, Conclusions (Multiannual financial framework', EUCO 37/13, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/135344.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf) p. 7.

States' (up to 90% in Hungary<sup>34</sup>). Linkages between structural funding and the private sector have also been enhanced. Under the Competitiveness and Innovation Programme (future Programme for the Competitiveness of enterprises and SMEs), several financial instruments are dedicated to leveraging private investment such as the 'SME Guarantee Facility', which secured 190,000 loans between 2007 and 2011<sup>35</sup>. Other examples are the Risk Sharing Finance Facility and project bonds endowed with seed capital from the EU and the European Investment Bank. They are expected to leverage private investment for long-term research, development and innovation.

For these reasons, **the EU budget's role in implementing the Europe 2020 Strategy should not be underestimated, although the distribution of EU competences is, by its nature, rarely conducive to spending in areas such as education and social policy.**

## **Learning from two years of implementation (2011-2012)**

How have Europe 2020's policy objectives and the financial instruments attached to it fared since 2010? Overall, implementation has been slow and inconsistent (see 'progress so far' in table, Annex 1). There are three principal explanations, as set out below.

### **National interests and the narrow scope of 'hard law'**

European decision-making is slow and fraught with limitations. The Community method offers no magic solution to achieving legislative breakthroughs and accelerating the implementation of Europe 2020. This has been apparent on the economic front where the last two years' limited legislative record contrasts with the ambitious rhetoric of the 2011 Single Market Act, drawing on the Monti Report. It took three years of negotiations to adopt, on an enhanced co-operation basis, an EU patent regime, but this will not remove regulatory differences between countries<sup>36</sup>. A new regulation on standardisation was passed in late 2012, with the aim of speeding up the use of common standards in the service and digital sectors. Other measures such as a European venture capital regime, greater cross-border access to public procurement, and a harmonised regime of electronic signatures have made slow progress since 2011.

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34 EC 2012d, *EU Structural Funding for Growth and Jobs.*, Report to the European Council, 28-29 June 20102, [http://ec.europa.eu/commission\\_2010-2014/president/news/speeches-statements/pdf/council-201206/struc\\_en.pdf](http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/council-201206/struc_en.pdf), p. 2.

35 EC 2012g, *CIP 2011 Implementation Report.*, Entrepreneurship and Innovation Programme Committee, 14 June 2012, [http://ec.europa.eu/cip/files/cip/docs/cip-2011-implementation-report-june-2012\\_en.pdf](http://ec.europa.eu/cip/files/cip/docs/cip-2011-implementation-report-june-2012_en.pdf) p. 2.

36 Economist, *Yes, ja, oui, no, no.*, 15/12/2012, <http://www.economist.com/news/business/21568436-after-40-years-trying-europe-has-unified-patent-system-sort-yes-ja-oui-no-no> [accessed 15/02/2013]

Adopted legislation also tends to be watered down at the implementation stage. The Commission finds that Member States have been slow to implement the Services Directive and the Second and Third Energy packages<sup>37</sup>. The 'State of the Single Market' Report 2013 points to 'unjustified double regulation' and 'entry barriers' in the service sectors of several Member States<sup>38</sup>. It also denounces national regulation of energy prices. The financial, digital and transport sectors are further matters of concern. All of these policy areas are politically salient at the national level, with vested interests directly threatened by deeper European integration.

The same can be said of the attempt to use market-based instruments in the field of climate change. On the one hand, Directive 2012/27/EU on Energy Efficiency represented an important step since it completed the climate-energy legislative arsenal. On the other hand, the EU has been struggling to price carbon emissions in the production and consumption processes. The Emissions Trading Scheme is failing to encourage industrial companies to invest in cleaner solutions. The excess of credits available on the carbon market in the context of the economic downturn has prompted the Commission to propose 'back-loading' allowances in order to push up prices. Yet this adjustment has met opposition from both the industrial sector and the centre-right group in the European Parliament<sup>39</sup>. The adoption of the new Directive 2011 169/3 on Energy Taxation proposed by the Commission also appears remote.

### **The limits of 'soft law'**

The EU's record is difficult to evaluate in the fields of national competence, especially social and employment policy. The launch of Europe 2020 was followed by a series of action plans such as the Council recommendation on policies to prevent early school leaving, and the Communication on the modernisation of higher education. The Employment and Social Affairs Council has adopted 'social protection performance' and 'employment performance' monitors<sup>40</sup>. Most of these action plans and benchmarks are subject to the Open Method of Coordination, namely a low-profile dialogue between the Commission and Member States, and between Member States themselves. Countries like France and Germany are said to be much more active than Northern European countries, not so much for 'mutual learning' purposes, but rather to influence their peers.

37 EC 2011f, *Annual Growth Survey 2012.*, Communication, 23.11.2011, COM (2011) 815 final, VOL. 1/5, [http://ec.europa.eu/europe2020/pdf/ags2012\\_en.pdf](http://ec.europa.eu/europe2020/pdf/ags2012_en.pdf) p. 15-18.

38 EC 2012l, *State of the Single Market Integration.*, Report from the Commission, 28/11/2012, COM(2012)752 final, [http://ec.europa.eu/europe2020/pdf/sgmktreport2013\\_en.pdf](http://ec.europa.eu/europe2020/pdf/sgmktreport2013_en.pdf), p. 9.

39 Euractiv 2012a, *L'UE dévoilera un paquet de réformes du marché du carbone.*, 15/11/2012, <http://www.euractiv.com/fr/general/ue-devoilera-un-paquet-de-reform-news-516033> [accessed 15/02/2013]

40 Council, 2012d, *Press Release*, 3188th Council meeting, Employment, Social Policy, Health and Consumer Affairs, 04/10/2012, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/lsa/132732.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/132732.pdf) p. 12.

The absence of EU competence in the industrial field has also been criticised in several Member States. The over-capacity crisis in the car industry, for instance, has found only a limited response in Brussels. The 2020 strategy aims to establish a level playing field for all car-makers, but it does not prevent concentration, nor avoid takeovers by companies outside the EU<sup>41</sup>. In February 2013, Commissioner Tajani's call for Arcelor Mittal to stop cutting jobs and to wait for a sectoral EU plan was met with disdain by the steel multinational<sup>42</sup>. A few days earlier, EU leaders had agreed to slash the Globalisation Adjustment Fund from €3.5 to 1 billion in the 2014-2020 Financial Framework. Several Member States had been campaigning to hand back to the national level responsibility for dealing with the social dimensions of industrial change<sup>43</sup>. This highlighted the EU's weakness in managing the consequences of the 'hard law' of competition, and enabling the modernisation of strategic sectors.

### **The shadow of crisis in EMU**

**The severe economic conditions that have affected European economies in 2011 and 2012 have further hampered delivery of the 2020 strategy. Low growth and high levels of debt have left several countries suffering from deflation and lack of public investment. Indeed, very significant adjustment requirements mean that national targets on R&I spending, education and employment are at risk.** In Spain, for instance, 'public investment has contracted by €17bn' since 2009<sup>44</sup>. Although EU leaders stated in March 2012 that the targets remained 'fully relevant'<sup>45</sup>, experts acknowledge that Europe 2020 has been delayed. A downward revision of the targets is not ruled out during 2014.

**Paradoxically, the crisis has actually improved the EU's energy record. However, if growth returns quickly, there is a risk of moving backwards because of a lack investment in renewable energy and energy efficiency. Finally, most Member States are not on track to achieve their social and employment targets.** As the Commission<sup>46</sup> reported in January 2013, household income has declined in several countries over the last five years. The risk of poverty and exclusion has significantly increased. Growing

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41 Financial Times, *EU tries to bolster car industry.*, 08/11/2012, <http://www.ft.com/cms/s/0/6808682e-29c3-11e2-a5ca-00144feabd0.html#axzz2Gzz24312> [accessed 15/02/2013], 2012.

42 New York Times, *Arcelor Mittal rejects Europe's pressure on job cuts.*, 13/02/2013, [http://www.nytimes.com/2013/02/14/business/global/arcelormittal-rejects-europes-pressure-on-job-cuts.html?\\_r=0](http://www.nytimes.com/2013/02/14/business/global/arcelormittal-rejects-europes-pressure-on-job-cuts.html?_r=0) [accessed 15/02/2013]

43 Euractiv, op. Cit., 2013.

44 J. Rubio-Ramirez, *Spain needs tough decisions about debt.*, [in:] *Financial Times*, 08/01/2013, <http://www.ft.com/cms/s/0/050b5b9e-58ff-11e2-99e6-00144feab49a.html#axzz2LBGFwiz9>

45 European Council, 2012.

46 European Commission, *Employment and Social Developments in Europe 2012.*, 8 January 2013, <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7315>

divergence is pitting resilient countries against those faced with a high level of long-term unemployment. This has led Commissioner Andor to stress the need to ‘find better macroeconomic stabilisation mechanisms in EMU and to better coordinate social and employment policies’.<sup>47</sup>

**The imposition of EU fiscal rules represents a further threat to the Europe 2020 targets.** First, they constrain public expenditure where lifting people out of low skills ‘traps’ and improving ‘non-price’ competitiveness often requires higher levels of public investment in human capital and infrastructure. Whether governments can consolidate their budgets and increase their growth potential is a matter of fierce debate<sup>48</sup>. Second, the impact of imposing fiscal consolidation across several countries simultaneously is overlooked. IMF experts recently admitted that ‘forecasters significantly underestimated the increase in unemployment and the decline in domestic demand associated with fiscal consolidation’<sup>49</sup>. In the Alert Mechanism Report 2013, the Commission recognised that ‘the on-going adjustment to imbalances is necessary but is costly in the short term and has resulted in higher unemployment’<sup>50</sup>. Yet it continued to defend the pace of fiscal consolidation as a factor which was crucial for maintaining market confidence<sup>51</sup>.

**The aftershocks of the economic crisis have called into question the EU’s capacity to deal effectively with fiscal and competitiveness imbalances while at the same time enhancing human capital, reducing poverty, and advancing an agenda to deal with long-term challenges.** This question is relevant most of all for those countries in greatest need of stabilisation.

## Conclusion

This paper aims to provide an assessment of the EU’s ability to steer European economies towards a sustainable growth model combining competitiveness, social inclusion, and environmental responsibility. These policy goals are the product of a political consensus in Europe, but remain especially important for European social democracy.

47 [http://news.bbc.co.uk/democracylive/hi/europe/newsid\\_9782000/9782595.stm](http://news.bbc.co.uk/democracylive/hi/europe/newsid_9782000/9782595.stm)

48 A. Alesina & F. Giavazzi, *The austerity debate: how is as important as how much.*, [in:] *Vox EU*, 03/04/2012, <http://www.voxeu.org/article/austerity-question-how-important-how-much> [accessed 15/02/2013]; J. Van Renen, *Fiscal consolidation: too much of a good thing?*, [in:] *Vox EU*, 27/04/2012, <http://www.voxeu.org/article/fiscal-consolidation-too-much-good-thing>

49 O. Blanchard & D. Leigh, *Growth Forecast Errors and Fiscal Multipliers.*, IMF Working Paper No. 13/1, 03/01/2013, <http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf> p.5.

50 European Commission, *Alert Mechanism Report 2013.*, Report from the Commission, 28/11/2012, COM(2012) 751 final, [http://ec.europa.eu/europe2020/pdf/amreport2013\\_en.pdf](http://ec.europa.eu/europe2020/pdf/amreport2013_en.pdf), p.5.

51 European Commission, *Fiscal Sustainability Report.*, *European Economy*, 8/2012, [http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2012/pdf/ee-2012-8\\_en.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-8_en.pdf)

**The centre-left in Europe needs to evolve a common position on how the Europe 2020 strategy can be enhanced and driven forward by the new Commission and the European Parliament.**

The centre-left in Europe needs to evolve a common position on how the Europe 2020 strategy can be enhanced and driven forward by the new Commission and the European Parliament. This will always reflect an understanding of the EU as a multi-level governance system implying different modes of decision-making, and leaving sizeable scope for negotiation and deliberation between actors.

Europe 2020 contains the seeds of a new social and economic strategy for Europe. At present, however, the rhetoric is not matched by concrete policies, and centre-right governments in particular have undermined the strategy by imposing policies of premature and excessive austerity. The strategy needs to be matched by coherent

measures. Europe 2020 lays out a well articulated vision and provides a much-needed baseline for EU policy-makers. However, its patchy institutional processes and instruments should not delude anyone. The Strategy is a compromise which reflects the degree of integration, coordination and resource-pooling that Member States and public opinion are prepared to accept. The legal imbalances cutting across flagship initiatives and playing against more ambitious 'market-correcting' measures are likely to remain. **Europe 2020 provides no magic bullet, but represents an important opportunity to hold leaders and policy-makers accountable for meeting Europe's long-term challenges.**

Nonetheless, measures to deal with the contradictions between short-term and long-term objectives should be examined more closely. Europe 2020 should not only be a 'fair-weather strategy'. The schedule of fiscal consolidation should be revised in countries faced with zero-growth, with the aim of achieving a higher quality of public spending and administration. This could form the basis of 'reform contracts' between the EU and Member States established on a voluntary basis, pursuing a long-term vision and remaining open to additional EU funding.

In the future, a European stabilisation fund could support Member States in not sacrificing too much to market-based adjustment. Greater consistency between the Macroeconomic Imbalance Procedure and Europe 2020 social targets should be pursued, for example, through a 'social corridor' facilitating the consistent development of social protection. In parallel, political steering should be strengthened. National parliaments and social partners should be more fully involved, transforming the Europe 2020 strategy into a high-level political action-plan rather than another instrument of technocratic governance.

ANNEX 1: Europe 2020 policies and track record 2011–2012(source: EC)

Objective	Target	Flagship initiative	Competence / decision-making	Main actions at EU level	Main actions at national level	Progress so far
Smart	3% spent on R&D	Innovation Union	Single market: shared (Art. 4), research: shared (but non-binding) Economic Guideline 4- Art. 121	Complete ERA Improve conditions for business innovation Launch European Innovation partnerships Greater EU funding for innovation Promote knowledge partnerships and entrepreneurship	Reform R&D and innovation systems Train more researchers Prioritise knowledge expenditure and promote private R&D investments Ensure a sufficient supply of science, math, engineering graduates	2 legislative proposals adopted: EU patent, standardisation, 4 legislative proposals pending : Horizon 2020 (merging R&D and innovation funding), Cohesion 2020, public procurement, venture capital 5 EIPs launched on active ageing, agriculture, smart cities, water, materials European Public Sector Innovation Scoreboard
		Digital Agenda for Europe	Single market: shared (Art. 4) Economic Guideline 4- Art. 121	Digital Single Market Greater EU funding for investment in ICT	Draw up high speed strategies Limit the cost of network roll-out (public intervention only if market failures) Develop online public services	Adoption (2012) of the Radio Spectrum Policy programme (deployment of 4G) Communication on e-commerce (2012) = update of the E-commerce directive Draft regulation on electronic authentication (2012) Cloud computing strategy (2012) Upcoming Internet security strategy (2013)
	40% in tertiary education and less than 10% school dropping out	Youth on the move	education, vocational training, youth and sport: optional (Art. 6) Employment Guideline 9- Art 148	Enhance EU's mobility programmes and link them up with national programmes and resources Modernization agenda for higher education and benchmark universities Boost mobility of young professionals (EURES)	Ensure "efficient investment in education and training systems at all levels" Tackle early school leaving Improve the relevance of education systems in relation to job market needs Improve young people's entry into the job market	Experimentation of EURES Council recommendation on policies against early leaving from education and training (2011) Communication on the modernisation of higher education (2011)
Sustainable		Industrial policy	Single market: shared (Art. 4), industry: optional (Art. 6) Economic Guideline 6- Art. 121	Competitiveness proofing of EU regulation Support the restructuring of sectors in difficulty and the greening of services and manufacturing Improve business environment for SMEs	Support business environment for SMEs (public procurement, smart regulation, intellectual property...)	Impact assessment on competitiveness and SMEs of all legislative proposals Reviewed Small Business Act (2011) Action plan 'Access to finance for SMEs' Draft regulations on European VC and social entrepreneurship funds (2011) Sector-specific strategies: space (2011), CARS 21 (2012)

Objective	Target	Flagship initiative	Competence / decision-making	Main actions at EU level	Main actions at national level	Progress so far
	20/20/20	Resource efficient Europe	Environment, energy: shared (Art. 4) Economic Guideline 5- Art. 121	Make EU and national funding more consistent Improve market-based instruments: ETS, taxation, state aid, public procurement Upgrade energy networks Energy efficiency action plan Single Energy Market	Phase out environmentally harmful subsidies Make the most of fiscal incentives and public procurement Coordinate implementation of infrastructure projects	Directive on Energy efficiency (2012/27/EU) CAP reform proposal (awaiting MFF settlement) Regulation proposal on Trans-European energy infrastructure 2020 (awaiting MFF) Decision proposal on an Environment Action Programme (Nov. 2012): includes requirements for MS to remove environmentally-harmful subsidies Proposal for a revised Energy taxation directive
Inclusive	75% employment	Agenda for new skills and jobs	Social policy: coordination (Art 5) Employment Guidelines 7 and 8 - Art 148	Coordination of the flexicurity agenda ESCO (common classification of jobs and skills) Integration of third country nationals/migrants Review directives on working time and posting of workers, and health and safety legislation Promote intra-EU mobility and migration policy in line with labour markets need Erasmus for young entrepreneurs	Pursue transition towards flexicurity labour markets Make work pay, review tax and benefit systems Implement the European qualifications framework Increase consistency between education, training and work Improve work-life balance and gender equality	Implement further the Communication on flexicurity (2008) and the New skills for new jobs initiative (2008) Proposal for a revamped posting of workers directive (2012) and EGAF
	-10% poverty	European Platform against poverty and social exclusion	Social policy (Art 5): coordination Employment Guidelines 9 - Art 148	Cooperation, peer-review, best practice EU programmes to promote social innovation and take poverty concerns into account in all EU policies Assess adequacy and sustainability of social protection and pension systems	Dedicate specific programme to vulnerable groups (elderly, Roma, minorities, one-parent families...); Ensure adequate income support and access to health care via social security and pension systems	

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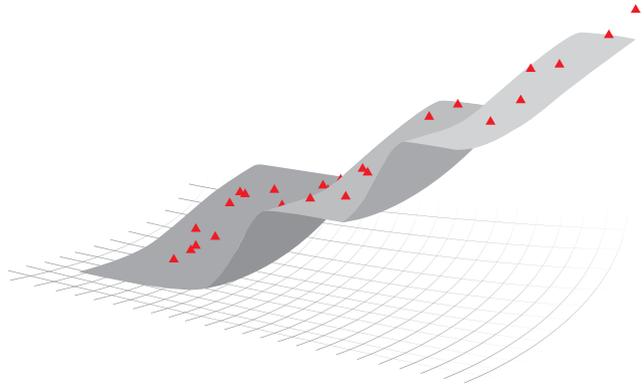
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## **Way Forward for European Welfare Society**



**Keywords:**

**Welfare State – Longevity, sustainability and plausibility – Progressive Narrative – Better and Fairer Society – Social Europe**

**Abstract:**

The global crisis of 2008 has changed everything, however not necessarily alongside the directions that the European progressive family hoped for. Instead of exposing the destructive character of neo-liberalism, it rather contributed to its consolidation and reaffirmed its mainstreaming position. In this context, social democracy finds it particularly difficult to persevere. The battle to safeguard its historically proud legacy (such as welfare state) has placed it in a defensive position. What is more, it is perceived as “part of the system” rather than a credible alternative to it. In the light of these observations, the article analyses the current confinements of the political debate, while addressing the disparagement that progressive face regarding the sustainability, longevity and plausibility welfare state agenda. Further, it looks at ways in which the ambition to create fairer and better society could be transformed into a new promise, by looking at strategy to fight power imbalances and socio-economic inequalities. The enumerated proposals are completed with their pan-European equivalent, which are developed in the article’s conclusions.

Academic literature offers a handful of explanations regarding the recent financial and economic, as also the subsequent social and democratic crisis. Indeed, as some authors point out, by now *the crisis is both overexplained and overdetermined*<sup>1</sup>. It became a point of reference, a framework of deliberations and a set the criteria, alongside which any potentially new idea is being evaluated. In this spirit, it has also become a common denominator of all the progressive debates. Within them, a view that is generally promoted is that the crash was provoked by unwarranted application of neo-liberal philosophy. That being logic of the contemporary stage of financial capitalism not only ruined the post-war social deal, but also failed to pave the way towards any long-term sustainable strategy. Progressives claim therefore that the crisis is in fact the very first profound predicament of that *system*, which makes it itself the best piece of evidence that as a *system* at hand it does not work.

This reasoning induced a certain illusion that was particularly popular among the progressives by the year 2008. For quite a while they believed that since their political assessments<sup>2</sup> regarding the “erosive nature of neo-liberalism” had been correct, they would be credited by the history and voters for their acute political instincts. This ‘justice’ would materialise in a turn of the electoral pendulum, showing increase in the polls and paving the way back to the governments. In that sense, although there was literally no reason for such optimism (at least none that would be rooted in the history), the progressives put their faith in an idea that the neo-liberalism would be discredited and their ideology could become prevailing again. Almost ritually they began to repeat the claim that “*after such a crash, one cannot return to business as usual*”, by which they implied that the “mainstreaming course” should be abandoned. Instead, they argued for a profound change. Nevertheless, as correct as it may have been, the described above anticipated outcomes remained mostly in the scope of their own wish-full thinking. To make things worse, while awaiting a “great public awakening”, they seem to have missed the momentum to actually step in and change the terms of the conversation. This happened despite their frequent reflections that fall under frequently repeated quote of Hillary Rhodam-Clinton: “*Never waste a good crisis*”.<sup>3</sup>

Although the previously cited hopes for a “change by default” were clearly illusionary, it does not seem that social democracy has yet learned a lesson not to trust that there are

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1 M. Blyth, *Austerity. The History of a Dangerous Idea.*, Oxford University Press 2013, p. 22.

2 see: for example the “Rasmussen’s Report” – European Parliament, *Report with the recommendations to the Commission on the Hedge Funds and private equity.*, (2007/2238 (INI), 2008, <http://www.europarl.europa.eu/sites/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2008-0338+0+DOC+PDF+V0/EN>

3 see: visit to the European Parliament on 6<sup>th</sup> March 2009: <http://www.youtube.com/watch?v=B62igfNu-T0>

any automatic gears as far as course of politics is concerned. Nowadays, when the entire world looks at 5<sup>th</sup> anniversary of the collapse of the Lehman Brothers<sup>4</sup>, **the debate that the progressives engage themselves in is still framed by two axes. The first of these is determined by the terms impressed by neo-liberalism on the world of politics. The second is the more and more apparent transposition of the political conflict from within the existing partisan system into the edge of it – ushering raise of other ‘alternatives’.** These have been embodied by different forms of mobilisations – from social ones, through populist to extremist and anti-systemic ones. They make the centre-left find itself in a relatively confined space. In order to break out free, they progressives persistently focus in their rhetoric on search for defining “the opening momentum” of the new period of “*crisis-aftermath*”, which they then would hope to frame with still ambiguous “distinctive alternative”. Both appear however relatively abstract, once contrasted with where the societies are at the moment. In Europe, about a half of the European citizens believe that “the worst is yet to come”<sup>5</sup>. Hence, it would stipulate that there is neither a hope for better times, nor confidence that anyone, social democracy included, can do anything to turn tides.

## **1. Going beyond (political) insecurities**

This apparent level of anxiety within the European societies means that citizens are likely to be sceptical if not resentful to any new proposals. Such an attitude is consequential to fearing that any change may bring about worsening of their conditions. This in parallel with the political confinement limits potential deliberations on alternatives. Even if any new idea would arrive, it would be instantly confronted with the evaluation criteria that neo-liberalism had impressed on political (and societal) debate. And such a test most obviously cannot be passed successfully by any non-mainstreaming proposal<sup>6</sup>.

The traditional liberal argument was that market should be protected against external interferences and would always be able to renew and rebalance itself. The dispute among liberals has remained around the definition of ‘interference’ – as the more orthodox ones would see any political manoeuvre as interference, while *ordoliberal*s would see the role for the state in setting the conditions in which markets could function uninterrupted<sup>7</sup>. When the crisis hit, the choice of a numerous public authorities was to invest in rescuing banking sector in order to “safeguard the vital financial interests of the citizens”. While rushing with financial aid, they had to shift the resources within the public budget – blurring the borders

4 The paper was finalised at the end of 2013

5 See for example: Eurobarometer surveys of 2013.

6 See also : C. Crouch, *The Strange Non-Death of Neoliberalism.*, Polity Cambridge 2011.

7 M. Blyth, op. Cit. 2013, p. 133.

between what is public (resources) and private (debts of respective banks). This “ad-hoc bailouts”, next to numerous other consequences, also limited the public authorities in terms of their prerogatives to act and react in other, different dimensions. “There was no alternative” they argued, which “TINA” comfortably also served to justify the subsequent steps<sup>8</sup>. Despite a brief reconsideration, if there could be a way out that would involve application of other socio-economic models (momentum known in the literature as “a brief return to Keynesianism”), neo-liberalism managed to sustain its prevailing powers.

At that point also, the aggressive campaign on “scandalous public debts” began. It was a sort of a smokescreen, which definitely helped distraction and shifted the balance in the overall argument. Even if the entire issue of ‘debts’ was not new and even if they had existed before 2008, only then, around 2010 they gained a rank of “urgent, burning problems to solve”. To that extent, the conservatives heading in Europe in the last years successfully managed to imprint in people’s minds the metaphor of ‘household’ as the vehicle to understand the logic of public finances. And in this context of course a popular understanding of “debt” is that it is always bad, exposes people to risks and may result in eviction (termination of the current state of affairs). Hence the governments, even those of the centre left, found themselves in relatively compromised positions. In the spirit of this argument, it would seem only plausible that these “dents” have been growing and would continue to expand, while there has been a grave mismanagement of public funds. Under this notion, neo-liberals accused states of spending money on “expensive hobbies”, among which they classified welfare states’ provisions. With such an explanation, it was sellable that “austerity” is not only reasonable, but again the only way forward.

Consequently, social democracy found itself in a quite complicated position. They got relatively optimistic with the electoral results in 2012<sup>9</sup>, however they were also quite aware that this would not put them in a position in which they could decisively change the rules of the game. The challenge of not losing the next election and the challenge of claiming power to profoundly transform reality seem no longer identical tasks. While returning to the governments, they seem still squeezed “between financial and electoral markets”<sup>10</sup>, regardless of years spent on soul-searching within the numerous renewal processes. They appeared still not ready to pick the real historical struggle against financial capitalism. Even if (as mentioned before) they still claimed a moral victory that they “had got the story of the upcoming crisis right”, even if they had become wiser knowing their own weaknesses<sup>11</sup>,

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8 A. Skrzypek, *Standing Tall: Reconnecting with the Social Question of the Contemporary Times.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Framing a New Progressive Narrative.*, FEPS Next Left Book Series, vol. 9, FEPS / Renner Institut 2013, pp. 48 – 71.

9 A. Skrzypek, *Winning for real. The Next Left taking the Chance to Shape Europe for the 21<sup>st</sup> century. 10 fundamental challenges.*, FEPS 2013.

10 R. Cuperus quoted in: *Renaissance for Europe*, FEPS 2012, p. 35.

11 as spelled out by: i.e. T. Judt, *Ill fares the land.*, Penguin, London 2010.

even if they learnt to be bolder in their statements<sup>12</sup> – they were still in “square one”. They did not dictate the terms and were still in the very same, politically claustrophobic frames of the debate.

To make things worse, the progressives seem to actually even give in. They may have claimed to look for an alternative *way out of the crisis*, but the more it deepened, the more they endorsed a debate on *how to manage within the crisis* – trying to adjust to reality of changed circumstances, undermined economies and scarcity of public resources<sup>13</sup>. With that something unthinkable happened. What used to be known as ‘crisis’ have evolved to become the ‘only known reality’ for societies and hence also the ‘only scope’ for politics to be exercised. The objective was more and more reduced to perseverance.

This has been both confining, but also, if to play a “devil’s advocate”, is some ways surprisingly comfortable. When the crisis hit, social democracy had been battling within its internal predicament. The ideological divisions from the end of the 1990s and the beginnings of the 2000s were still quite present. The difference from the debates around the “Third Way” and the period of 2008 was however, that the dispute was no longer about the actual substance. It was rather along the lines of blaming each other of “having gone too far” or “not having gone far enough”. This reasoning had been underpinning the explanations of diverse electoral losses and quite drastic removal of social democracy from majority of the governments inside the EU. With disagreements on the former renewal strategy on one hand, and the limitations that the crisis circumstances impressed on all the ideological debates on the other – there was at that point not much space left for taking a step back or aside and to look if re-foundation of social democracy was still possible. And herewith the movement found on a principle of exercising continuous self-criticism, petrified this branch of its activity. With the other ideals unclear, it was able to focus with achieving the objective of becoming a solid manager – a part of a “governing party” again<sup>14</sup>.

These analyses seem relatively gloomy, as one by one they point out effectively that social democracy missed three important momentums within the last 5 years. It failed to communicate its version of the genesis of the crisis, it was too slow and self-absorbed to launch a counter-attack on neo-liberalism, and last but not least it did not succeed to frame the post-2008 debate. Although people say “three times a charm”, looking at the history of social democracy one should however not rush into calling it all over for the progressive movement.

12 G. Moschonas, *One step forward, one step back? Debt crisis, the PES and the Limits of Social Democracy.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *In the Name of Political Union: Europarties on the rise.*, FEPS Next Left Book Series, vol. 7, FEPS / Renner Institut 2013, pp. 126 – 141.

13 P. A. Hall, *The Limits of Technocratic Social Democracy. Renewal in the post-crisis landscape.*, *The Next Social Contract. Progressive Politics after an Era of Plenty.*, [in: ] O. Cramme, P. Diamond & M. McTernan (eds.), *Progressive Politics After the Crash. Governing from the Left*, I.B. Tauris 2013, p. 27.

14 “Governing party” should here be understood as synonymous with being “part of the system” – essentially referring to both parties in government and in the parliamentary opposition. (see for example the work of P. Meir).

It is true that the neo-liberal answer to the crisis was embodied in a three-folded attack on what is in fact the historical legacy of social democracy (namely welfare state and per extension state and democracy as such). But the research shows that there is regardless of it still much public support for the cornerstones that the vision of welfare society could remain anchored in<sup>15</sup>. To give an example, demand for “equality” was the reason that inspired social mobilisations of Occupy Wall Street Movement and *Indignados*<sup>16</sup>. **So the challenge for social democracy would seem to be to finally go beyond its own insecurities and engage in this epic battle. In order to win it, the counter-attack cannot come from a defensive flank, but has to take a format of an inspiring new vision. The objective should be to reach a New Social Deal<sup>17</sup>, which would embody a new understanding of welfare society, which would bring about answers to contemporary challenges and pave the way beyond the confinement of the current debate.**

The paper is further divided into 2 principle chapters. The first one provides an understanding of the ongoing dispute about the longevity of the welfare state. It combines two streams of the debate, which until now remained separated. These are the discussion on the sustainability of welfare state on one hand, and on plausibility of welfare state's promise while it is subjected to the crisis-related attack on the other. The second section looks at potential building blocks for a new vision. It brings together the discussion on changing societies and the desired 'better and fairer' societies.

## 2. Long live Welfare State?

Welfare states are being described as an embodiment of the idea of a social deal<sup>18</sup>. They bring about ways in which the power of societies and power of capital can be balanced to serve mutual benefits, which should translate into progress and prosperity for all. Within the concept, state plays a key role in ensuring that wealth is being equitably distributed and

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15 P. Diamond & G. Lodge, *European Welfare States after the Crisis. Changing public attitudes.*, Policy Network Paper, Policy Network / IPPR / FEPS, January 2013, [www.policy-network.net](http://www.policy-network.net) 2012.

16 On *indignados*: see: M. D. Kennedy, *The Next Left and its Social Movements.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Building New Communities.*, FEPS Next Left Book Series, vol. 5, FEPS / Renner Institut / IGLP 2012, pp. 98 – 109; G. Baiocchi & E. Ganuza, *Politics without Banners. The Spanish Indignados' Experiment in Direct Democracy.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Building New Communities.*, FEPS Next Left Book Series, vol. 5, FEPS / Renner Institut / IGLP 2012, pp. 110 - 119; V. A. Schmidt, *From Social Movements and Citizens to Policies, Processes, and Politics in European Governance: The Need for New Next Left Ideas and Discourse.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Building New Communities.*, FEPS Next Left Book Series, vol. 5, FEPS / Renner Institut / IGLP 2012, pp. 120 – 131.

17 A. Gusenbauer & A. Skrzypek, *The Next Social Contract. Progressive Politics after an Era of Plenty.*, [in: ] *Progressive Politics After the Crash. Governing from the Left.*, O. Cramme, P. Diamond & M. McTernan (eds.), I.B. Tauris 2013, pp. 229-238.

18 A. Skrzypek, *The Next Social Contract: A New Vision for European Society.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *For a New Social Deal.*, FEPS Next Left Book Series, vol. 6, FEPS / Renner Institut, 2013, pp. 24 – 59.

all the citizens enjoy equality of opportunities. The funds to sustain necessary policies and provisions come from taxation, which implies redistributionist character of the concept<sup>19</sup>. There are numerous classification of welfare state concepts and models, among which there is one that emphasises partisan differences in the approach<sup>20</sup> and contrasts these with the different forms that capitalism may assume.

While focusing on the questions of improvement of living and working conditions for all, social democracy traditionally claims intellectual and political ownership over the modern version of the welfare states across Europe. They point out that the orders put in place in the post-War times essentially embody the lessons learnt from the Great Depression of the 1930s, as also promote the model based on extension of social provisions and application of Keynesian economic policies<sup>21</sup>.

Even though the progressive movement takes pride in their welfare state legacy, this satisfaction is not overshadowing another reflection. At least since the 1980s it has been discussed that a profound re-conceptualisation has been required. The arrangement put in place in the second half of 1940s dealt with Europe exhausted by two world wars. Reconstruction, re-launching of production processes and restoration of societal order were the objectives. Much had to be done to assist individuals, who tried to patchwork their lives back together. A half of a century later, there has been a different society in place, as also the economic circumstances have changed. Herewith the model that had served well before, it seemed to have appeared more and more inadequate<sup>22</sup>.

The critical moment that pushed social democrats into an ideological debate on the future of welfare state was the enhancement of the processes of globalisation. In the 1990s it appeared to have been quite clear that the existing provisions can no longer live up to the original promise of protection, and are not organised in a way that would guarantee the promise of progress and empowerment for all. The discussion that emerged in this context is seen as a dispute around Third Way<sup>23</sup>. At the core of disagreement was the question what could offer security and how to balance (both socially and economically) between the variable factors – from safety nets to activation mechanisms.

The emotions that accompanied it are still not calmed, which makes it even tricky to give fairness to these proposals by calling it the last pan-European debate on the renewal of social democracy so far. Nevertheless, it is a risk worth taking, while arguing that this dispute (and the one that followed) showed clearly two problems.

19 P. Edwards & T. Elger [eds.], *The Global Economy, National States and the Regulation of Labour.*, London Mansell 1999.

20 G. Esping-Andresen, *The Three Worlds of Welfare Capitalism.*, Blackwell, Cambridge 1990.

21 P. Starke, A. Kaasch & F. van Hooren, *The Welfare State as Crisis Manager. Explaining the Diversity of Policy Responses to Economic Crisis.*, Transformation of the State Series, Palgrave Macmillan 2013, p. 7.

22 A. Hemerijck, *Changing Welfare States.*, Oxford University Press 2013.

23 see: A. Giddens, *The Third Way. The Renewal of Social Democracy.*, Polity, Cambridge 1998.

- 1) First is that the welfare state lost its active character, served only vested interests of certain groups and herewith was no longer a tool to bring about societal transformation<sup>24</sup>.
- 2) Secondly, it failed to stand the test that globalisation put ahead. It no longer empowered people to be able to determine their own lives and futures.

Answering to this criticism, scholars came with an idea of “social investment state”. It was developed on the bases of two concerns. First of all, it was to broaden the scope of the welfare state and make it capable to respond adequately to the so called “new social risks”<sup>25</sup>. Secondly, it was, as signalled before, to refocus it on activation<sup>26</sup>. This meant emphasis on equal opportunities, through which individuals should be then able to gain power of self-determination as also capacity to participate in work communities. The “activation paradigm” brought along the focus on individuals, as it pre-supposed more of the tailored than universal approaches. The reconsideration touched also upon the question from where the entitlement to social assistance derives. The new logic was much more focused on “rights and duties”, assuming that all should live decent lives, but should also remember to contribute to an overall development of their societies. Only then the welfare states could become *sustainable* and *equitable* again.

Although they were internally divided in terms of how to re-frame the welfare state, all in all European social democrats embraced the idea of “social investment”. It became in fact the intellectual underpinning of the famous “Lisbon Strategy”. This document adopted while the social democrats celebrated electoral triumphs across the EU, mirrored the new orientation. The Union was to become “the most competitive, knowledge based economy” – which meant that substantial attention and resources would have to be devoted to create this “knowledge base”. Education, training, investment in skills found themselves at the heart of attention. The accompanying notion of “competitiveness” was synonymous to offering ways in which Europeans “would not loose” in times of globalisations and that is neither in terms of living or working standards, nor the opportunities to progress.

As such, “social investment” definitely enjoyed a certain appeal, however in its purest and most modest definition soon was to be proven too little to profoundly reform the welfare state. It allowed certain liberalisation and flexibilisation, but it overlooked some of the major problems that were appearing on horizon. It carried no answer to growing polarisation and fragmentation of the labour market<sup>27</sup>, as also it failed to give answers to more and more rapidly changing, ageing societies. To that end, it also brought new challenges – such as how to match in between progressing *academisation* of education vis-à-vis demand for

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24 G. Esping-Andersen, *Why we need a New Welfare State.*, Oxford University Press 2002 (2009).

25 J. Jenson, op. cit., 2013, p. 21.

26 G. Esping-Andersen, op. cit., 2009.

27 M. Goos & A. Manning, *Lovely and Lousy Jobs: The Rising Polarisation of Work in Britain.*, LSE Papers 2003; K. Weeks, *The Problem with Work. Feminism, Marxism, Antiwork Politics and Postwork Imaginaries*, Duke University Press 2011.

different skills. What is more, when the crisis hit, this partially re-branded welfare state was too little to cushion the blow. Suddenly, progressives found themselves in between their own disappointments of the partial reform and neo-liberal criticism, which would soon after inspire cuts in the welfare systems.

There is an interesting observation to formulate here. When globalisation emerged as the 'hot topic' of majority of the political debates, it was used as an explanation to why the world of politics can do so little to influence the course of the matters. Over a decade later, it was a global crisis that got rhetorically framed in the similar fashion. In both cases, politicians were claiming to be helpless; while in parallel citizens were mobilizing in respectively "new social movements" and "new social mobilisations". In both the cases social democracy was very much inclined to jump on board of those protests, but in general it failed to do that in Europe. It did not succeed even as much as using the atmosphere of those protests for its benefit<sup>28</sup>. One of the explanations could be that it was unable to lift itself beyond the limitations of powerless politics of partisan establishment, scared to be called "irresponsible" should it try to go beyond different "TINA's"<sup>29</sup>. Another would point at the lack of an alternative that could be presented to those protesters and could prove communalities between their cause and the social democratic project. Herewith it seemed that the social democratic concept of welfare state got compromised on another level. It was no longer a project that would help socio-economic emancipation and would provide bases for social, active citizenship. Democratic feature of it seem to be fading away, the more political participatory behaviour was taking place on the streets and herewith outside of its brackets.

**Summarising, while welfare state has been the "signature concept" of social democracy, in its contemporary version it has proven not to have been able to pass the consecutive three historical tests. The first one was its own incapacity to continuously renew. The second was the challenge of globalisation. And finally the third one was the momentum of the recent crisis. These three failures make by extension social democracy appear respectively: old fashioned, detached from societal reality and incapable to govern economically. If the observation was correct, it would mean that in order to re-establish its credibility and regain sense of purpose, social democracy would need to make it a priority to re-conceptualise welfare state. It would have to become the embodiment of a vision on how it**

28 J. Callaghan et al., *In search of Social Democracy. Responses to crisis and modernisation.*, Manchester University Press 2006; G. Baiocchi & E. Ganuza, op. cit. 2012; A. Gusenbauer, *Towards a New Narrative – Reconciling Progress and Emancipation.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Building New Communities.*, FEPS Next Left Book Series, vol. 5, FEPS / Renner Institut / IGLP 2012, pp. 21 – 27; A. Skrzypek, *Standing Tall: Reconnecting with the Social Question of the Contemporary Times.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Framing a New Progressive Narrative.*, FEPS Next Left Book Series, vol. 9, FEPS / Renner Institut 2014, pp. 48 – 71.

29 C. Crouch, op. cit., 2011.

**In order to re-establish its credibility and regain sense of purpose, social democracy would need to make it a priority to re-conceptualise welfare state. It would have to become the embodiment of a vision on how it plans to deal with current stage of financial capitalism and frame it in a way, through which it will contribute to creation of a better and fairer society.**

**Social democracy must address in insistent (and not defensive) manner the two major criticisms regarding on one hand sustainability, on the other plausibility of the promise of the welfare state.**

plans to deal with current stage of financial capitalism and frame it in a way, through which it will contribute to creation of a better and fairer society.

It is as historically relevant, as the battle that the previous generations led and resolved with industrial capitalism of the previous centuries. In that sense, **social democracy must address in insistent (and not defensive) manner the two major criticisms regarding on one hand sustainability, on the other plausibility of the promise of the welfare state.**

Before moving ahead with the political argument, it is essential to underline two methodological difficulties that appear while entering into an academically-flavoured debate on the modern welfare state.

First of all, welfare state is a complex idea. It crosses over the areas of social affairs, politics and economy. But the multidimensional and multi-layer character of it is not that frequently grasped through an interdisciplinary character of research. Infrequently an effort is made to combine different typologies from within economy or political sciences, which results in dichotomies between studies on capitalism and studies on social models<sup>30</sup>. This resonates perhaps even more the existing split between society, economy and politics on the meta-level. Without an intellectual underpinning, this is then of course that much harder to make a sound argument on political level that would be complete enough to respond to all the criticism that welfare state concept is facing nowadays. Secondly, the academics point out that there is a great difference while studying long term and short term responses to the crisis. While the long-term perspective can be easier characterised as specifically partisan, the short term appears much harder. It is by far more dependent on the circumstances and condition of the welfare state in question<sup>31</sup>. This makes any assessment on methods of dealing with crisis a matter of political correctness.

30 M. Schröder, *Integrating Varieties of Capitalism and Welfare State Research. A unified Typology of Capitalisms.*, Work and Welfare in Europe, Palgrave Macmillan 2013, pp. 28 – 30.

31 P. Starke et al., op. cit., 2013, pp. 8 – 10.

## 2.1 Sustainability of Welfare State

As signalised before, social democracy has not managed to change the terms of the debate neither around the crisis, not just after its peak. Quite to the contrary, it has permitted itself to be submerged into the mainstreaming neo-liberal framework, within which it tried to argue against it. Such a positioning not only made it vulnerable to begin with, but also quite unable to go beyond defensive lines. This is why the arguments put forward by the progressives vis-à-vis for example austerity appeared most of all an outburst of sentimental protectionism<sup>32</sup>. Not to even mention that the answer “no to austerity” may have been rhetorically emphasised, while in governmental practice of the centre-left it appeared to have been a method that they felt compelled to apply nevertheless. As such, therefore, they lacked credibility that an alternative proposal would need in order to compete with the prevailing neo-liberal strategy of cuts and retrenchment<sup>32</sup>. What is more, the line of argumentation that was based on a need to primarily safeguard the welfare state, made the defended project appear even more static than ever.

Following that, it is important to make a small digression here. Remaining in defence is usually not a recommendable electoral strategy. Nevertheless in this case the issue seem too intricate to assess protective standpoint as essentially wrong. The tricky point is what that would be that social democracy should actually defend – especially that as explained before: welfare state concept is a complex notion. It encompasses numerous features, models and policies. Despite the criticism about their overall anachronism, the welfare states have been evolving and these transformations also took diverse paths<sup>33</sup>. So the real strategic issue does not begin with the dilemma “to defend or not to defend”, but rather wh at the particular idea of the welfare state is the one that the social democrats wish to be protagonists of.

Though the criticism on welfare state as far as its sustainability is concerned can be multiplied, in fact one could distinguish three main segments of it. Each of them aims at discrediting application of one of the core progressive values<sup>34</sup>.

- 1) The first one is anchored in economy and it questions the spending made by welfare states. It touches upon the core sense of public goods and their provisions. As such it forces a debate on plausibility of solidarity appeal.
- 2) The second relates to the questions of equality. The criticism usually lies in showing the ineffectiveness of redistributive policies of the welfare states.

32 P. Taylor-Gooby, *The Double Crisis of the Welfare State and what we can do about it.*, Palgrave – Pivot, Palgrave Macmillan 2013.

33 A. Hemerijck, op. cit., 2013.

34 for definition of them see: A. Skrzypek, *The core values for the Next Social Deal*, [in: ] *Standing Tall: Reconnecting with the Social Question of the Contemporary Times.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Progressive Values for the 21<sup>st</sup> century.*, FEPS Next Left Book Series, vol. 4, FEPS / Renner Institut 2011, pp. 50 – 67.

- 3) The third one undermines quests for empowerment. It focuses on showing that the current arrangements are not adequate to respond to the needs of contemporary societies.

While making readjustments, social democracy would effectively need to choose among interests of different groups benefiting from it. What all three have in common is that they limit the potential renewal debate into the issue of bargaining around in the context of what is called “scarcity of resources”.

Following this observation, it is important to get to the bottom of the contesting arguments. To begin with, the neo-liberal rhetoric condemning welfare state-caused “debts and deficit” has been especially applied after the first round of bail-outs. It was indeed what could appear as a smart way to bounce back from the situation, in which it was public resources that needed to be put forward in order to rescue banking systems and herewith take responsibility for hazardous behaviour of the private sector. Herewith what used to be private became public problem, and what used to be public balance-sheet became burdened with new expenses. In order to bring the equilibrium back, cuts elsewhere were necessary and public policies were to ones to experience that<sup>35</sup>. Paradoxically, though voters would agree that there is a need to regulate the financial sector, they would also be inclined to believe that the current settlement wastes a lot of resources. The more the services deteriorated, the more they were convinced. This is precisely the point where social democrats should have entered into a battle.

The public debts are not new, and they are not as horrendous danger as the right would have all believe. In fact, their value is often merely equal to the capital that just a couple of banks operate with<sup>36</sup>. But **it is the social democrats that must break out of the myth that “publically provided” means free. The fact that there are policies put in place that aim at creating jobs, the fact that there is a universal education system – these are not goods that are “free of charge”. These are highly costly ones, which everyone should contribute to up to the best of their abilities. This makes them sustainable. This is where the difference lies between “political neo-liberal” and “ethical progressive” economies<sup>37</sup>**. And this is why the debate on meaning of public goods and services, as also on productivity and herewith on taxation, including fiscal policies towards financial sector, is so relevant. This gives social democracy a new opening to approach the debate on economic sustainability of the welfare states from the angle of social justice<sup>38</sup>.

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35 M. Blyth, *Austerity. The History of a Dangerous Idea.*, Oxford University Press 2013.

36 Ibidem.

37 A. Gamble, *Coming to Terms with Capitalism. Austerity Politics and the Public Household.*, [in:] O. Cramme, P. Diamond & M. McTernan (eds.), *Progressive Politics After the Crash. Governing from the Left*, I.B. Tauris 2012, pp. 35 - 44.

38 J. Jenson, *Recreating Solidarity via Social Citizenship. Why It Is not Enough to Tax Rich.*, *Coming to Terms*

The second criticism refers to the issue of in how far the existing welfare states can still be a tool to realise a promise of greater equality. The vast literature on the subject shows that towards the end of the previous century, they have proven to be failing on that field. On one hand, they were too slow to anticipate on the needs of the changing societies. This underpins the ongoing debate that features the numerous threads regarding ageing society, declining numbers of children and pressures related to phenomenon of migration. Hardly ever in this debate it is pointed out that this is an achievement of the same welfare state that people live longer, that they can enjoy freedom to choose as far as their reproductive rights are concerned. On the other hand, it is being stipulated that more and more static nature of the welfare states has made it focused predominantly on “redistribution”, which is too little to correct existing inequalities. This leads to a perception that social security evolved towards a “charity business” – which of course it is not and should not become. As such it loses attractiveness in terms of being a narrative. **The argument that social democracy should be making instead is that “equality” has an economic underpinning. As studies show, equal societies simply ‘do better’<sup>39</sup> and there is no trade off between equality and efficiency<sup>40</sup>. In its’ understanding, it should balance between redistributive, distributive and pre-distributive policies. Taking on the agenda of the last one, it should however not do it out of the logic of “scarcity of resources”, but out of conviction that equal opportunities for all from the first moment onwards are the key to creation of more productive, more equitable and more integrated societies<sup>41</sup>.**

Finally, as far as the third lane of criticism is concerned, it is very important that social democracy itself breaks out of their own incapacity to make choices. It is true that the welfare states have provided mechanisms that helped creation of the current middle class. It has always been the case that the alliance of the middle and bottom layers of the society was the base from which one could depart with a democratically underpinned agenda of a societal change. The problem that appears now is double folded. Firstly, the middle class sees hardly benefits of the system that it feels it essentially is the core sponsor of. The standards of living and working are deteriorating, and there is very little that seem to be done in order to lift the most vulnerable from poverty, misery and exclusion. This has been widely described as phenomenon of “squeezed middle”<sup>42</sup>. Secondly, the existing

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with *Capitalism. Austerity Politics and the Public Household.*, [in:] O. Cramme, P. Diamond & M. McTernan (eds.), *Progressive Politics After the Crash. Governing from the Left*, I.B. Tauris 2013, pp. 171 – 182.

39 R. Wilkinson & K. Pickett, *The Spirit of Equality. Why Equality is Better for Everyone.*, Penguin London 2009.

40 R. Bazillier, *Equality Must be the Core of Economic Policies. 17 Propositions for Equality and Efficiency.*, [in:] E. Stetter, K. Duffek & A. Skrzypek (eds.), *For a New Social Deal.*, FEPS Next Left Book Series, vol. 6, FEPS / Renner Institut 2012, pp. 102 - 133.

41 J. S. Hacker, *How to reinvigorate the centre-left? Predistribution.*, [in:] The Guardian, 12 June 2013, <http://www.theguardian.com/commentisfree/2013/jun/12/reinvigorate-centre-left-predistribution>

42 L. Byrne, *The Squeezed Middle and the new Inequality.*, [in:] O. Cramme & P. Diamond (eds.), *After the Third Way.*, I.B. Tauris / Policy Network, London 2012, pp. 203 – 218.

order (as any other settlement) embodies a compromise based on securing a number of vested interests of different groups. This means that any change would require a greater compromise and everyone would need to give something up, in order to create it. Once again, in the spirit of social justice<sup>43</sup>, it would need to aim at creating a framework through which all would benefit from progress and the ones currently worst-off would not loose while entering into such a new social deal. **The problem that social democracy faces within this area is that it has been placed in a position of the welfare state defender, while at the same time still running the 1990s logic of “catch all party”. This module obviously does not work, especially not in more and more fragmented and individualised societies, and exposes social democracy as a movement fearing to really get into debates that will require hard choices. These need to be addressed, while social democracy redefines once again what sort of a movement it wants to become in the new century and whose interests it wants to represent in politics.**<sup>44</sup>

## 2.2 Plausibility of Welfare State's Promise

The criticism described above referred to the question on sustainability of welfare state. In its' light, it is debated in how far one can continue advocating in favour of welfare state and against the cuts that it is being subjected to. A number of arguments touched already upon the essential query to what kind of contemporary society its mechanisms and provisions should be adjusted to. The other side of the same coin is the question what sort of a society it should help creating simultaneously. This is where **the intellectual effort should aim at re-establishing the active, transformative character of the welfare state. There are two dimensions in which it is worth to lead the deliberations. The first one is the question of imprinting modernity onto the welfare state; the second one is connected with constructing a progressive majority that would back the proposals.**

It would seem impossible to undertake the task of reforming welfare state without having an underpinning of it in a new holistic vision, which would describe the relations between individuals, societies and states. This seems to be still lacking, while the discussion is scattered all over different dimensions and there are no answers, what content currently fills in the well known definitions such “decent life” and “decent jobs”. The deliberations on the concepts like “life cycle” have also been dropped, which makes it quite impossible to answer even simplistic questions on what is the sense of labour in one's life. Hence, what used to be the core sense of the social democratic “deal” of welfare state, namely to bring

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43 J. Rawls, *The Theory of Justice.*, Belknap Press of Harvard University Press 1971.

44 J. A. Frieden, *The Many Faces of Distributional Conflicts. Recovery and Fiscal Adjustment.*, [in: ] O. Cramme, P. Diamond & M. McTernan (eds.), *Progressive Politics After the Crash. Governing from the Left*, I.B. Tauris 2013, pp. 45 – 52; B. Palier, *The Emerging Intergenerational Conglict. Social Investement and New Forms of Redistribution.*, [in: ] O. Cramme, P. Diamond & M. McTernan (eds.), *Progressive Politics After the Crash. Governing from the Left*, I.B. Tauris 2013, pp. 183 - 194.

the balance between the capitalism (in its different shades) and labour, is no longer that easy to conceptualise. And while the compromise assumed that welfare state underpinned the possibly most productive system ever; its outcomes, namely: income, wealth, goods and services seem to have become accumulated in just few hands<sup>45</sup>. This causes imbalances and inequalities, which then induce numerous tensions that are more and more visible within the societies. Especially devastating among them, as far as social democracy is concerned, is the division between the outsiders and insiders of the labour market<sup>46</sup>. Unlikely the antagonism between the social policy and capitalism, this one is of a dysfunctional nature.

Therefore **the first challenge that social democracy should take on is to return yet again to the very core origins. This equals re-launching the deliberations on the role of labour in individual and societal lives. The subject of reflection should be broader, while the emphasis on that mission is to identify ways to create a quality employment for all.** The definition of work should be expanded, encompassing all the potential ways in which individuals can contribute to the society. This would also enable to have a different look at the care sector. Nowadays it is seen mostly from the perspective of reception, and not so much from the perspective of provision. Since the demographic changes clearly point out that the care sector is the one, which will face a growing demand, it is a potential sphere for jobs creation. As such, it then could become a more accurate economic argument, which balances back the arguments accusing welfare state to be “only about spending”. This however, would also require a deeper reflection on how we define productivity and should by all means be embedded in deliberations how to describe productive economy, while the classic definitions of “growth” seem no longer provide necessary instruments to assess it. This discussion is not only about re-linking issues of real economy, equitable finances and social policies, but through that also about gaining economic credibility for the arguments in favour of the welfare state.

**The second challenge requires gaining new, more holistic approach of changing labour markets, societal transformation and hence also the dynamic within the welfare states.** Until now the debate was led mostly within the vertical dimension, looking at either expansion or retrenchment of the welfare states. It focuses on the traditional quantitative dimension. The problem with that is that it simplifies analyses, as none of the welfare states are that one-sided. On the contrary, regarding of their types, they are all evolving in very “mixed manner”<sup>47</sup>. Also the existing methods proved insufficient to describe the new

45 U. Schimank, *The Fragile Constitution of Contemporary Welfare Societies: A Derailed Functional Antagonism between Capitalism and Democracy.*, Welfare Societies Working Paper 01/2011, Universität Bremen, www.welfare-societies.de

46 G. Bonoli & D. Natali (eds.), *The Politics of the New Welfare State*, Oxford University Press 2012, p. 9.

47 S. Häuserman, *The Politics of Old and New Social Policies*, [in:] *The Politics of the New Welfare State*, Bonoli, G. & Natali, D. (eds.), Oxford University Press 2012, p. 112.

transformations<sup>48</sup>. Scholars suggest that there are rather two other ways of assessing the welfare state change: next to the already mentioned one that focuses on (social) transfers, it is possible to study pre-employment orientation that looks at the active and passive provision, or it is possible to look in how far the character of the provisions is a universal (encompassing all) one. The reason why the road to describe modern welfare state through labour relations would be an interesting one for social democrats, is that it would enable it to use in parallel all the three different ways to explain it. The importance of taking this different perspective would be that it would enable reaching with a debate beyond the current confinement of “retrenchments versus expansion” and rather speak about modernisation in a way that it does not induce further fears that any change would equal cuts.<sup>49</sup> This will also help changing the criteria according to which welfare states should be evaluated.

There is already a number of ways proposed in terms of how the welfare states’ performance could be assessed. One of them, proposed by P. Taylor-Gooby, implies that a successful welfare state must meet three conditions: programmes must be generous and inclusive and help individuals with perspective on future policies (otherwise the programme will not establish a human welfare state); it needs to gear an electoral support (otherwise it has no future) and it must be effective in terms of delivering outcomes (otherwise there is no point).<sup>50</sup> These three elements bring an important factor. **Welfare state has been established inspired by the idea of socio-economic empowerment of individuals. What is being done nowadays is that the decision on what they “can afford” and “should provide” is sort of handed over and is up to the neo-liberal criteria of financial capitalism<sup>51</sup>. Bringing back the idea that it should be up to the citizens, that it should be part of the modern industrial democracy, is a task that social democracy has to take on if it is to live up to its traditional dual mission of delivering on social and on democratic fields.**

The theories point out that long term processes of human development, especially growing levels of literacy, education, cognitive skills lead to an increasing attachment to the emancipative progressive values. It is not a new claim, however is frequently forgotten by social democrats complaining that their traditional values *have become obsolete as they are too abstract*. Well functioning, future oriented welfare programmes may eventually change people’s norms and values, for example in such dimensions as work ethics<sup>52</sup>. Hence in order to make its’ argument plausible, social democracy needs to re-link its

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48 U. Schimank, op. cit. 2011.

49 G. Bonoli & D. Natali (eds.), op. cit., 2012, p. 5.

50 P. Taylor-Gooby, op. cit., 2013, p. 49.

51 B. Greve, *Choice. Challenges and perspectives for the European Welfare States.*, Willey-Blackwell, Oxford 2010, pp. 6 – 7.

52 N. Kildal & S. Kuhnle (eds.), *Normative Foundations of the Welfare State. The Nordic experience.*, Oxon New York 2005, p. 2.

vision of the societal modernisation with proposal for both rising and accommodating the participative aspirations.<sup>53</sup>

Last but not least, while the welfare state has been facing attacks, so was the state. Since 1990s it has been doubted in how far singular states can manage different challenges and effectively protect their societies. The doubts have rises especially in the context of the recent crisis, when it seemed that what once used to be seen as state's sovereignty is now undermined by the extent to which global financial capitalism can interfere in domestic affairs<sup>54</sup>. It is true that vast majority of the welfare questions remains in the competences of the national states. But it is also the case that much in terms of setting the minimums have become a part of "European Social Model" and herewith the jurisdiction of the EU. Though of course "European" social policies remain "soft" (contrary to the economic hard ones), still the interdependencies within the single market induce willingness for far more to become a communitarian matter. Otherwise there is the dichotomy to remain between "vertical" (within the gesture of states) and horizontal (within the market) governance.<sup>55</sup> To anticipate on this dynamic, as also to rise above the debate on the role of the state (of which powers have been so crippled throughout the crisis), social democracy should consider start applying rather term of welfare society. This would enable refocusing attention from what states can nowadays, to what society is desired to be created in the future. As such, it would again change the terms of the debate making the entire idea by far more future-flavoured.

### 3. Vision for the Future

Summarising the deliberations within the previous chapter, the criticism on welfare state can be classified into two dimensions. The first one relates to in how far it is a sustainable proposal, and the second in how far it is a modern one. In both, there is still little that has been done in order to change the terms of the debate; however there are clear possibilities existing to succeed in doing so. One of the indispensable features of it is however to provide a new vision of the welfare state that would be adequate to serve the contemporary society and would be a tool enabling creation of the fairer, and better one for the future. Even though it could be argued that the momentum is not there, when the existing settlement is under so much pressure and any opening might be hazardous, allowing the welfare state's policies opponent to retrench it even further. This would be a false argument, as in fact the literature shows

53 P. Norris, *Democratic Deficit. Critical Citizen Revisited.*, Cambridge University Press 2011, p. 7.

54 R. Lagos, *Social Democracy in the 21<sup>st</sup> Century. Some Experiences from Chile.*, [in: ] E. Stetter, K. Duffek & A. Skrzypek (eds.), *Building New Communities.*, FEPS Next Left Book Series, vol. 5, FEPS / Renner Institut / IGLP 2012, pp. 28 - 39; C. Crouch, op. cit., 2012.

55 C. Crouch & M. Keune, *The Governance of Economic Uncertainty: Beyond the 'New Social Risks' Analyses.*, [in: ] *The Politics of the New Welfare State*, Bonoli, G. & Natali, D. (eds.), Oxford University Press 2012, p. 47.

that any welfare reform was and should be seen in many ways as a response to the grand welfare state crises<sup>56</sup>. Hence, even if this recent crash has “unprecedented” – or perhaps precisely because it has been “unparalleled”, the window of opportunity seem to be open exactly now.

Literature provides several ways to look at the changes within the welfare systems. They match in certain ways the three dimensions of analyses of the welfare state, as they were enumerated in the chapter 2.2. But what would be particularly useful for the political debate on the left is to look at two classifications.

The first one puts emphasis on the “modernising” factor. In the 1990s (as described already) this discussion was entangled in dispute among advocates of primacy of the “new” and defenders of superiority of the “old” social risks. The promoters of the “new” ways would then argue that “social investment” was the future oriented strategy, which would emphasise the need for activation and would no longer preserve the stigmatising divide in between the system’ insiders and outsiders<sup>57</sup>. Since the 1990s, under the influence of this particular discussion, the European welfare states have already undergone substantial changes in terms of objectives, areas of intervention, instruments, and functions. But even though they have been transforming the system, there is still a great relevance of the traditional concepts.<sup>58</sup> This would signify, in other words, that **there is and there can be no trade-off between attending either to “old” or to “new” risks.**<sup>59</sup> **And it would be a mistake to classify the entire policy fields as “right” or “wrong”.**<sup>60</sup> **The issue lies not in if welfare states should deal with either of the two, but rather that there should be new, efficient ways found so that it deals with both simultaneously.** In that sense, the recent debate among social democrats is going in a very wrong direction. It marks one of the new lines dividing between those in favour of focusing on either protection or investment, while both sides argue the necessity to do so due to scarcity of resources.

The second classification underlines political distinction between the left and right, as far as the welfare state policies are concerned. Within the past two decades, social democracy seems to have been mostly self-absorbed in terms of the debate. The above described line between “old” and “new” left was its pre-occupation, while at the same time the centre-right moved onto claiming the turf. While progressives were struggling with a dilemma about the new direction, conservatives put forward the bid on retrenchment of the “not working policies” and liberals showed sympathy to the ideas of “activation”.<sup>61</sup> In

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56 H. Hecló & A. Wildawsky, *The Private Government of Public Money.*, Palgrave Macmillan 1981.

57 G. Bonoli & D. Natali, op. cit., 2012, p. 9.

58 Ibidem, p. 3.

59 A. Hemerijck, op. cit., 2013.

60 S. Häuserman, *The Politics of Old and New Social Policies*, [in:] *The Politics of the New Welfare State*, Bonoli, G. & Natali, D. (eds.), Oxford University Press 2012, p. 113.

61 Ibidem, p. 121.

that way the lines of the partisan differences have become less clear. They turned even more ambiguous, when the crisis hit and the centre-left bent to the argument that it needs to “limit and cut”. Even, if it is politically incorrect to say that. And here lies the difficulty. If social democracy hopes to connect its renewal with re-conceptualising its mission, it has to make the debate on it about politics.

**These two criteria – what is modern and what is progressive – are to pave the path towards a vision of a welfare state that is fit to serve in the contemporary times.** The core preoccupation while setting this sort of a scoreboard is however not a mere modernisation of the existing solutions, but rather an issue of putting in place a new way of political thinking that brings back together principles for both economic governance and social model. As such, it should lead out of confinement that the discussion on welfare state has been entrapped in within the course of crisis. It should also set the curse of transforming the debate, shifting a focus from temporary fixes of the most urgent issues to long term agenda for prosperity and welfare for all. But in order to be carried on, it has to be shaped together with an explanation of factors that shape and costs (both social and economic) that are essential for this transformation to be accomplished<sup>62</sup>. It is again a different way of approaching the current, austerity driven practices – within which changes are simply announced and protests against them are received in more and more casual way by the ruling class. If deliberated together with all the organisations from within the civil society sphere, which now carry on the burden of providing those social services that the state no longer does – it can lay fundamentals under a new alliance for a different kind of reform agenda.

Currently, there is of course much of distrust concerning potential changes. This could even provoke a reflection that perhaps the political costs of small versus large changes may appear to be the same at the end of the day. What the diverse surveys show however for sure is that there is a need to make a stronger link between the welfare provision and the agenda of jobs. It was comparatively stronger in the 1990s, but the ongoing employment crisis undermined the classical social democratic pledges in terms of creating full employment. Then however the strategies were built on the bases of the European forecast of sustainable economic growth, which nowadays as well are obviously not realistic to achieve in a short term period. On the contrary, despite the optimistic prognoses of the European Commission, the economists see the EU rather facing the subsequent years of economic recession. Following this, it is a valid question where these new jobs would come from and how the access to them could be facilitated.

This is also why there have been debates on inadequacy of the definitions that were used in the past to define growth. If they are indeed so, then also all the other measurements that are connected with it should be reviewed. And here the authors writing on the issues of welfare state propose to see the task of setting the new functions of

<sup>62</sup> G. Bonoli & D. Natali (eds.), op. cit., 2012, p. 5.

the welfare state as a part of reorientation of the overall social policy – from the one that is focused nominally on income protection to the one that is concentrated on activation and promotion of the labour market participation<sup>63</sup>. The Bonoli and Natali proposal of the reorientation has been described as a set of 6 groups of tools, which range from activation through enabling reconciliation of private and professional up to training, care and social protection of non-standard workers. The proposed expansion seems a correct agenda to deal with unemployment and also open up the scope embracing those, who contribute to the societies otherwise than through normalised work contract. Where it however is weaker in terms of answers is the economic underpinning on one hand, and on the other the link to the standards and quality of life.

To conclude, the lessons to be drawn are three-folded.

- 1) First of all, **the vision for the future of welfare state cannot be limited neither by subordinating it to crisis-led discourse nor by reducing it into one-dimensional issue. It must bring forward the idea of what society social democrats seek to build and with what political and economic means.**
- 2) Secondly, **welfare state has to stop being a political stock exchange, where it is being bargained what retrenchment comes first. The criteria of evaluation have to alter, linking the concepts of quality of life and work with ambitions to champion productivity, prosperity and well-being for all.**
- 3) Thirdly, **there is a need to politicize the welfare state concept again.** The history of only last decade shows that there have been in parallel mixed-approaches exercised. To give an example, in parallel to the progressive Lisbon Agenda, there have been Services Directives put in place that allowed liberalisation of public services provision. Nowadays it is even more so, while the situation shows that all parties, regardless of ideologies and rhetoric submerged into “crisis routines”<sup>64</sup>. The historical credentials are and will not be enough. A new vision that stands strongly on the core progressive values is therefore what is needed.

Following this, this chapter offers reflections on the three building blocks, respectively corresponding with the quest for equality, solidarity and empowerment.

### **3.1. A strategy to fight imbalances and inequalities**

The demands for equality seem to be experiencing their renaissance in the context of the recent social mobilisation. Though this offered them a “come back”, it should not lead to a conclusion that the problem appeared in the context of the crisis. The imbalances as such had been there before. The predicament had made them greater and more present in “everyday lives”. Especially, when almost “overnight” the achievements of the past decades

63 Ibidem, pp. 5 – 6.

64 P. Starke et al., op. cit., 2013, p. 180.

as far as raising the levels of employment have been wiped out – leaving Europe with millions of citizens deprived from work, opportunities and perspectives.<sup>65</sup> As the situation continues, there is not only a notion of “new” generation but of “generations” of unemployed, whereas there are families where both parents and their grown up children cannot find jobs.

In that sense, **the social costs of the recent crisis remains unpaired with analyses that would help assessing the extent of them.** This is an important observation, as this puts a following challenge ahead of conceptualisation of the welfare state. It is not sufficient to look at the current numbers and devise the strategies that would allow lifting people of currently experienced poverty and unemployment. The new vision must take into account both the already established and anticipated on impacts of the predicament in order to be really sustainable and forward looking.

Economically speaking, the implication of that is double folded. On one hand, this reaffirms a need to move away from the orientation in which there is emphasis on the economic growth as the key indicator for all the measurements. It is not synonymous with not striving to restore growth, but it is rather arguing for its different understating and per extension its different translation in terms of assessing the quality of employment and living conditions. To illustrate this with an example, one can point at the question of the income preservation – on which current welfare states have been focused on. Though the relation between the income and growth (understood as indicator mirroring the state of the economy) may have been useful before, in the times when a long term recession is the prognosis, it can only lead to further impoverishment of the working population. On the other hand, it is also the case that economic growth remains anchored within the “real economy”. This decoupled from financial sphere on which the power of currently ruling financial capitalism is built means that the value of labour as such is bound to further decline. Especially that as there has not been a common typology to connect the analysis of the welfare state and real economy<sup>66</sup>, there is definitely no conceptual link made between welfare state and financial capitalism assessment. Without it, the matter of welfare state is bound to remain assessed accordingly to the logic of banking balance sheets and not in the categories of socio-economic inputs and outputs.

Returning to the initial notion of the social costs of the crisis, it is of course essential to anticipate also that the societal developments from before the crisis may have been enhanced when it hit. However, there are also new trends that the crisis specifically brought along. Hence the ambition would be not only to match one or another group, but actually to look at them in a more holistic manner.

An example that illustrates that is the recent history of women emancipation. Their massive entry into the labour market in the 1970s and after brought along numerous changes. Their

65 A. Hemerijck, op. cit., 2013, p. 3.

66 M. Schröder, op. cit., 2013.

presence at the labour market required a different organisation of services and care, as also their contribution has been recognised in indispensable as gearing further development of economy. The provisions put then in place and argued for in the 1980s and 1990s reflected the logic, that women's participation of the labour market has to be matched with the evolution of the welfare state – which in that sense should enable them a choice to carry on working. This was a matter of their choice, which soon after however became a necessity. Not only because society has evolved, but because the costs of living would imply that a household of more than one person would require both partners to work in order to sustain it.<sup>67</sup> When the crisis hit, it was explained that without women's participation in employment there will not be sufficient strength to gear out of the predicament. And however their employment numbers were not hit as hard as men's were at that point, the second wave of the crisis in combination with already applied austerity measures took care of that. Situation of women deteriorated on both levels – chances for quality employment and access to provision of services, which is essential especially for them to stay professionally active. "Especially" as they are still seen as the main care takers in the family contexts and since they usually earn less than their male counterparts (see the literature on the gender pay gap), they are the first ones to give up their jobs shall the two partners face a situation in which one of them would have to quit for the family sake. With the services being liberalised and privatised, the choice is very often a real dilemma – why to continue working if the entire income barely covers the childcare and elderly care costs, needed to be paid if one wishes to continue professional activism?

This issue could be further explored, however the essential observation can already be made. Traditional explanations of societal development have long emphasised the economic growth expansion as the way to understand what resources are available for investing in public goods and services. Even before the crisis, issue of thereafter-measured wealth has only been a partial answer<sup>68</sup> and in its aftermath seem not to give an adequate picture at all. **The way forward, as argued before, would therefore be to focus less on the supplying side of argument – but rather to look at it from recipients one as the qualitative measurement. Taking this perspective it is essential to focus more on the mutual interactions between labour, welfare and life – also in the dimensions that allow assessing their qualities and try to match with changing life's styles.<sup>69</sup> Hence it is also perhaps time to reconfigure the message from the focus on welfare state, where attention goes first towards the institutions – and change the argument around the notion of welfare society, to look at the project of societal transformation it should carry as the most relevant departure point.**

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67 see: K. Weeks, op. cit., 2011, pp. 151 – 175.

68 P. Norris, *Making Democratic Governance Work. How Regimes Shape Prosperity, Welfare and Peace.*, Cambridge University Press 2012, p. 135.

69 see also: J. Véron, S. Pennec & J. Légaré, *Ages, Generations and the Social Contract.*, Springer, Dordrecht 2010.

Such an approach would also facilitate a new opening for the debate that carries the notion of “pre-distribution”<sup>70</sup>. If to start from welfare society perspective, the orientation is on a long term goal, which can be achieved following an adequate strategy. In that sense corrective mechanisms form an essential part, but they are not a departure point in themselves. This takes the struggle for equality onto another level. It is not about short-term fixing, but about reaching a goal of more egalitarian society. It is about balances between the power of labour and the power of capital. It is about equality of autonomy and not only about equal opportunities. As such it is not just a “relief” but it is an emancipator agenda. And such a pledge that is indeed about reducing social (and economic) inequalities and not only about dealing with their impacts, has indeed a larger chance to attract electoral support of both lower and middle classes as well<sup>71</sup>.

### **3.2. Ways to Social Integration within Changing Societies**

At its origins, the post-war welfare state was about bringing balance between labour and capital. While emancipating people in social, economic and political contexts, it would carry the mechanisms that would ensure a potential for recovery and leads towards productivity, prosperity and welfare for all. The principle on which the concept was built was social justice, which was deriving from solidarity among people, communities and societies. It would lay the ground to ensure that the social order is in place, while there is a continuous attention that there are enough safety nets and promotion mechanisms for all to keep pace the mutual adaptation of everybody to everybody. That was to be the case even in the more turbulent times<sup>72</sup>.

While spelled out as a definition nowadays, it seems most of all idealistic. On one hand, there have been societal developments that featured trends such as fragmentation and individualisation. They gave place for other ones, such as social polarisation, to take their course as well. On the other hand, there has been also an erosion of what used to be a motivation to unite in communities. The crisis of solidarity has been the one eroding communitarian lives further. To make things worse, in the midst of the crisis it has become confused as a term. It has been turned rather into a question of charity or resented burdens, falling far away from the traditional spirit of mutual respect and responsibilities for one another that it used to embody. In that sense its devaluation as a societal value was also one of the reasons for the welfare state concept to face criticisms. The already mentioned phenomenon of “squeezed middle”, the images of “free riders” – these are mirrored in different surveys and focus groups asked about their attitudes to welfare state. The pan-

70 See: S. Hacker & A. O’Leary (eds.), *Shared Government, Markets, Responsibility and Social Policy. Shared in the Twenty-First Century Risk.*, Oxford University Press 2012.

71 P. Norris, op. cit., 2012, pp. 137 – 138.

72 see: U. Schimank, op. cit., 2011.

European dimension of it added in terms of stereotypes, discrimination and xenophobia rising as social tendencies additionally.

The previous deliberations offered partially an answer to the crisis of solidarity in relation to the welfare state, by proposing to focus the debate differently and also to spoke about the sustainability and modernity features of it in another manner. But what still remains unresolved is the question why there are still reminiscences of some aspects of solidarity left and why not the others. Why, to give an example, fighting youth unemployment benefits from intergenerational solidarity – while at the same time questions of unemployment benefits seem at least partially exempted from it. This is a relevant observation, especially in the context of the pledge that a new welfare state concept was to become a holistic agenda of social transformation.

The interesting case study to review herewith is therefore an aspect of care. It would seem that in itself it is a dimension that can be met with different level of understanding and support. As such, “care” is a context-bound phenomenon, for which both demand and provision derives from tradition, culture and also is shaped by the logic of the contemporary times. It is multi-layered and complex. It refers to economic and social aspects, as also to the emotional and personal ones<sup>73</sup>. And the last two form perhaps the most obvious dilemma of the modern times. The neoliberal narrative regarding the public deficits and debts would like to measure all accordingly to the logic of the banking balance sheet, showing benefits and loses of the respective public policies. The sector of care is essentially the one that does not fit this sort of criteria on one hand, while on the other within these indicators it is impossible to show all the socio-economic benefits that it brings along. This calls for a change of the terms of the debate.

**Progressives should start from the modern interpretation of the value of solidarity. The care practices are essentially values and norm related, hence there is a need to anchor the new care agenda in ideological embedding. This does not mean that it should appeal only to the emotional understanding of it – on the contrary, it should help making solidarity once again a tangible term that carries along a socio-economic dimension.** This is why the socio-economic costs of both provision and lack of provision should be put on scale. They should be measured versus the socio-economic progress – of which measuring especially civil societies’ organisations have developed numerous proposals<sup>74</sup>.

Furthermore, the renewed agenda will need demand looking at the care sector through different lenses. Nowadays, it is mostly seen as a “sector of giving and receiving”, which predominantly impoverished the sense of it. To that end it should be rather seen as a field, where state policies are being applied and hence where the sense of more theoretical

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73 A. Anttonen & M. Zechner, *Theorising Care and Care Work.*, [in:] *Care Between Work and Welfare in European Societies*, B. Pfau-Effinger & T. Rostgaard (eds.), Work and Welfare in Europe, Palgrave Macmillan 2011, pp. 15-16.

74 See: SOLIDAR, [www.solidar.org](http://www.solidar.org)

perhaps concepts of “public” goods and services can be restored. This is a logic that has been crashed in the times of the crisis, when ‘private’ debts were made ‘public’ and ‘public’ sphere was to carry major responsibilities<sup>75</sup>. If there is a chance to restore both the idea and the commitment to what is ‘public’ – the care sector seem to be the field to offer this opportunity. It is a chance to deal with what has become “formal” and “informal”, and above more what has become “grey zone” (such as domestic work). Especially that demographic trends clearly indicate that it will be the one growing and hence of even increasing relevance for the European societies in the future.

Last but not least, the care sector shall also start being seen as an employment sector. It would seem that often it is being treated rather casually as a service, which can be valued more in the emotional terms than in socio-economic ones. This overlooks the fact that the sector presents itself as a potential space where quality jobs can be developed. This is where skills and knowledge will be more and more required to ensure that there is an appropriate care offered to ageing population that the health standards do not deteriorate, that children are offered adequate attention and possibilities from the first day onwards. This is embracing a different way of looking at productivity in fact and herewith puts efficiency in terms of provision against different standards. If related to the sector of labour stronger – both in terms of offering employment as also offering support to others engaged in the labour market – it stands a chance of proving to be the most competitive discipline to get qualified to work in.

### **3.3 The Agenda of Empowerment for Individuals and Societies in the Era of a New, Post-crisis Phase of Globalisation.**

The success of the strategy to fight inequalities and to forge social integration depends on in how far it ensures that the individuals and societies involved get a capacity to shape the course of further developments. In that sense, **the new welfare society proposal must look at its mission of societal transformation as a task to empower them in social, economic and political sense.**

If to return for a while again to the debate of the end of the 1990s and the beginning of the 2000s, there was a clear inclination then to respond to globalisation with an agenda of “full employment”. It was paired with the set of policies that would enable struggling with the so called “New Social Risks” (signalled already before) – which concept was broadly debated and laid fundamentals to what now literature calls the “NSR school”<sup>76</sup>. The concept emerged from a reflection that there has been a number of profound changes in the fabric of the “advanced” societies, as also that the economic developments induce new trends. The exemplification of that was enumerated as: deindustrialisation, flexibilisation and increased variety of employment relationships, increased participation of women in

75 M. Blyth, op. cit., 2013.

76 C. Crouch & M. Keune; op. cit. 2012, p. 45.

labour force, ageing. Therefore people should be equipped with knowledge and skills to be prepared to adapt and flourish in the new conditions. Of course, with the processed of globalisation, the speed within which the changes would take placed increased and the capacity to adjust seemed to be the only actual 'life' guarantee worth investing in.

NSR school has contributed immensely to the modernisation of thinking about the welfare state concept on one hand, and also to rephrasing the conversation of the 1990s in particular on the other hand. Then it was the proof that perhaps globalisation in itself can be 'managed' – not predominantly through new institutions and regulations, but actually primarily be empowering people to be able to find themselves in the new realities it was to create. The translation of that was that even if the globalisation was perhaps inevitable, still the negative impacts of it could be avoided.

The problem was that this answer dealt mostly with the domestic issues, while it has not bring about any better understanding of financial capitalism – of which crisis was soon to hit. It then became quite evident that though the “modern” policies were put in place, still the gaps among those benefiting from it and the most vulnerable groups widened. This in itself posed an enormous challenge, additionally to which all political parties had another one to face. Since all the developments seem to be happening “far away” and they were to be most decisive in shaping people's lives at the same time, a new “post-traditional” social order emerged. The expansion of this “social reflexivity” contributed to ‘fluidisation’ of societies, which dealing with complex fabric of reality no longer could see the reflection of the traditional political orientations in it. The challenges of globalisation already and soon enough of the financial capitalism crisis, they seem to have outgrown left and right division<sup>77</sup>.

This leads to three reflections.

- 1) First of all, **there is a need to re-think the concept of emancipation.** In the times of materialism it was more related to the issue of possession of resources, in the times of post-materialism to security related with the guarantees of the living and working conditions. The question that is to be answered by the new welfare state concept is therefore what would be the content of a security pledge, so that it would constitute a base on which people could feel emancipated and empowered in order to participate in processes that shape the realities they contribute to and live in.
- 2) Secondly, **there is a question regarding the nature of the modern socio-economic emancipation.** For that a better understanding of the financial capitalism is essential. Though the regulations to fight with emanations of the greed it features and to tame it are necessary, more than that what is needed is an empowerment of the labour force. Otherwise the bargaining power of the labour organisations, unions, civil society partners will continue to be weakened.

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<sup>77</sup> A. Heywood, *Political Ideologies. An introduction.*, Palgrave Macmillan, London 2012, p. 341.

- 3) And finally thirdly, **there is a need to empower people with a choice.** And this is also why the distinctive, progressive agenda is so much needed.

## Conclusion: The European Arguments

The Chapter 1 focused on describing the framework within which the political debates are led in the post-crisis era, and subsequently the Chapters 2 and 3 took on respectively the challenge to diagnose the nature of the criticism of welfare state. More particularly, quoting the disparagements regarding its' sustainability and longevity, an attempt was made to propose the way forward. It would include moving beyond the defensive lines of sentimental justification of the movement's legacy, while putting in place new understanding regarding on what is modern and what is progressive about vision for welfare state's future. Consequently, it would require setting new rules for the interactions among individuals, states and capital – as also new set of criteria for the relation between labour, welfare and individual's living conditions. In that way new balance of power and a more effective way to tackle inequalities would be put in place. In that way, the progressive movement that currently is being perceived as an "element of the (contested and inefficient) system" could perhaps stand a chance to re-introduce itself as a serious alternative to the failing order.

These analyses provided a fairly solid picture on challenges that social democrats need to face in programmatic and communication areas, while one element still worthy touching upon in the conclusions is the European dimension. First of all, this is because the "*welfare state is a fundamental and distinguishing feature of the ESM (European Social Model)*".<sup>78</sup> And hence any conceptual changes within the national frameworks will naturally affect the ways in which the European agenda is being designed. Secondly, especially in the post-crisis years the European Union suffered from the existential crisis – during which many believed it fails to deliver for its citizens regarding the promise of better living and working conditions. To the contrary, it was rather concluded that the rigid policies of cuts in economy are resulting from the requirements that the EU expects its Member States to fulfil. As such, *austerity became European, unemployment national and poverty individual* – causing many citizens to lose their trust and withdraw their support for the EU. In that spirit, the initial hypothesis, which was spelled out in the introduction, had been that the tight inter-connections between the welfare state models and the vision for Social Europe determine the success in redefining either of the two co-dependents of one another.

Benefiting from the writings of the earlier sections, which established already a relatively clear relation between the ideological ambitions of the social democratic movement in the 1990s and the Lisbon Agenda that they eventually proposed for Europe (while enjoying

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<sup>78</sup> P. Pestieau, *The Welfare State in the European Union. Economic and Social Perspectives.*, Oxford University Press 2006, p. 1.

the majority of the European Council), it is a time to pose the question about “the day after”. Here the two well-known facts are: that the Agenda was de facto replaced with the conservatively flavoured EU2020 programme; as also that in the midst of the crisis the Union needed to opt for “making the hard (economic) policies harder” – which consequently softened the ambitions of the “soft policies”. But this two-pillar diagnosis offers regrettably only a partial explanation on why social democrats appear to be so defensive on the EU level at the moment. The complementary challenges, which rather than evaluating the past – would bring the progressive discussion into the future are:

- 1) The question of sustainability and longevity of the EU integration project
- 2) The social promise of the EU
- 3) Overcoming the political divides within the European progressive family

To begin with the first question, even if the Lisbon Strategy continues to be criticised as the agenda that may have not lived up to the expectations, its' actual significance lies in two aspects that such a general disparagement tends to overshadow. It was the first ever comprehensive *Social* agenda for Europe. And it was focused on moving beyond the still relatively modest ambition spelled out in the Maastricht Treaty into the next step of integration. The goal was to transform the Union, to make it and all its citizens capable to succeed in the era of globalisation, and hence to make Europe the most competitive economy. The asset on which the strategy was based on was belief in people, their capacities and the power that would be generated equipping them with skills and education.

There are numerous papers available with the evaluation on what failed. The factors named in them vary, but the reoccurring one remains to be seen the voluntary character of initial agreements. Once the National Action Plans and the Open Method of Coordination were put in place, the commitments to the overall objective seem to have weakened and the delivery on the pledges appeared rather poor. While the strategy was nose-diving and got eventually replaced, it coincided with the parallel processes that allowed further liberalisation impulses (such as infamous Bolkenstein Directive) – which became a direct motivation for the citizens' contestation<sup>79</sup>. These together positioned social democrats in a difficult place, from where the mission to campaign for the European integration was a hard one to pursue.

The crisis worsened the situation. Not only it exposed that the previous actions did not protect citizens, but also it framed Europe as *part of the problem and not part of a solution*. What that translated into was the growing gap *between the aspirations and satisfaction*, pushing the EU into even deeper democratic deficit<sup>80</sup> and inducing a query in how far such a EU still had a future ahead. This was a new sort of the EU scepticism, which was not related with the idea of integration – but with the quality of the process and its outcomes.

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79 A. Hemerijk, op. cit., 2013, p. 290.

80 P. Norris, *Democratic Deficit. Critical Citizen Revisited.*, Cambridge University Press 2011, p. 5.

For progressives this new sort of disbelief and distrust is hard to tackle, as while they see themselves as protagonists of the European integration – they disapprove of the direction that the EU has taken. But explaining such a two-folded position is not an easy task and eventually the obligation to first and foremost ‘defend’ the Union prevailed. In its midst, it was not possible to really coin a new strategy and this one is still missing as a new programmatic promise for Europe from the centre left.

It is evident that it will not emerge from one day to another, and consequently many efforts will have to be put in place. They will need to start from the point that may seem almost trivial, but in fact is a very complex one: namely what the social promise of the EU should be about. That would allow progressives to retrieve the logic (that they had traditionally promoted) that the Union has to be an answer not only to the economic, but also predominantly to the social questions of the contemporary times.

To that extent, there will be certain questions that the progressives will need to solve among themselves. The first one should be a lesson learnt from Lisbon Strategy experience regarding how to ensure the continuous commitment from the side of the Member States. It is obvious that it can not be yet again left “up to the good will”, but the serious doubt is in how far it is possible to bring social policies up to the level of rigidity that the economic ones enjoy. It is a ‘hot potato’, sorting out which would be connected with coining a solid argument as to why the social (or any other) integration is not the next threat to the “sovereignty” of the Members of the EU.

Furthermore, the social promise would need to be a tangible one and hence would need to ensure that all the EU policies characterise by strong presence of social dimension. It requires a change of mind-set up in which the “social” policies are seen as “burden on the side of expenses” and not the most efficient investment in Europe’s future. In order to achieve it, progressives would need to succeed in re-linking the question of regaining power by the EU as a global player with the mission to ensure well-being for all its’ people. The emphasis on “all” demands that the movement unites behind the goals that are transformative, bold and that do serve reconnecting European societies (both internally and externally).

And herewith one approaches the last of the three challenges – a need to overcome the internal divides. It would seem that the experiences of the 1990s/2000s ideological frictions left the European progressive movement with the conviction that it may not be repeated again. That meant that certain debates would only be pursued up till the point where greater disagreements would arrive, ruling on which would be generally avoided in a hope of preserving the image of unity. But this strategy is bound to fail, similarly to the one on primarily defending welfare state and not taking the rocky path of arguing for essential reforms. It is unsustainable, because it does not allow social democracy to move on – to take one or another side of the persisting or emerging conflicts. Among them are

crucial issues such as the retirement age, the welfare benefits transfers or unemployment benefits to name just a few.

What is desperately needed instead is a new debate on Social Europe, which would allow addressing the conflicting questions and setting the guidelines on how to proceed with them in a pan-European progressive manner. It will be a long process, in which new evaluation criteria will need to be set – showing both the new ambition and the readiness to assume new, stronger commitments. Formulating a new agenda, which would show eagerness to move on, enthusiasm to transform the Union and keenness to deliver to its citizens is a key - both for social democrats to succeed in the next European elections, but also for the Union to succeed in becoming credible and social again.

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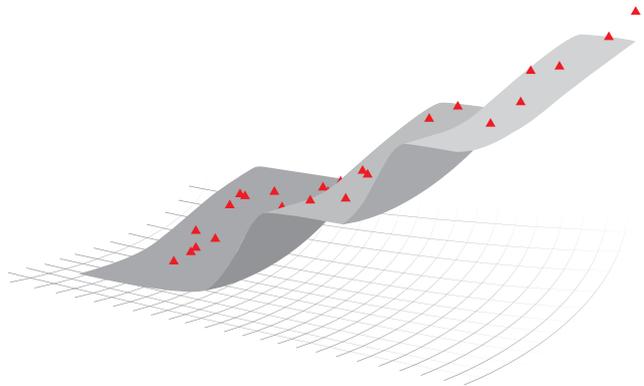
**Making Europe Work –  
a Demand for Quality  
Employment for All**

**SIVE**



Rémi BAZILLIER

# **Towards an Egalitarian and Efficient Economic Model Based on Strong Labour Market Institutions**



**Keywords:**

**Equality – Efficiency – Productivity – Quality Employment - Labour  
Market Institutions**

**Abstract:**

It is possible to combine the development of a productive sector with strong labour market institutions. In this chapter, we argue that national institutions should aim at improving productivity in the long-run. Improving workers right can be an efficient tool to reach this goal. The combination of a selection effect and an innovation effect should lead to an increase of the average level of productivity. Doing so, we can bring together the traditional vision of progressives focusing on the safeguard of workers' interests with proposals aiming at improving economic efficiency. The necessary counterpart of such policy is to develop a labour-demanding sector which may contribute to the fulfillment of new social needs and provide additional jobs. In particular, we argue that the development of the care sector is an important challenge for our societies. We should note that the development of productive jobs may have adverse effects in terms of job quality and working conditions. This last dimension should not be underestimated and calls for new policy answers focusing on job quality.

One of the main challenges for progressive is to combine a traditional goal of the Left, protecting and defending the interest of the working-class, with the promotion an efficient economy, able to create wealth and employment. Labour market institutions (LMI) have always been a major subject of debate among progressive with a division between so-called *modernist* and *traditionalist*, particularly in Europe. The former considering that more flexible labour markets are a condition of economic efficiency and competitiveness. The latter assuming that the Left should defend workers in the frame of the traditional struggle between labour and capital. This opposition is dangerous for the Left, as it implicitly underlines that neo-liberal reforms are the only alternative available to ensure economic efficiency.

There is a fundamental challenge for the Left. Should the role of the State be limited to *ex-post* interventions and *redistribution*? In other words, should we accept to let the markets generating a certain level of inequalities and then puts in place correcting measures aiming at redistributing income? We argue that **public intervention in the economic sphere is necessary and its role cannot be limited to *ex-post* intervention. One fundamental task of the State (as well as social partners) is to shape various *institutions*. These institutions have a strong impact on how wealth is created by the market. Labour market institutions are one of them.**

A too high level of inequalities may create negative externalities that would reduce the economic optimum<sup>1</sup>. It is then necessary to propose different policies aiming at reducing inequalities generated by the production process. The role of institutions and economic incentives is therefore crucial. It echoes the recent debate on *predistribution* in the UK<sup>2</sup>, but also the emphasis on the “*égalité réelle*” (the “equality for real”) in France and the distinction between a *Socialism of redistribution* and a *Socialism of production*.

In this regard, the role of labour market institutions (LMI) is essential. They shape the organization of production, as also influence bargaining powers of entrepreneurs and workers within firms. They have strong impact on inequalities, but also on various economic outcomes. In a parallel paper<sup>3</sup>, I argue that such institutions should be seen as a major pillar of *predistribution*.

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1 R. Bazillier, *Equality must be the core of economic policies.*, [in: ] E. Stetter, K. Duffek, A. Skrzypek (eds.), *For a New Social Deal*, Next Left Book volume 6, Brussels : Foundation for European Progressive Studies 2013, pp. 102-132.

2 J. Hacker, *The institutional foundations of middle-class democracy*, Policy Network, 6.5.2011; E. Miliband, *Speech on predistribution*, Policy Network conference (Sept. 2012), available here: <http://www.politics.co.uk/comment-analysis/2012/09/06/ed-miliband-s-redistribution-speech-in-full>, 2012.

3 R. Bazillier, *Labour Market Institutions as a pillar of Predistribution.*, [in: ] E. Stetter, K. Duffek, A. Skrzypek (eds.), *Framing a New Progressive Narrative*, Next Left Book volume 8, Brussels : Foundation for European Progressive Studies, pp. 170-183, 2014.

The goal of this paper is to give a broad description on what should be an economic organization based on both equality and efficiency. It is a system supported by strong labour market institutions from one side, pushing productivity in the “productive sector”. The wealth produced can contribute to the financing of a “sector of social services” on the other side. Such services can be provided by the State directly, but also by a “social and solidarity sector” in which cooperatives or NGOs can have a strong role. **The role of institutions should be to push innovations in the productive sectors, while minimizing the adverse consequences of the Schumpeterian process of destructive creation.** Within the “productive sector”, workers should be pushed towards the most innovative and productive firms in order to increase the *aggregate* level of productivity. **The goal is to keep the economy as dynamic as possible while taking care of workers’ wealth, satisfaction and living standards. A strong focus on job quality should therefore be the core of a progressive labour market policy.**

**A strong focus on job quality should therefore be the core of a progressive labour market policy.**

I argue that an economic model promoting workers’ right can be economically efficient. Strong labour market institutions increases the bargaining of workers and tend both to increase the labour share and wage compression. The counterpart should be a high level of productivity to allow firms financing higher wages and working conditions. The institutional design should aim at promoting these two goals. However, one should keep in mind that a dilemma is likely to appear. How can we combine productivity increases and better working conditions? The intensification of work is a major concern and has strong impact on workers’ health. It remains an open challenge for practitioners, managers and policy-makers.

One final introductory remark relates to flexibility. Promoting stronger labour market institutions is not synonymous with more rigidity everywhere. Firms should keep the capacity to react when facing short-term shocks and to adapt to long-term changes. The combination of such flexibility for firms and protection for workers is not an easy task. One additional challenge is how to take into account new aspirations of individuals who may ask for some kind of flexibility (in terms of occupation changes, working hours...). The goal should therefore be to combine collective protections for all workers with individual flexibility for the ones who will ask for it.

In the European context, the debate about the role and the strength of labour market institutions was very much linked with the debate regarding flexicurity. It was seen as a win-win situation where employers could benefit from more flexible labour markets and workers from more job security. This concept has been widely discussed and has evolved in many ways but the Europeanization of such concept is a reality and the European Commission has promoted a vision of flexicurity that can be discussed<sup>4</sup>. One general observation is that

4 D. Tsarouhas & S. Ladi, *Globalisation and/or Europeanisation? The Case of Flexicurity.*, [in: ] *New Political Economy*, 18:4, 2013, pp. 480-502.

this agenda was increasingly focusing on the flexibility side and much less on the security for workers. Furthermore, the idea was to provide “more security” to workers through a more protecting unemployment insurance system and the capacity for fired workers to find a new job quickly and easily. It can work when the general economic context is positive. In periods of large economic downturns as we are facing now, the low level of employment protection associated with the concept of flexicurity leads to a rapid increase of unemployment. The capacity to find a new job is lower due to the negative context on the labour market. And the generous unemployment insurance system becomes very costly due to the rapid increase of unemployment. To sum up, **this concept of flexicurity has shown its intrinsic limit. One basic reason is that it is maybe impossible (or very difficult) to find a system where low employment protection is associated with more security for the workers. That is why it is necessary to find other types of flexibility. We argue that *internal flexibility*, rather than *external flexibility*, can be a better substitute, and compatible with the goal of job security.**

This paper is organized as follow. The first section will present the idea of a productive sector based on strong labour market institutions. We will firstly introduce the rational behind this idea. Then we will build on the *Schumpeterian* concept of destructive creation and show how this institutional design can contribute to these long-term dynamics and how institutions may minimize the social adverse consequences of the “destructive” part of the process. We will end this section by a special focus on working conditions within this sector. The second section will focus on the development of a labour-demanding sector focusing on the providing of new social services. We will show that the general architecture of this economic model allows for the financing of such services. It can contribute to the development of an economy and a society of *care* while fostering job creation even for the low skilled.

## **I. A productive sector based on strong labour market institutions**

Carlin<sup>5</sup> argues that *predistribution* policies should focus on booming innovations and productivity in the “important” sector (should it be the industrial sector or the tradable-goods sector depending on the economic specialization of the country) in order to be able to increase the size of the “labour demanding service sector”. The productivity in this sector is lower and cannot increase as much as the productivity in the former. Furthermore most of these “stagnant services” are financed by the State through taxation. But the benefits from the productivity growth in the dynamic sectors increase the basis of taxation. A higher

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

level of taxation is therefore an outcome of a productive economy. As the consumption of such services is welfare enhancing, this move is positive for the whole society. As these sectors are also labour demanding and not necessarily skilled-biased, their development can ensure low level of unemployment, but also of inequalities. The question is therefore how to ensure high productivity growth in the “important sector(s)”.

Contrary to Carlin, who argues for more ambitious competition policies aiming at “*reducing monopoly profits*”, we will focus on the role of strong institutions and the unexpected effects they should have on the incentives for firms to innovate.

### **1.1. An efficient sector based on strong labour market institutions**

In a parallel paper<sup>6</sup>, I argue that labour market institutions should be seen as a pillar of *predistribution* policies. The basic assumption of these policies is that redistribution may be not sufficient to tackle effectively the challenge of raising inequalities. If one wants to reduce this level of income inequalities, it is necessary to intervene directly in the production process in order to ensure that more wealth is distributed for the low and middle-income groups. **Labour market institutions have proven to be an efficient tool to maintain a relatively low level of inequalities, both because of their positive impact on the labour share and because of they is associated with more wage compression.**

#### **Definition of Labour Market Institutions (LMI)**

Labour Market Institutions can be defined as follow: “*the set of rules, practices and policies related to the labour markets and its participants (formal or informal, written or unwritten, universal or particular by the location or region), all of which affect how the labour market works*” (ILO, International Training Centre).

According to Pissarides, LMI have five main dimensions:

1. Employment protection legislation;
2. The presence and size of a minimum wage;
3. Unemployment benefit, measured by both its generosity and its duration;
4. Union density and coverage, measured, respectively, by the fraction of employees who are union members and those who are covered by union agreements; and
5. The degree of centralization/coordination of wage bargaining.

The rationale behind this positive impact on income equality is rather intuitive. Strengthening LMI reinforces the bargaining power of workers and therefore their capacity to obtain higher wages. This effect is verified for all types of labour market institutions. And

<sup>6</sup> R. Bazillier, op. cit., 2013.

this tends to increase the labour share. However an increase in the labour share is not a sufficient condition to lead to a decrease of income inequality. If an increase of the labour share is associated with an increase of wage dispersion, it can be compatible with an increase of inequalities. However, stronger labour market institutions are also associated with lower wage compression. This can be explained by the fact that it reinforces the bargaining power of low-wage or middle-wage workers relatively more than the one of top-wage workers. Unionized workers are more concentrated at the bottom and in the middle of the wage distribution.

The final effect of income distribution also depends on their potential impact on employment and unemployment. If labour market institutions are associated with a higher level of unemployment, we should also take into consideration the inequalities between employed and unemployed workers. There is a vast literature studying the effect of LMI on such macroeconomic aggregates. Results are very mixed. Boeri<sup>7</sup> sums up the main results obtained concerning the effect of employment protection on employment *levels* and *flows*. The number of studies finding a negative impact on employment is more or less equal to the ones showing a positive impact. It depends on the institutional design and the economic context.

Opponents of employment protection are claiming that these institutions are lowering the incentive for firms to hire. Knowing that it will be difficult or costly to fire workers, firms may be tempted to reduce recruitment. By reducing employment protection, firms could find less risky to hire, which would have a positive impact on employment. But the problem of such reasoning is that it is not confirmed by the data. The intuition to explain this lack of robust evidence is also very simple. If it's more difficult or costly to fire workers, the probability for employed workers to loose their job is also lower. And this effect is potentially very important in times of economic downturn. We clearly observe this trend with the current crisis. Countries with more flexible labour market were also the ones with the strongest unemployment increase since 2008.

All in all, LMI are very much likely to have a negative impact on income inequality. This is confirmed by Koeniger *et al.*<sup>8</sup> and Checchi and Garcia-Penalosa<sup>9</sup>. Koeniger *et al.*<sup>10</sup> show empirically that changes in labour market institutions can account for much of the change in wage inequality: *“Over the 26-year period, institutional changes were associated with a 23% reduction in male wage inequality in France, where minimum wages increased*

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7 T. Boeri, *Institutional Reforms and Dualism in European Labor Markets*, [in: ] *Handbook of Labor Economics*, Elsevier 2011.

8 W. Koeniger *et al.*, *Labor Market Institutions and Wage Inequality.*, [in: ] *Industrial and Labor Relations Review*, ILR Review, Cornell University, ILR School, vol. 60(3), April 2007, pp. 340-356.

9 D. Checchi & C. Garcia-Peñalosa, *Labour market institutions and income inequality*, [in: ] *Economic Policy*, CEPR & CES & MSH, vol. 23, pages 601-649, October 2008.

10 W. Koeniger *et al.*, *ibidem*, 2007.

and employment protection became stricter, but with an increase of up to 11% in the United States and United Kingdom, where unions became less powerful and (in the United States) minimum wages fell". Checchi and Garcia-Penalosa<sup>11</sup> find that (1) unemployment benefit reduce inequality both directly and by increasing the wage share, (2) employment protection reduces unemployment and income inequality. However, they found no effect of union density, wage bargaining coordination and minimum wage. A 10% increase of unemployment benefits or employment protection would decrease inequality (measured by the GINI coefficient) by more than 1%. They also try to estimate what would be the level of inequalities in Norway or Sweden if they adopt much lower labour market institutions like the one in the US. Results are striking. In the eighties, it would lead to an increase of inequalities by almost 1/3. The gap is lower after 2000 (around 15%) due to the increase of flexibility in the Nordic labour markets and the large increase of inequalities observed in these countries.

If the impact of labour market institutions on income inequalities is rather consensual, its possible influence on economic efficiency is much more controversial. As we already saw, the effects of such institutions on employment and unemployment are discussed and the conventional wisdom, assuming that employment protection plays against employment, is not verified empirically. Concerning economic efficiency, one underestimated impact is the microeconomic effect of such institutions and the incentives it gives for firms. The potential heterogeneity in the microeconomic effects of such institutions is a potential explanation of the inconclusive results obtained at the macroeconomic level. When firms are facing a new regulatory environment, they have two options: adapting labour costs by firing workers or reducing wages in order to maintain the profitability, or try to compensate the additional costs of such regulations by being more innovative and more productive. This effect has been widely studied for environmental regulations. For instance, Porter and van der Linde<sup>12</sup> have shown how tight environmental regulations can be efficient because they foster innovations within firms and thus productivity. Similar effects can be observed for labour market regulations. We will call this the *innovation effect*.

An additional effect is an *effect of selection*. Stronger labour market institutions are most often associated with higher costs for firms. It may reduce the average level of competitiveness at the international level. But at the same time, it reinforces the position of the most productive firms. Imagine a market where you have two types of firms using very different technologies and management. If you increase the cost for all firms (by strengthening LMI), only the most productive firms may be able to bear this cost. Less productive firms may be pushed to exit some markets, letting the most productive ones competing between each other. What

11 D. Checchi & D. Garcia-Peñalosa, *ibidem*, 2008.

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

would be the outcome? The *average* level of productivity will increase due to the exit of low productive firms. Most productive firms can hire more workers (formerly employed in low-productivity firms). This mechanism is relatively similar to the one described by Melitz<sup>13</sup> to describe the effect of international trade on productivity.

Acharya, Baghai and Wubramanian<sup>14</sup> investigate to which extent labour laws foster innovations. They show that “*more stringent labour laws can provide firms a commitment device to not punish short-run failures and thereby spur their employees to pursue value-enhancing innovative activities*”. Based on an index of labour laws available for the US, the UK, France, Germany and India over the period 1970-2006, they show that a one standard deviation increase in the dismissal law index explain a rise in the annual number of patents, number of patenting firms, and citations by 6.1%, 7% and 9.2% respectively. The effect is stronger in innovation-intensive sectors. The argument is that a stronger employment protection gives an *ex ante* incentive for firms to innovate.

However, they find that dismissal laws are the only type of labour laws that exhibit this positive effect on innovation. The other dimensions, which have no effect on innovation, are the alternative employment contracts, the regulation of working time, the industrial action and the employee representation. Concerning the latter, the effect is positively significant only when considering the impact on the number of patents and the number of patenting firms. They also find that these dismissal laws have a positive and significant effect on economic growth. As innovation is an important factor of growth, this result is not surprising. The effect is quite large, a one-standard deviation increase in the dismissal law index results in a 2.2% increase of growth.

For all these reasons, **labour market institutions may be associated with higher productivity<sup>15</sup>. This linkage with productivity has also been confirmed for wage policy.** A study of OECD (2007) shows that an increase of minimum to median wages ratio by 10 percentage points leads to an increase of labour productivity by almost 2 percentage points. It may be explained by improved incentives for investing in training and a result of substitution of skilled labour for unskilled labour. But it can also be explained by the exit of low productivity firms to the benefit of firms having a better access to technologies and therefore to productivity.

All in all, stronger LMIs are associated with

**(1)** lower level of income inequality, and

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13 M. Melitz, *The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity*, [in: ] *Econometrica*, 71(6), 2003, pp. 1695-1725.

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

15 One additional evidence is Italy where labour deregulation led to a crisis in Italian labour productivity growth, as documented by F. Lucidi & A. Kleinknecht, *Little innovation, many jobs: An econometric analysis of the Italian labour productivity crisis*, [in: ] *Cambridge Journal of Economics*, Oxford University Press, vol. 34(3), 2010, pp. 525-546.

(2) higher level of aggregate productivity (at least for employment protection) explained both by a selection effect and an innovation effect. Stronger LMIs do not necessarily imply a rigid economic environment for firms. We will see in the next subsection how it can contribute to the *Schumpeterian* dynamic of destructive creation.

## 1.2. Contributing to Schumpeterian long-term dynamics

The dynamic of an economy depends on short-term and long-term factors. In order to face short-term shocks, firms should get enough tools to adapt themselves to the new economic context. We will argue in the next subsection that **the promotion of internal flexibility (in opposition with external flexibility characterized by deregulated rules concerning hirings and firings) can be an efficient tool for firms and a protective instrument for worker to face short-time shocks.**

Concerning long-term changes, the economic environment should promote the adaptation of firms to technological changes, and to other types of innovation. It is a major factor of long-term economic development and competitiveness. According to Schumpeter<sup>16</sup>, the dynamic of economic development arises out the destruction of some prior economic activities, and the creation of new and innovative ones. The dynamism of an economy is therefore related to the capacity of reallocating labour from low productivity to high productivity activities. Technological innovations drive the process of economic development but the “destruction” of old activities is a condition to free enough workers and capital towards the new ones. Labour economists often claim that a deregulated labour market is a good way to achieve this goal. By easily firing workers, firms would be able to adapt their production to new technological innovations. However, this solution is painful for workers who have no guarantee to find a new job. From a progressive perspective, it is always better to promote long-term changes *within* firms with strong investments in life-long learning to adapt workers to new technologies and activities. Employment protection is a good tool to promote such long-term relationship between workers and their firm due to higher firing costs.

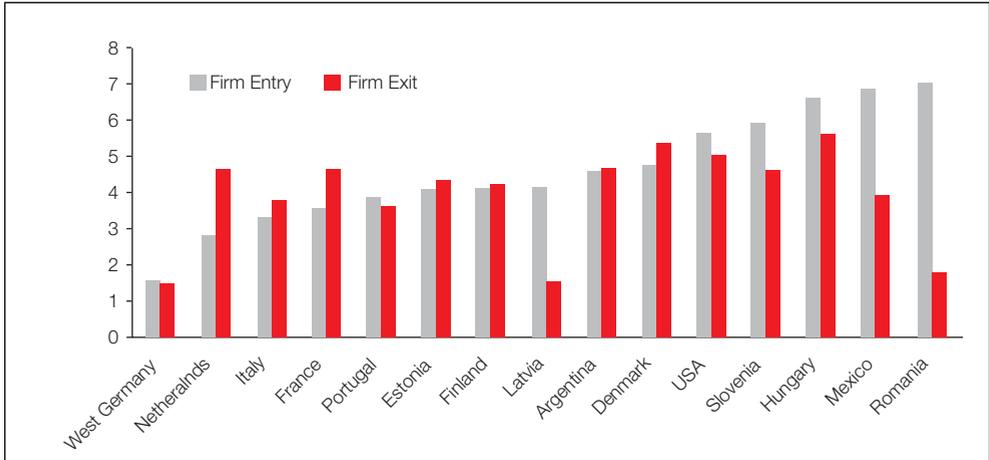
Opponents of employment protection are arguing that dismissal laws are impeding the process of reallocation outside the firm. But they neglect that entry and exit of firms can have exactly the same effect. The reallocation of labour is not from low productivity to high productivity *jobs* but from low productivity to high productivity *firms*. The role of employment protection is negligible in that process. Total *firm* turnover is estimated between 3-8% in most industrialized countries<sup>17</sup>, which may explain why countries with very different labour market institutions have relatively similar *job* turnover. Figure 1 shows the firm entry and exit rates for some countries. It is a major source of reallocation of labour

16 J. Schumpeter, *Theorie der wirtschaftlichen Entwicklung* 1911.

17 E. Bartelsman et al., *Microeconomic Evidence of Creative Destruction in Industrial and Developing Countries.*, IZA Discussion Papers 1374, Institute for the Study of Labor (IZA), 2005.

in most countries. The main implication is that large employment flows can be compatible with high employment protection due to this dynamic of entry and exit of firms within the market. The main stake in the process of reallocation of labour is more likely to be linked to market regulations and the capacity for new firms to enter into a market rather than to the tightness of labour market regulations.

Panel C: Total business sector, firms 20 or more employees



Panel D: Total business sector, firms with at least 1 employees

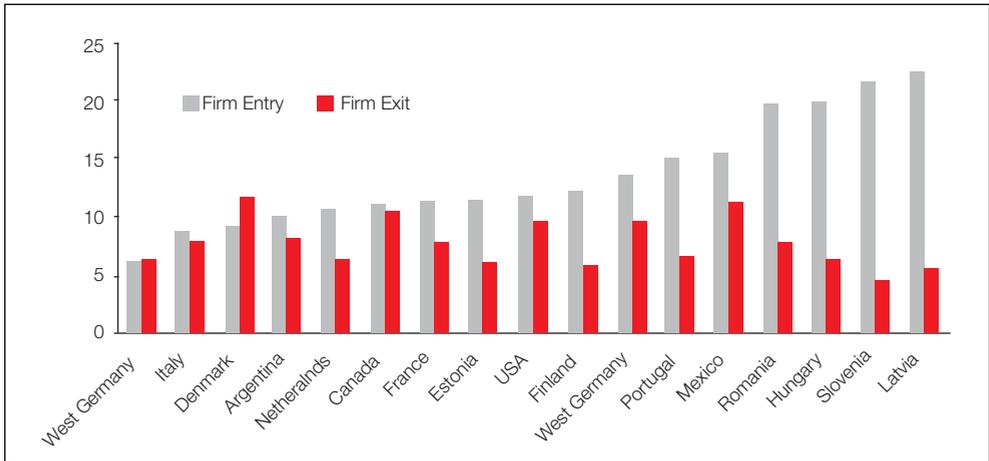


Figure 1: Firms entry and exit rates for selected countries

Source: Bartelsman et al. (2005)

If labour market regulations allow more productive firms to survive, it can contribute to this reallocation of labour. This process can be fostered by the positive externality employment protection can create on innovations.

To sum up, labour reallocation can be done through two main mechanisms:

- (1) a deregulated labour markets allowing high turnovers *within* firms, and
- (2) the capacity to new firms to enter a market allowing a labour reallocation *between* firms.

Behind these two choices, one has to understand the complex mechanisms to explain labour productivity. If labour productivity was a function of the workers' ability or skills only, the best way to increase the aggregate productivity would be to fire less productive workers and to hire the most productive ones. But this is only one part of the story. **Labour productivity is indeed intrinsically linked to the way the production is organized, to the investments made by the firms, the level and quality of capital available, to the complementarity with other workers, and various other dimensions. In other words, individual productivity is not only linked to individual factors and firms have a strong influence on this level of productivity.** It means that the same worker can have very different level of productivity depending on where s/he is employed. Too low levels of labour productivity can therefore be explained by firms' incapacity to exploit the capacity and skills of their workers. That's why, sometimes, the entry of new firms can be a much powerful tool to increase productivity than substituting workers within a given firm. Firms are also responsible of the productivity of their workers. It is up to the management to exploit all their potential. If they fail to do so, it may be the responsibility of the firm rather than the one of the worker. Therefore, providing job security to the worker can be seen as fair, and is also an incentive for firms to change their way of organizing their production.

Also, it has to be claimed that labour reallocation is not necessarily a prerequisite for the emergence and development of innovative and productive activities. In a context of high unemployment, the creation and development of new activities do not necessarily require a shift of workers from less productive to more productive firms. New firms can create jobs by hiring unemployed workers. It is especially true considering the relatively high numbers of unemployed skilled workers (see the FEPS YAN paper on the "Broken Promise of Higher Education")<sup>18</sup>. In other words, "destruction" of old activities is not a prerequisite for the development of new activities as there are enough unemployed workers available in most industrialized countries. However, labour reallocation is likely to appear *ex-post*. In other words, competitions on markets may push away some firms that won't be competitive anymore due to the development of new players and new products or services. Adaptation to new innovations or trends in specific markets is fundamental to the long-term prospects of firms. In the mobile phone industry, we saw how the structure of markets has fundamentally changed in the last years. Former leaders such as Nokia

<sup>18</sup> L. Antonucci et al., *Fixing the Broken Promise of Higher Education*, FEPS Young Academics Network Working Paper series #3, June 2013. Available at: <http://goo.gl/w9TKFW>, 2013.

or Blackberry are marginalized due to their incapacity to succeed the switch to new generations of mobiles.

States should have different complementary strategies regarding such changes. First, the goal should be to push the development of some strategic activities (*support the winners*). This can be done through a renewed industrial policy and by shaping institutions pushing innovations (see the previous subsection). Second, States should aim at *minimizing the number of losers*. We will see in the next subsection how labour market policies and institutions may play a role. The last aspect is to *compensate the losers*. That's why the traditional goal of the Welfare State of redistributing is still relevant, more than ever. Strong unemployment insurance schemes, as well as active labour market policies, are very important and complementary with other policies promoted here.

### 1.3. Promoting internal flexibility rather than external one

To ensure high level of productivity in the long run, institutions should allow a process of reallocation of labour. The smoothness of exit and entry of firms constitutes (more than labour market regulations) a first condition for such reallocation. But this process can generate social tensions and persistent unemployment if the closing of firms lets aside low-skilled workers (which will have adverse effects on inequalities). This problem should not be minimized and it calls for different types of answers.

First it emphasizes the importance of active labour market policies (ALMP) and life-long training.<sup>19</sup>

Second, there is a need to improve *internal flexibility* rather than *external flexibility*. Firms are facing two types of shocks basically, long-term and short-term ones. The latter has adverse effects on the demand addressed to a specific firm, sector or even country. The goal of labour market institutions is to minimize the cost in terms of unemployment. Employment protection should therefore increase the cost of firing in order to maintain workers in their jobs, but also to allow some internal arrangements to share the burden of these negative shocks between shareholders and workers. The best example is the "Short-time working arrangements" (STWAs) which were particularly successful in Germany to absorb the negative shock induced by the financial crisis<sup>20</sup>. The recent national collective agreements on the labour market in France (*Accord Interprofessionnel pour l'Emploi, ANI*) also allow more internal flexibility through the "saving-job agreements" (*accords de maintien dans l'emploi*). The main challenge of such kind of agreements is to find the

19 See: OECD, *Activating the Unemployed, What Countries do?*, Chapter 5, Paris OECD 2007, pp. 205-242; J. Boone & J. Van Ours, *Bringing Unemployed Back to Work: Effective Active Labor Market Policies.*, [in: ] *De Economist*, 157 (3), 2007, pp. 293-313.; D. Card et al., *Active Labour Market Policy Evaluations: A Meta-Analysis*, [in: ] *Economic Journal*, Royal Economic Society, vol. 120(548), November 2010, pp. F452-F477.

20 See: Collewet et al., *The Effect of Short-time Working Arrangements on Employment: A Comparative Microeconomic Analysis of Germany and France.*, mimeo 2013.

relevant and fair risk-sharing mechanisms between workers and the firm. In most cases, it is up to the stakeholders to be subjected to these economic hazards. Capital income is a direct compensation for taking risks. It would be unfair to transfer the entire burden to the workers, even if it's done in order to avoid firings.

Internal flexibility should also be seen as substitutable and not *complementary* with external flexibility. In other words, labour market reforms should not include both more flexibility in the regulation of employment contracts and more freedom to adjust working-time or wages within firms. If you choose the second option, it should go along with stronger employment protection. It can be one critic of the French reform of the labour market mentioned just above, which increases both internal and external flexibility. A last fundamental aspect is that internal flexibility can only be acceptable where social dialogue is strong and efficient. Short time working arrangements or other type of internal flexibility agreements should be conditional to an agreement with Trade Unions and clearly mention the safeguards for workers. Labour laws or collective agreements should frame such arrangements.

#### **1.4. Improving working conditions**

It can be a difficult dilemma for the Left. From one side, the only sustainable way to increase wages in the long run is to increase productivity. From the other side, productivity's increases are often associated with an intensification of work and a worsening of working conditions. Fortunately, it is not always the case. The main tool to increase labour productivity is to invest in capital and in technologies. The increase of productivity can therefore be associated with a lower work hardness. Most painful tasks can be automatized. But this logic is mainly valid for the industrial production. When talking about labour productivity in the service sector, the main challenge is to improve human resources management<sup>21</sup>. The "*optimization of work*" is a huge source of productivity gain but with possible devastating consequences in terms of working conditions. A successful strategy should therefore take into account this possible drawback. Social dialogue should therefore aim at guarantying a good *job quality*<sup>22</sup>.

This focus on the qualitative dimension of employment is very important but far from being new. Since 2000 and in the framework of the Lisbon *Growth and Jobs Strategy*, the European Employment Strategy (EES) encompasses not only *full employment* but also *promoting quality and productivity at work*. However, the institutional dynamic was very short and this qualitative objective was progressively forgotten. And the strong rise of unemployment after 2008 did not help.

21 N. Bloom & J. Van Reenen, *Human Resource Management and Productivity*, [in: ] *Handbook of Labor Economics*, Elsevier 2011.

22 L. Davoine et al., *Monitoring quality in work: European Employment Strategy indicators and beyond*, [in: ] *International Labour Review*, No. 147, 2-3, 2008, pp.163-198.

Despite the disappointing result of the Lisbon Strategy regarding this objective of quality at work, we argue that it must be seen as a necessary counterpart of any strategy aiming at increasing labour productivity and efficiency. Because of the possible devastating consequences on the quality of life of workers, we should systematically study the consequences of any labour market policy on the quality of life and health of workers.

One possible way-out is to consider working-time reduction as a possible necessary compensation for such increase in productivity. In the previous edition of the FEPS Next Left *“Transatlantic Dialogues of Dialogues”*, Schor<sup>23</sup> argued that working-time reduction should be seen as a necessary condition to achieve full employment but also to address ecological degradation and climate change. One further argument is that it is a necessary condition to increase both the quality of work and productivity.

Here, productivity has to be understood in a broader sense than the only intensification of work. A re-conceptualization of this concept may be needed. It has been widely criticized because productivity increases can actually be associated with welfare loss if they worsen the quality of life and living standards in a broad sense. It is indeed possible to increase productivity by increasing ecological damages or worsening the conditions of workers.

But this argument is not sufficient to reject the need of productivity increases, at least in the long run. Once again, in the long run, wage increases or working conditions improvement are sustainable only if they are associated with productivity gains. If not, it leads to a fall of the capital share.

It is true that the short-term context is different. In most industrialized countries, labour shares have fallen in the last decades and we observed a disconnection between productivity and wage increases. In this framework, an increase of the labour share is possible without productivity gains, as a consequence of a necessary re-balancing of the bargaining power between workers and firms' owners. In other words, there is a space to exploit the productivity gains we already have. The main challenge is to get a fair distribution of productivity gains.

**It is very important to define what a policy promoting productivity means from a progressive perspective and to always keep in mind the possible consequences on working conditions.**

In the long-run however, a more ambitious wage or labour policy should be financed through more innovation and more productivity. However, **it is very important to define what a policy promoting productivity means from a progressive perspective and to always keep in mind the possible consequences on working conditions.**

23 J. Schor, *Hours reduction: an Ideal Issue for a Red-Green Coalition*, [in: ] E. Stetter, K. Duffek, A. Skrzypek (eds.), *Building new communities. Notes from the Transatlantic Dialogue of Dialogues*, Next Left Books vol. 5, Brussels : Foundation for European Progressive Studies, Renner Institute and Institute for Global Law and Policy, Harvard Law School 2013, pp. 164-176.

One line of thought can be to focus on *quality*. If an innovation leads to an increase of quality for a product, the price of such product can increase due to a differentiation with similar products. The value of the production thus increases. The value-added per worker increases too, without any negative social or environmental spillovers. More generally, this thinking about what should be the nature of productivity gains is in line with the thinking about what should be the right measurement of economic performance and social progress<sup>24</sup>. The concept of productivity as it exists now is maybe too narrow to take into consideration all these dimensions. But still, we have to find ways to create wealth while keeping in mind that the final objective is the improvement of the quality of life.

## II. Providing new social services through labour-demanding sectors

Carlin<sup>25</sup> builds on the theory of “cost disease” developed by Baumol. She studied the impact of differential productivity growth on the evolution of different sectors and the overall economy. For sectors that have a productivity growth below the average, the relative prices tend to increase. In sectors such as education, health or culture, productivity gains are much more limited than in other productive sectors. As Carlin sums up *“The quartet still requires 4 people and 20 minutes as the centuries go by but the number of minutes of work a concert-goer has to do to pay for a performance goes down”* as the productivity improves elsewhere in the economy. The relative price in “stagnant sectors” will rise but the adoption of new technologies by progressive industries increases the level of income available to consumers and their utility. As pointed out by Sparviero and Preston, Baumol and Oates<sup>26</sup> suggest that an increase of the price of stagnant services can be complemented by an increase of their quality. That’s why Sparviero and Preston<sup>27</sup> argue that *“by virtue of increasing labour productivity in the progressive industries and the (relative) decreasing cost of manufactured goods on the available income, new technologies improve consumers ability to afford the essential and increasingly better services provided by stagnant industries.”*

More specifically, Baumol<sup>28</sup> classifies economic activities into two types: *“Technologically progressive activities in which innovations, capital accumulation, and economies of large*

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

25 W. Carlin, op. Cit., 2012.

26 S. Sparviero & P. Preston, *Creativity and the Positive Reading of Baumol Cost Disease.*, [in: ] *The Service Industries Journal*, 30(11), 2010, pp. 1903-1917; W. J. Baumol & W.E. Oates, *The Cost Disease of the Personal Services and the Quality of Life.*, [in: ] *Skandinaviska Enskilda Banken Quarterly Review*, 2, 1972, pp. 44-54.

27 S.Sparviero & P. Preston, *ibidem*.

28 W. J. Baumol, *Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis.* *American Economic Review*, 57(3), June., [in: ] R. Towse (ed.), *Baumol’s Cost Disease: The Arts and other Victims*, Cheltenham, UK and Northampton, USA: Edward Elgar, pp. 51-62, 1967.

scale all make for cumulative rises in output per man hour” and stagnant activities “which, by their very nature, permit only sporadic increases in productivity”<sup>29</sup>. The output of these stagnant services are not necessarily stagnant. But the increase of the output is proportional to the increase in employment in such sectors. These sectors are therefore intensive in labour. The initial typology of sectors developed in Baumol<sup>30</sup> or Baumol and Oates<sup>31</sup> relies very much on the industry – service divide. The latter identified as the stagnant sector and the former as the dynamic one. The reformulation of this phenomenon<sup>32</sup> took into consideration the productivity gains in the service sector. The so-called stagnant sector is therefore limited to some services in which any productivity gains are very difficult or even impossible. The initial list of Baumol<sup>33</sup> contains live performing arts, automotive repair, health care, education, postal services, automotive and accident insurance and care of the indigent.

Economists have focused on the effect of an increase in relative prices for these stagnant services and the negative impact on the evolution of aggregated productivity. It is possible to get a different vision, focusing on employment, quality of services and welfare.

The central point is the relative decrease of prices in the productive sector. It frees income for consumers for other types of goods or services. Two options: it can directly rise the demand for such services: “I’m richer so I can go more often to the theatre”, or it can rise the demand for *quality* of such services: “I’m richer so I will ask more elaborated health services”. In some sectors, we do not care about the frequency we will use the service. We are even happier if we need to use less the service. Going to the hospital or the automobile repair is not very exciting. What really matters here is that the quality of the service is provided. But in any case, the result is similar. It will lead to a rise of the output for such services (in value or in quantity). And, as the labour productivity cannot increase significantly in such sectors, it will also lead to a strong increase in employment.

The impact on the aggregate productivity is less important. Maybe not for the economists, but it is for sure for policy-makers and citizens. This fall in the aggregate productivity can be observed if the rise in demand for such services increases. The final effects may be ambiguous when considering the productivity gains in the productive sector. But what really matters in that case is the well being provided by such services. Of course, in the case of automobile repair, the loss in terms of productivity is not balanced by a gain of well-being, even if the quality of the service provided increases. In that case, the only positive impact may concern the employment. But still, not everyone can, or wants, to

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29 W. J. Baumol, op. cit., p. 51.

30 Ibidem..

31 W. J. Baumol & W. E.Oates, *On the Performing Arts: The Anatomy of their Economic Problems.*, [in: ] *American Economic Review*, 50(2), May, pp. 43-50.

32 W. J. Baumol et al., *Unbalanced Growth Revisited: Asymptotic Stagnancy and New Evidence.*, [in: ] *American Economic Review*, 75(4), 1985, 806-817.

33 W. J. Baumol & W. G. Bowen, *On the Performing Arts: The Anatomy of their Economic Problems.*, [in: ] *American Economic Review*, 50(2), May 1965, pp. 43-50.

become auto mechanic! However if consumers have more money to spend in education, health or culture, the effect on the well-being is unambiguously positive. The fall of the aggregate productivity is just the result of a positive outcome. It is because the economy is productive that relative prices for some goods and services fall, which allow consumers to buy more services that are welfare enhancing. Even if they are costly.

Another type of services that can be financed through this mechanism is what is related to the “ethic of care”. **Taking care of the other is not recognized in the dominant model both because it has no price (when we are talking about informal solidarity, community services, exchanges between neighbors...) and because it is too costly (all services for dependent or disabled people...).** However, it has a positive impact on well-being for communities. A dynamic sector allows the financing of more services of care. It can either be financed through the State directly (through an increase of the tax base), by the “third economy” (NGOs, cooperatives...) or even by the private sector. The characteristics of such services are mainly their low level of productivity but their strong social utility.

**The development of such sector is intrinsically linked with the challenge of aging societies. Most European countries are facing huge demographic challenges. The demand for health services, and all services related to the rise of dependency are very likely to increase.** If it is mainly a demographic and a social challenge, some are seeing these dynamics as a major economic opportunity. The French government recently argued that the development of the “Silver Economy” can be a major source of growth in the next decades and a pillar of the industrial renewal<sup>34</sup>.

A corollary of this reasoning is that a high level of taxation is the outcome of a productive economy<sup>35</sup>. The more productive is the economy, the larger is the tax base and therefore the capacity to finance social services. As these social services are welfare-enhancing, a high level of tax is a positive indicator showing both the productivity of the economy and the providing of social services.

**The development of this sector is not only positive from a well-being perspective. It is also a way to increase job opportunities for workers with lower skills. This point is very important as technological change may lead to an increase of inequalities between skilled and non-skilled workers, as technological change is generally skilled-biased<sup>36</sup>.** An increase of productivity in the dynamic sector is therefore more likely to benefit skilled-workers. We previously argued that the level of labour productivity was also depending on firms management and the level and quality of capital available within the firm. But still, it also requires some kind of complementarity between individual skills and the firm environment.

34 See: the report of the CGSP, *La Silver Economy, une opportunité de croissance pour la France.*, Report in French of the Commissariat Général à la Stratégie et à la Prospective, December 2013.

35 W. Carlin, op. cit. 2012.

36 G. L. Violante, *Skill-biased technical change.*, [in: ] S. N. Durlauf & L. E. Blume (eds.), *The new Palgrave dictionary of economics.*, New York, NY: Palgrave Macmillan 2008.

As productivity is lower in the labour-demanding sector, the possibility of a good matching between jobs and low-skilled workers is higher. And as productivity gains are limited, any increase in the supply of such services leads to a strong increase in employment.

If these jobs are more likely to be accessible to workers without *academic degrees*, it does not mean that they do not require “*skills*”. Most of them require some technical competences that can be very specific. These competences should be accessible to workers with no or low education degrees. It means that countries should also invest in skills to be able to face the rising demand for such services. Professional training and life-long learning can be powerful tools to increase competences for such workers. Investing in skills for not-graduated workers is also a way to limit the risk of a polarized society between low-skilled and high-skilled workers.

**By developing public services or firms aiming at building an “ethic of care”, we contribute to the improvement of living standards for the whole society but also to providing jobs for workers with all skill-levels.** By doing so, we minimize the risk that stronger incentives to increase productivity increase income inequalities between workers in the productive sector and the others. It can also be a factor of enhancement of all these activities of “care”, which are nowadays too often discredited.

## Conclusion

In this paper, we argue that the economic organization can be based on two pillars:

- (1) the development of a productive sector based on strong labour market institutions,
- (2) a sector of social services focused on the *care*, with the characteristic to be labour-demanding, especially for the low-skilled.

**Labour market institutions should be seen from a fresh perspective.** They can be a factor of productivity for firms by pushing them to innovate more to counterbalance the increased cost derived from a strengthening of such institutions. To allow firms to adjust to short-term shocks and long-term changes, other mechanisms than external flexibility should be promoted. Internal flexibility is a better substitute as it is more protective for workers and less costly for firms. Life-learning is also a fundamental mechanism to develop. Strong employment protection is completely compatible with such type of flexibility. It is a way to give a renewed and progressive content to the concept of flexicurity.

**Strong labour market institutions should be associated with high level of productivity, in order to be sustainable.** As we saw, both a dynamic effect and an effect of selection may explain a higher level of aggregate productivity when labour market institutions are higher. A possible draw-back is that it may contribute to a skill-biased technological change and therefore leads to an increase of inequalities between low-

skilled and high-skilled workers. In order to avoid that, economic policy should aim at developing a service sector focusing on different activities of care. The more productive is the “dynamic sector”, the higher is the propensity to finance such new activities. As these services are welfare-enhancing, it contributes to social progress. As level of productivity is lower and stagnant in such services, it is really labour-demanding, especially for low-skilled workers. Such services can be financed by the State, as a growing tax base is a consequence of a more productive dynamic sector, or by other actor (cooperatives, NGOs, or the private sector). The decreasing relative prices in the productive sector open mechanically new economic perspectives to other activities such as health and social care services.

Higher productivity is necessary in the long run to increase wages and improve working conditions. However, **not all productivity gains are profitable and welfare-enhancing, especially when it comes together with work intensification. It is indeed necessary to redefine this concept of productivity from a progressive perspective. In particular, one possible line of thought is to focus on *quality* in all its dimensions: job quality, quality of products and services. The goal should always be to improve the quality of life of individuals.** It is sometimes more important than maximizing income, when such income maximization comes at the expense of job and life satisfaction, or health.

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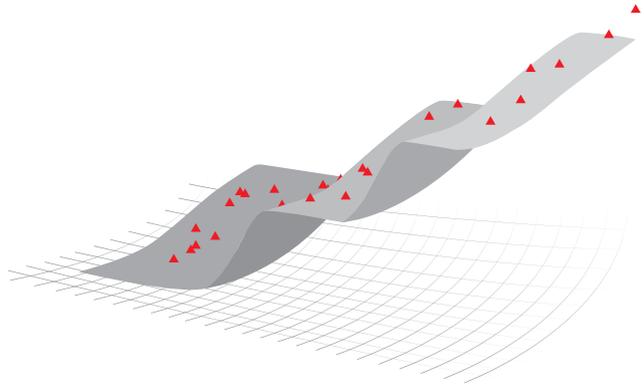
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Dimitris TSAROUHAS

# **Whither Flexicurity? Discursive Exercises and Empirical Reality in European Labour Market Reform\***



\*I thank all Next Left Focus Group members for their comments and suggestions during our Lisbon Meeting last May and our Warsaw meeting in September 2014. All remaining errors and omissions are solely my responsibility.

**Keywords:**

**European integration – Flexicurity – Discourse – Institutions -  
Globalisation**

**Abstract:**

This chapter sheds light on how the EU has defined/understood flexicurity and how it has linked this concept to wider socio-economic changes, in particular the impact of globalization on the European economy and the labour market. Drawing on empirical data and by use of an institutionalist approach to policy-making, it argues that the discursive usage of flexicurity at EU level has been instrumentalised over time to justify policy measures aimed at enhancing enterprise flexibility without a corresponding compensatory strategy in favour of employee security. This disjunction lies at the heart of the intense contemporary scepticism surrounding flexicurity, thus cancelling attempts to promote a much-needed debate on genuine labour market modernisation.

Recent statistics indicate that a sort of economic recovery may finally be in the making in the European Union (EU). Both in the EU27 and the Eurozone GDP rose by 0.3% in the second quarter of 2013 allowing the Union to escape the recession trap. France and Germany grew by 0.5% and 0.7% respectively; perhaps more importantly, Portugal posted a 1.1% increase in its gross domestic product<sup>1</sup>. Is Europe finally seeing the end of the long tunnel? It would be a grave mistake to underestimate the persistent underperformance of the European economy and continue with business as usual, merely hoping for more encouraging figures in the future.

To start with, the even more recent third quarter figures led to fresh doubts being raised, as growth was a mere 0.3%. The French economy contracted by 0.1% and German growth at 0.3% was much weaker than expected<sup>2</sup>. Even if one turns to the rosier 2<sup>nd</sup> quarter figures, averages mask the contracting in GDP that states such as the Netherlands (-0.2%), Italy (-0.2%) or Spain (-0.1%) experienced for yet another quarter. Second, seasonally adjusted GDP continues to fall both in the Eurozone (-0.7%) and the EU27 (-0.2%). Third, there is as yet no indication that the EU will not fall victim to flat-line growth for years to come. In fact, even for 2014 the Commission had to downgrade its forecast of Eurozone GDP growth from 1.2% to 1.1%. Finally, GDP as such tells us nothing about the dramatic labour market situation: 26.5 million people are out of work in the EU, with an overall record rate of 12.1%<sup>3</sup>. Again the figures mask great disparities among states but it is hardly an exaggeration to state that with youth unemployment rates above 50% in countries such as Greece or Spain an entire generation is faced with the prospect of economic misery and hopelessness. **The question that begs to be answered is therefore: how can the EU avoid the socio-economic and political disaster that frustration in the labour market can give rise to?**

One of the prominent attempts in recent years to regulate the labour market in a beneficial manner for both employers and employees is flexicurity. As discussed later, flexicurity is a policy framework that grew out of the specific experiences of some member states and by the 2000s became an official EU policy. It is now part not only of individual reform programmes by member states in the context of EU-wide surveillance through

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1 Eurostat , *Euro area and EU27 GDP both up by 0.3%*, 122/2013, 14 August. Retrieved from: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-14082013-AP/EN/2-14082013-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-14082013-AP/EN/2-14082013-AP-EN.PDF) 2013.

2 V. Pop, *Eurozone economy still in troubled waters.*, *EUobserver* 15 November. Available at: <http://euobserver.com/economic/122119>, 2013.

3 Eurostat, *March 2013 unemployment rate at 12.1% EU27 at 10.9%*, STAT/13/70, 30 April. Retrieved from: [http://europa.eu/rapid/press-release\\_STAT-13-70\\_en.htm](http://europa.eu/rapid/press-release_STAT-13-70_en.htm) (22 May 2013).

Commission-Council cooperation; it is also a policy inherent in major initiatives such as Europe2020, and forms a major part of successive projects to achieve a well-functioning work-life balance across EU households. In the context of a gloomy labour market where insecurity sits alongside growing alienation from work and increasing stress levels, reordering work so as to reduce social risk is a commendable imperative.

In that context, it is crucial to examine:

- a) national experiences with flexicurity, especially for those states that have been at the forefront of this debate in the 1990s,
- b) the way in which the EU has conceived of the concept of flexicurity as well as
- c) the ways in which it has tried to promote it.

More specifically, the paper aims to shed light on how the EU has defined/understood flexicurity and how it has linked this concept to wider socio-economic changes, in particular the impact of globalization on the European economy and labour market. Finally, the paper also displays the mechanisms used to “export” flexicurity to member states before providing a normative and empirical critique of the EU approach.

Before proceeding further, an important proviso is in order. **There is nothing inherently wrong with the concept of flexicurity defined as an attempt to make labour markets work more efficiently by enhancing productivity whilst making sure that employees can adapt to changing labour markets and feel secure in doing so.** To illustrate, flexibility for enterprises can be external (i.e. adjusting for labour intake through part-time or fixed-term contracts) but can also be internal (that is, temporal flexibility in terms of hours worked). There is nothing preventing internal flexibility from contributing to progressive policies via a realistic and desirable work-life balance.<sup>4</sup> In fact, the early flexicurity experience of countries such as the Netherlands and Denmark show that a balanced flexicurity approach can deliver, in the form of lower unemployment rates and generous employee support to maintain social cohesion. In that sense, therefore, **a normative understanding of flexicurity should not be confused with its ideological usage to justify labour market restructuring that ends up penalizing working people classifying sweeping concepts such as globalization as an inescapable reality for the EU.** This is particularly the case when, as will be shown below, the Union has played a very active role in promoting and defending a type of globalization at odds with the European Social Model based on productive growth and solidarity.

Why is flexicurity so crucial? The onset of globalisation defined as an accelerated pace of economic liberalization leading to the gradual dislocation of capital from its ‘home base’ has also affected labour markets. By looking at a concrete manifestation of

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<sup>4</sup> This, nevertheless, may have to come about at the expense of external flexibility. I thank Rémi Bazillier for bringing this point to my attention..

labour market policies we seek to understand the wider processes of policy construction at European level and assess their origins and policy impact. Empirical data reveals consistent attempts by the European Commission to use globalisation as a legitimating device for a market-accommodating programme of labour market reform. There is evidence of EU activism on the field, and EU leadership in communicating flexicurity beyond Europe. Meanwhile, the concept of flexicurity is subject to change in line with the evolving policy agenda endorsed by the Commission and /or the member states. These findings allow us to argue that the relationship between Europe and globalisation is far from neutral or passive. To the contrary, 'Europe' as an institutional and political actor is active in shaping globalisation<sup>5</sup>.

At the same time and on a more empirical basis, the concept of flexicurity suffers from serious flaws. Not only is it utilized for the purposes of defending a socio-economic settlement from which the average European citizen has very little to gain: it also tends to be politically incoherent, overlooks real conflicts of interest and adopts a view of both flexibility and security that treats both in a reductionist fashion<sup>6</sup>. More on this theme will be discussed in the relevant section.

In what follows, I begin with a short note on theory before discussing flexicurity in the context of the evolving European political economy since the Delors era, as well as what the original flexicurity models in Denmark and the Netherlands were about. Next I apply the theoretical tools discussed below to the analysis of EU policy documents and statements indicating the direction that the concept of flexicurity has taken in recent years and what this reveals about the policy intentions of key EU actors. The one but last section introduces an empirical discussion of the treatment of flexicurity and highlights the deficiencies from which the concept suffers. Finally the conclusion summarizes the paper's main arguments and reflects on the usefulness of the concept, not least because of the strongly negative connotations it has been associated with in recent times.

## A Note on Theory

The theoretical framework of discursive institutionalism (DI) is helpful in our analysis<sup>7</sup>. This is a fourth type of institutionalism distinct from the rational choice, historical and sociological

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5 W. Jacoby & S. Meunier, *Europe and Globalization*, [in: ] M. Egan, N. Nugent & W. Paterson (eds.), *Research Agendas in European Union Studies: Stalking the Elephant*, Basingstoke: Palgrave, pp. 353-74, 2010.

6 L. Burroni & M. Keune, *Flexicurity: a conceptual critique*, [in: ] *European Journal of Industrial Relations*, 17(1), pp. 75-91, 2011.

7 V. A. Schmidt, *Discursive Institutionalism: The Explanatory Power of Ideas and Discourse*, [in: ] *Annual Review of Political Science*, 11, pp. 303-26, 2008; V. A. Schmidt, *Putting the Political back into Political Economy by Bringing the State Back in Yet Again*, [in: ] *World Politics*, 61(3), pp. 516-46, 2009; V. A. Schmidt, *Taking Ideas and Discourse Seriously: Explaining Change Through Discursive Institutionalism as the "Fourth New Institutionalism"*, *European Political Science Review*, 2(1), pp. 1-25, 2010.

versions. It reflects the turn to ideas and discourse in political science<sup>8</sup>. Institutions are understood as the *context* within which agents think, speak and act and at the same time as the *result* of agents' thoughts, words and actions. Discourse as developed in DI describes the substantive content of ideas but also the interactive process by which ideas are spread.

Discourse is not just about ideas or 'text' but also, as in Hay and Rosamond<sup>9</sup>, about the context in which the ideas are developed and promoted. They point to the strategic use of discourse by policy-makers aiming to insulate otherwise problematic policy positions from criticism. In so doing they add a necessary layer of complexity to a discourse based approach by alerting us to the need to keep the distinction between private and public discourse in mind. Moreover, Rosamond and Hay stress the conscious depiction of both globalisation and European integration as external imperatives driving a reform course with which policy makers may not wish to be associated, not least because of the expected electoral backlash that such a course (fiscal austerity and welfare retrenchment) is associated with. Schmidt and Radaelli<sup>10</sup> clarify that the study of discourse should coexist with the awareness that interests also matter, as well as material conditions and 'hard' economic variables. Empirically, what is interesting is to shed light to cases where discourse proves central in the development of events and to pick the exact time and the agents that are responsible for its development.

Discourse has a coordinative and communicative element. These are in practice often overlapping yet it is important to separate them from one another for analytical purposes. Communicative discourse refers to the usages of political language that actors employ so as to pass their messages on to the electorate or other groups. This is a crucial task, particularly if changes to the current policy stance are anticipated to meet with opposition from organized groups. Coordinative discourse, on the other hand, is a more esoteric exercise whereby key policymakers and actors seek to arrive at a common discursive platform and send out a coherent message by coming into close communication and working in a more or less unified manner to achieve the goals set. Both types of discourse will be employed in the analysis that follows, with particular reference to the relationship between the European Council and the European Commission. It should be stressed that communicative discourse is mostly at work here with reference to the Commission, not least because of its role in promoting flexicurity to individual member states and the Union as a whole. Coordinative discourse arises when it comes to intra-institutional relations

8 P. Hall, *Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain*, [in: ] *Comparative Politics*, 25(3), pp. 275-96, 1993; M. Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press 2002.

9 C. Hay & B. Rosamond, *Globalization, European Integration and the Discursive Construction of Economic Imperatives*, [in: ] *Journal of European Public Policy* 9 (2), pp. 147-67, 2002.

10 V. Schmidt & C. Radaelli, *Policy Change and Discourse in Europe: Conceptual and Methodological Issues*, [in: ] *West European Politics*, 27 (2), 2004, pp. 183-210.

(mainly Council-Commission and their sub-groups) but it also refers to the European Council itself, since it is made up by different voices whose coordination is not always a simple task. This is especially the case with flexicurity, as different member states wish to comply with Commission policies on flexicurity by highlighting those aspects of their labour market that are in harmony with the concept.

The debate on the relationship between globalization and Europeanization is a long and important one. It drives at the heart of the European Union's rhetoric concerning the constraints it faces in its political activism. This may in fact be merely a convenient way of masking its recent political priorities, over and above the real changes that globalization introduces. The literature on the subject is diverse and very interesting. Levi-Faur<sup>11</sup> in a study of the liberalization of telecoms and electricity regimes of EU and non-EU member states comes to the conclusion that Europeanisation matters in a less obvious and less critical way than globalisation. This finding is confirmed by the study of the Spanish and Portuguese telecommunications and electricity sectors<sup>12</sup>. Della Sala in his study of public sector reforms in Italy comes to the same conclusion. The argument is that Europeanisation plays an indirect role in the process of change and that there are global pressures that are more prominent. Finally, Verdier and Breen apply a quantitative research design in four different dimensions and observe that in policy areas such as the labour market and the capital market it is globalisation that mainly accounts for change while in electoral competition and centre-local government relations the EU plays an important role. Be that as it may, disentangling the influence of one over the other is often a daunting task.

One important dimension of the relationship between globalisation and Europeanization concerns the role of political leadership in shaping a particular discourse about globalization and the role of the EU in it. Concretely, the European Commission's discourse on the subject has been transformed over time, and a comparison between the Delors era and subsequent rhetorical action by the Commission highlights this crucial point.

## **Placing Flexicurity in Context: the Commission's Role through Time**

The choice of Delors as Commission President proved a watershed for European integration, not least through the Single Market project. Yet Delors was also among the first to propagate the idea of a European Social Model and saw this as an important precondition for the further balanced development of the Community. The economic and social dimension of the project had to develop in harmony to avoid precisely the sorts of

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11 D. Levi-Faur, *On the 'Net Impact' of Europeanization: The EU's Telecoms and Electricity Regimes Between the Global and the National.*, [in: ] *Comparative Political Studies*, 37 (1), 2004, pp. 3-29.

12 J. Jordana, D. Levi-Faur & I. Puig, *The Limits of Europeanization: Regulatory Reforms in the Spanish and Portuguese Telecommunications and Electricity Sectors.*, [in: ] *Governance*, 19 (3), 2006, pp. 437-464.

conflict that have come to light in the aftermath of the debt crisis and in the midst of a massive economic and unemployment crisis.

The Delors era saw an attempt to support policies that highlighted the salience of the ESM as a bulwark to pure market liberalism<sup>13</sup>. Under the leadership of Delors, economic integration and social policy went hand in hand, and that was due to the Commission President's desire to achieve upward harmonisation of socio-economic standards in the context of a 'European model of society'<sup>14</sup>. This was a political strategy, expressed in initiatives regarding social partnership and social policy legislation, which ran contrary to the depiction of globalisation as limiting Europe's room to manoeuvre. The European Social Dialogue, for instance, is a concrete manifestation of the attempt by the Commission to boost the European Trade Union Confederation (ETUC) and provide it with the institutional resources necessary to balance the influence of business interests in the further direction of the European experiment. The attempt was never fully successful and the two sides never reached power parity in the corridors of Brussels policy-making. Nonetheless, it underpinned the political desire by Delors and the Commission to make sure that the free market policy does not come to operate solely at the expense of working people thus alienating them from the idea of European integration itself.

However, the period following Delors' departure is a remarkably different one. Successive Commission Presidents have not undermined Delors' actions in theory, but have done so in practice. Though reference to the European Social Model was maintained and even strengthened, the Commission has come to embrace a particular mode of the European Social Model that saw it as a European solution to a constructed policy problem, namely that of lack of competitiveness. The difference with the Delors era could not be clearer. Social policy, and the notion of flexicurity among others, became part of an attempt to equip the individual with capacities allowing her to survive the pressures of a competitive, globalised economy instead of conceiving it as a solid pillar of the European model of society. This conceptualisation was part of an attempt to boost EU legitimacy and construct a European identity based on sharing not only problems, but also increasingly notions and concepts<sup>15</sup>, one of which is flexicurity.

In other words and as will be documented below, **the Commission failed to maintain the belief in the idea that the European model of society is worth preserving in its own merit, and that globalization cannot and could not impose external imperatives by way of a TINA logic. Instead, the Commission chose to portray globalization as**

13 M. Jepsen & A. S. Pasqual, *The European Social Model: an exercise in deconstruction.*, [in: ] *Journal of European Social Policy*, 15 (3), 2005, p. 234.

14 C. Hay et al., *Globalisation, European Integration and the Persistence of European Social Models*, Working Paper 3/99, POLSIS, University of Birmingham, UK 1999; p. 7.

15 K. Jacobsson, *A European Politics for Employability: the Political Discourse on Employability of the EU and the OECD.*, [in: ] C. Garsten & K. Jacobsson (eds.), *Learning to be Employable: New Agendas on Work, Responsibility and Learning in a Globalising World*, Basingstoke: Palgrave 2004, pp. 42-62.

an external reality over which the Union could not have any meaningful influence.

The next logical step, and the one with which we will preoccupy ourselves below, was to strip the original conception of flexicurity from the context within which it grew and turn it into a form of panacea that ails the troubles of neoliberalized economies under all weathers and regardless of context or pre-existing labour market structures and institutional idiosyncrasies. Such a course of action was part of an overall conception that assigned supreme powers to the free market and failed to anticipate the consequences of such an approach to peoples' sense of security in the workplace. Considering the centrality of the workplace in the formation of peoples' everyday experience and sense of self-worth and belonging this was a massive failure.

## Real Flexicurity Experiences: Denmark and the Netherlands as Paradigm Cases

### Denmark

Denmark is the country often cited as a paradigm case of implementing flexicurity policies. Back in 1993 the Danish government was facing the problem of reducing unemployment without bankrolling the state (high debt and deficit levels had to stay under control) whilst also making sure that welfare payments would not be reduced to an extent that would be socially and politically damaging. By introducing legislation and in cooperation with social partners, Denmark introduced flexicurity of a very specific kind: worker *flexibility* in terms of mobility across jobs and the ability of employers to fire people at short notice, social *security* through unemployment and other welfare benefits as well as an *active labour market policy* to support the maintenance of a pool of a well-qualified workforce<sup>16</sup>. It is important to note that all three of these elements were meant to work in tandem and not be seen in isolation from one another. The liberal doctrine of easy firing boosting flexibility was combined with a universalist welfare state of generous support in times of need as well as high state investment in providing for high-quality labour market programmes enhancing a swift return to work once workers had become unemployed.

The Danish economy soon rebounded and by early 2000s GDP levels were up, unemployment was down and inflation levels were under control. It would be exaggerated to claim that all of this was simply down to flexicurity, as macroeconomic policy decisions played a very important role too. However, it would be equally wrong to ignore the positive contribution of the Danish arrangements to the massive improvement in the country's economic performance.

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<sup>16</sup> P. K. Madsen, The Danish model of flexicurity: experiences and lessons, [in:] *Transfer*, 10(2), 2004, p. 189.

A final important point is due here: just like in the case of the EU, national experiences with flexicurity and the interpretations of this policy framework can vary. What was a successful introduction of a concept that could be used for progressive ends in the mid-90s changed quite radically after the early 2000s and the arrival of a new government. The centre-right administration put at the heart of its policy the need for job creation: labour market policy became more like an employment policy in its own right and isolated from other policy measures. Institutional complementarities were no longer at the centre of policy focus, and the important role of the social partners was progressively undermined<sup>17</sup>. Moreover, outsourcing activation policies to private firms was introduced by the time the crisis hit, and the governance structure of the programmes was changed as well. Finally, the benefits period for unemployment went down from four to two years without any changes in the level of benefits. Unemployment had remained very low for years but when the crisis hit it started climbing quickly, now hitting close to 6%. Meanwhile, GDP levels have fallen behind both Norway and Sweden, as the economy shrank by 0.5% in 2012<sup>18</sup>.

What the Danish example illustrates is important on different levels: first, it stresses the need to take heed of institutional traditions and labour market structures prior to policy design in various EU member states. Second, it reveals the salience and usefulness of flexicurity when designed in a manner that genuinely seeks to combine flexibility with security, delivering economic and employment results worth emulating. Finally, it also shows that flexicurity is not and cannot be a one-size-fits-all policy straightjacket, and that ideological and political choices can change the policy's content from within, transforming it into something similar to a workfare policy measure and stripping it off its progressive content.

### **The Netherlands**

The Netherlands provides more empirical evidence about the uses as well as abuses of flexicurity, and the difficulties associated with making this concept work under extremely diverse circumstances. Policy experimentation there began in the early 1980s, at which time unemployment tripled within a matter of a few years reaching almost 10%. By the 1990s, however, the Dutch administration had been able to throw the rate back to around 2.5% by implementing flexicurity-like policies, and even in the midst of the current crisis the Netherlands performs very well in a comparative context<sup>19</sup>. In 1999, the Flexibility and

17 H. Jørgensen, *Danish "flexicurity" in crisis – or just stress-tested by the crisis?*, Berlin: Friedrich Ebert Foundation, March 2011, p. 4.

18 P. Levring, *Denmark criticizes stimulus addiction missing structural fix.*, Bloomberg.com, available at: <http://www.bloomberg.com/news/2013-08-14/denmark-warns-against-stimulus-addiction-missing-structural-fix.html> Retrieved: August 16, 2013

19 W. van Oorshot, *Balancing work and welfare: activation and flexicurity policies in the Netherlands, 1994-2000*, [in: ] *International Journal of Social Welfare*, 13, 2004, p. 16.

Security Act adopted by the Dutch government and in cooperation with the trade unions and employers set out a maximum number of successive fixed- and part-time contracts, as well as offering a better legal status for temporary agency workers. However, the social partners acquired the right to negotiate at local level possible deviations from the rules set at central level<sup>20</sup>. They have made ample usage of this provision since.

The impressive drop in unemployment noted above – and the sharp rise in employment levels (especially for women) that has been achieved at the same time – masks qualitatively important elements that need to be part of the analysis. To start with, the sharp drop in unemployment was largely achieved as a result of two parallel trends: first, the flexibilization of the workforce and secondly the rapid increase in part-time jobs. To start with flexibilization, one in five jobs created in the 1990s was a so-called ‘flexi-job’. Though this trend became less intense through time, it was strongly present during the upturn. Importantly, available statistics point to the unequal distribution of flexi-jobs in terms of who actually performs them. These jobs are primarily done by the young, ethnic minorities and women, all of them vulnerable groups on their own merit and even more so in today’s labour market. The second important element in the drop of the unemployment rate was the sharp increase in part-time jobs, which constituted approximately 50% of all newly created jobs in the 1990s. The Netherlands have had a reputation for a relatively high number of such employment contracts already in the 1980s following the Wassenaar Agreement, but the trend accelerated sharply in the decade that followed. Part time jobs as a percentage of all paid employment stood at about 34%, the highest rate in the OECD world, at the end of the 1990s<sup>21</sup>. Just before the outbreak of the crisis the percentage had hit 47%, almost three times the number of part-time workers in the EU27<sup>22</sup>. Moreover, part-timers again tend to be mostly women (65%) whereas men only do part-time work at the much lower rate of 17%. The high number of part-timers and especially atypical work in the Dutch flexicurity context means that such employees are particularly vulnerable. Most temporary agency workers have no right to severance pay and have fewer social security rights compared to open-ended contract employees<sup>23</sup>. These remain, despite legislative provisions to tackle labour market discrimination introduced in the 1990s, such as the Prohibition of Discrimination by Working Hours Act. The Dutch debate on flexicurity rages on and the social partners are today less united in their approach than before. It is worth noting that adopting the original legislative package that led to a rise in employment levels and a reduction in unemployment (but much less so for people with an ethnic minority background) was only possible through the cooperation of the social partners at central level.

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20 F. Tros, *The Netherlands: flexicurity and industrial relations.*, *EIRO*Online, 15 September. Available at 2009: <http://www.eurofound.europa.eu/eiro/studies/tn0803038s/nl0803039q.htm> Accessed on: 19 August 2013.

21 OECD, *Employment Outlook*, Paris 2000.

22 L. Bovenberg et al., *Flexicurity: lessons and proposals from the Netherlands.*, *CESifo DICE report 4/2008*.

23 *ibidem*.

Beyond the two paradigm states, other countries have over time been influenced by the debate as well as by the desire by the Commission to place flexicurity at the heart of the EES and national reform programmes. The available empirical results point to the importance of contextual factors in adopting parts of the flexicurity policy mix, and institutional factors are of primary importance. One study on the subject reveals that Eurosceptic political parties in countries such as Italy and Poland would tend not to embrace the flexicurity approach in contrast to more Euro-friendly administrations. The ideological persuasion of the coalition in question is of secondary importance here. This is also separate from the question of successful policy transposition (by raising employment rates or activating the workforce for instance)<sup>24</sup>. Moreover, the success of flexicurity is heavily dependent on the overall economic context: the crisis forces states to up social expenditure to counter the by-products of stagnation whilst firms try to remain competitive by relying on enhanced flexibility in the form of a 'hire and fire' approach. From a progressive point of view, this is not particularly welcome.

## **The EU Perception of Flexicurity<sup>25</sup>**

### **The EES**

The EU launched its European Employment Strategy (EES) in 1997. The EES began to take shape in the mid-1990s and in the context of a welfare crisis brought about by rising unemployment and mounting pressures on social expenditure budgets. Following the 1994 Essen European Council and the publication of the Commission's White paper on Growth, Competitiveness and Employment, the Council opted to adopt a strategy located between solidarity and competitiveness. Following years of debate and contrasting priorities by different member states, agreement was finally reached in the 1997 Amsterdam Summit as to the content of an Employment Strategy for Europe: following the path first opened by EMU and the Maastricht Criteria adopted a few years earlier, it was decided that employment policy should also be fuelled through a multilateral integration process. The fact that the EES became integrated in the 1997 Amsterdam Treaty added to its significance. The principal aim of the EES was to promote policy coordination with each member state working through its own institutional methods towards achieving commonly agreed goals.

On that basis, the Council adopted nineteen Employment Guidelines centred on four themes: adaptability (new forms of flexibility), employability (emphasis on active labour

24 A. Gwiazda, *The Europeanization of flexicurity: the Lisbon strategy's impact on employment policies in Italy and Poland*, [in: ] *Journal of European Public Policy*, 18(4), 2001, pp. 546-65.

25 This section draws heavily on D. Tsarouhas & S. Ladi, *Globalisation and/or Europanisation? The Case of Flexicurity*, [in: ] *New Political Economy* 18(4), 2013, pp. 480-502.

market policies enabling labour market entry and participation), equal opportunities (encourage an increase in female employment rates) and entrepreneurship (SMEs, start-ups and entrepreneurial skills). On the basis of these Guidelines, every member state would draw a National Action Plan (NAP) explaining how it intended to put these Guidelines in practice and in line with its own institutional background. The Council, the Commission and other member-states could then scrutinise the success of the strategy, while the Commission and the Labour and Social Affairs Council would synthesize the National Reports and assess both individual performances and EU-wide performance.

The result of this synthesizing and mutual monitoring is the Joint (by the Commission and the Council) Employment Report, next to the Commission's own Annual Report on employment performance. Moreover, an Employment Committee consisting of two representatives from each member state and two Commission officials was set up to draft the Guidelines and monitor progress. Employment Guidelines have been revised annually. After 1999, policy reforms on the basis of the NAPs started to be implemented. After the 2000 EU Summit in Lisbon and the 2001 Stockholm Summit, the EES has also encompassed 'horizontal objectives', namely a) reaching specific overall employment targets, female employment and old people employment targets, b) promoting quality of work and lifelong learning, c) further incorporating the social partners in the process, d) striving to achieve full employment.

In 2002, the first 'impact assessment' exercise took place, taking stock of 5 years of EES. The overall conclusions pointed to signs of convergence of employment policies of member states and structural improvements in the EU labour market, whilst also pointing out the persistent misfit between tax and social policies in some member states. Finally, in 2005 the EES has been reformed altogether: following a re-emergence of sluggish growth and persistently high unemployment levels, the Commission decided in July 2005 to revamp the EES. Guidelines are now presented in conjunction with macroeconomic and microeconomic policy guidelines (attempting to sever the link between economic and labour market policy) for a three-year period. The so-called 'Integrated Guidelines for Jobs and Growth' form the basis for the successors of the NAPs, the National Reform Programmes.

## The EU on Flexicurity

Given that the EES is the core theme of the Union's labour market agenda, it is noteworthy that flexicurity has been seen from early on as a way of making the EES work. In 1997, the Commission published a Green Paper named 'Partnership for a new organization of Work' stressing that a more flexible labour market coupled with security for workers was key to modernize the labour market and face contemporary challenges<sup>26</sup>.

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26 European Commission, *Partnership for a new organization of work*, COM(97) 128 final, Luxembourg: OPOCE, 1997.

As states such as the Netherlands started legislating on that direction, interest on what could be used at EU level and what lessons could be drawn from national experiences grew. A factor that added to the salience of flexicurity was the desire by the Commission to promote a policy discourse around the Europeanization of labour market policy, thus enhancing its own role in the process. In the 1997 document and as evidenced in the title, the Commission underlined the importance of bringing on board the social partners and other relevant stakeholders to redesign Europe's labour market for the 21<sup>st</sup> century. This rhymed well with the Dutch experience as outlined above, and displays an understanding of the need to adopt an integrated approach when dealing with an issue intimately linked to the pensions system, tax system, enterprise restructuring and social security. Yet in other parts of the document a tendency that became manifest through time also emerges, a tendency to assign some unshakable qualities to labour market dynamics over which states and/or the social partners are seen as having little influence.

To start with, the Green Paper refers to the 'challenges' confronting the modern labour market as follows: 'human resources, markets and technology'<sup>27</sup>. There is no attempt to explain at this stage the origins of these challenges (save for a brief reference to the 'flexible firm' and the changes in production techniques introduced over the last few decades) as well as the less-than-benevolent implications they may carry if left unchecked. In further reference to how policy makers should respond to those challenges there is explicit reference to the need, *inter alia*, to 'develop more flexible organizations in the public services' and to 'change the wage systems along with the organizational structures on which they are based'. It does not take too much to argue that if such restructuring was to take place (and in a growing number of countries we by now do have private provision of public services as well as decentralized wage bargaining systems) the end result would be a lessening of the security factor in flexicurity in favour of enhanced flexibility.

One could pretend that this has minimal distributional consequences and that it does not pit the world of labour (organized or individual) against employer interests. The reality is that it does, and failure to acknowledge that is a major shortcoming of the exercise, despite the fact that the Commission is explicit in arguing that the foundations of the current (or 'traditional') patterns of industrial relations and labour law ought to be revisited<sup>28</sup>. **Fundamentally, what should be at stake in the debate over flexicurity is to strike the right balance between flexibility for employers and security for employees, taking into account the changing labour market and addressing the needs of both sides.**

The Green Paper of 1997 became the starting point for a series of document and policy positions that the EU would adopt through time on the issue of reforming the

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<sup>27</sup> Ibidem

<sup>28</sup> T. Weber, *Commission seeks to encourage debate on new forms of work organisation*, EIROOnline, 28 July 1997. Available at: <http://www.eurofound.europa.eu/eiro/1997/07/feature/eu9707134f.htm> Retrieved on 20 August 2013

labour market. Flexicurity itself was not mentioned explicitly in that document. The European Commission started referring to the concept in the 2000 Lisbon Strategy and the perceived successes of flexicurity at national level. In the year 2001 the Employment Guidelines included an explicit reference to the need to achieve a better balance between private and working life by combining flexibility with security<sup>29</sup>. In 2003 and 2005 the Guidelines were revised to reflect a balance between flexibility and employee security in labour market reform. After the 2006 Villach meeting on social and employment policy the concept of flexicurity was officially adopted by the Commission and since 2007 flexicurity and associated policy concepts are part of the European Employment Strategy (EES)<sup>30</sup> and were included in the 2008-2010 EES Guidelines. The Villach Summit was very important: though only an informal meeting, it came up with a working definition of flexicurity that centred on flexible and reliable contractual arrangements, effective active labour market policies, comprehensive lifelong learning strategies and modern social security systems<sup>31</sup>.

The precise definition of flexicurity and thus its coordinative discourse remained contested and the European Council requested that the Commission come up with common flexicurity principles. These could then be integrated in the Lisbon Strategy and be part of the National Reform Programmes. In 2006 a Commission Green Paper called for 'open dialogue' on how to understand flexicurity, a process that would involve 'member state governments, social partners and other relevant stakeholders'. In a 2007 Communication the Commission outlined eight principles. Flexicurity meant 'flexible and reliable contractual arrangements, modern social security systems, effective labour market policies,' a balance between rights and responsibilities' as well as internal and external flexicurity' to help employees make beneficial labour market transitions<sup>32</sup>.

The Commission sought to coordinate its discourse on flexicurity with the relevant social partners, primarily ETUC, CEEP and BusinessEurope. These 'stakeholders' would have the opportunity to address the Commission directly as they are official EU social partners. Their different responses reveal their divergent views on the concept and the underlying tensions around the concept that the Commission has had a difficult time in making less visible. While the ETUC worried that flexicurity was turning into an issue associated with 'flexible' (read easy) layoffs<sup>33</sup>, BusinessEurope welcomed the Commission's initiative since

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29 T. Withagen & F. Tros, *The concept of "flexicurity": A new approach to regulating employment and labour markets.*, [in: ] *Transfer*, 10 (2), 2004, pp. 168 2004.

30 A. Tangian, *European flexicurity: concepts, methodology and policies.*, [in: ] *Transfer*, 13 (4), 2007, pp. 553.

31 M. Maillard, *The common European flexicurity principles: how a fragile consensus was reached.*, [in: ] *European Journal of Industrial Relations*, 16 (3), 2010, pp. 244. [http://www.eu2006.at/en/News/Press\\_Releases/January/2001bartenstein.html](http://www.eu2006.at/en/News/Press_Releases/January/2001bartenstein.html)

32 European Commission, *Towards common principles of flexicurity.*, COM (2007) 359 final 2007, p.4.

33 ETUC, *The flexicurity debate and the challenges for the trade union movement*, Brussels: 21 March 2007. Available at: [http://www.etuc.org/IMG/pdf/Depliant\\_Flexicurity\\_EN.pdf](http://www.etuc.org/IMG/pdf/Depliant_Flexicurity_EN.pdf) [Accessed: 5 June 2011].

flexicurity could help member states tackle 'structural labour market problems'. A positive approach was also echoed by Eurochambres and UEAPME<sup>34</sup>. We will return to the stance of the social partners, and especially the ETUC, in the last but one section of the paper.

The flexicurity approach endorsed by the Commission is emphasizing the need to maintain financially sound budgetary policies since 'flexicurity policies have budgetary costs', pay particular attention to SME needs when considering the financial implications of a flexicurity programme and use social protection policies to facilitate workers' mobility. While the cornerstone of flexicurity's interpretation is geared towards enhancing EU competitiveness primarily by facilitating enterprise restructuring, the approach is described as a 'win-win' strategy consistent with the ESM. This aspect of the EU discourse results from member states' desire to see their national priorities reflected in the concept so as to adjust it to their own political and economic circumstances, and at the same time be seen as in compliance with Commission recommendations on labour market reform.

The Commission's discourse is promoting a particular labour market pathway that goes through the implementation of a particular type of flexicurity. This discourse is essentially twofold. First, it asserts that flexicurity emerges in parallel to globalisation's inevitable arrival and second, is intimately connected to technological change and the revolution the latter has caused in the production, consumption and lifestyle habits of employers, employees and citizens alike. According to the Commission flexicurity is the logical point of arrival following technological progress, which is inevitably bound to affect peoples' working lives at different levels. The 2007 European Experts' Group identified four factors that led to structural economic change. Two of them are the 'rapid development of new technologies' and the 'fast pace of international economic integration'.

The second paragraph of a 2007 Commission Communication reads as follows: 'overall, globalisation is beneficial for growth and employment, but the change it brings requires rapid responses from enterprises and workers'<sup>35</sup>. There is little doubt therefore that globalisation ought to be welcomed as a process that enhances Europe's welfare. The next step should be to make fuller use of its allegedly beneficial effects by preparing both the workforce and enterprises for globalisation's set of inescapable 'demands'.

The relationship between globalisation and the ESM is framed in such a way that makes: **a)** the process of change endogenous to ESM and not the result of a need to respond to globalisation **b)** the necessity of change inescapable and **c)** the direction of change towards more flexible labour market arrangements inevitable, considering that globalisation comes together with pressure for enhanced levels of competitiveness.

34 *Euractiv, Trade unions sceptical of EU flexicurity plans*, 2007, Available from: <http://www.euractiv.com/en/socialeurope/trade-unions-sceptical-eu-flexicurity-plans/article-165010> [accessed 26 June 2011].; Eurochambres 2007; UEAPME 2007)

35 European Commission, *Commission Communication on flexicurity*, MEMO/07/256, Brussels 2007, p. 3.

After all, and as the Commission states in its 2007 Communication on flexicurity,

*To confront the multiple challenges of a fast-evolving global economy and an ageing workforce, the European Union needs to find new and better ways of making its labour markets more flexible while at the same time providing new and better forms of employment security*<sup>36</sup>.

What the Commission suggested, was in effect that the traditional employer vs. employee dynamic had now been *replaced* by the insiders vs. outsiders dichotomy, whereby those on secure, open-ended contracts enjoy a myriad of benefits whereas those outside the labour market (or precariously seeking a place in it) are in effect punished by the insiders and are consequently obliged to try and make ends meet from a very disadvantaged position<sup>37</sup>. No doubt there is more than a kernel of truth in that. Particularly in Southern and Eastern Europe, outdated labour legislation and an interest group approach to collective action, often by the trade unions and always in the name of abstract high ideals, has ended up asphyxiating the local labour market leaving the young, women, ethnic minorities and other vulnerable groups feeling detached and sometimes hopeless. It would be foolish to suggest that reform is not necessary in those countries or that some of the practices displayed there are not indeed reminiscent of an insider vs. outsider dynamic.

This, however, is very different from arguing that the employer vs. employee dynamic has somehow magically disappeared in the brave new world of 21<sup>st</sup> century European labour markets. **In fact, it would be more accurate to state that this new dichotomy is part and parcel of the original antagonism between labour and capital, as it reflect the old capitalist dynamic of accumulation and the ability of capital to adjust to changing circumstances, not least in a world where politically determined process of liberalization have opened the way for more precarious work, a shrinking number of 'safe jobs' and widespread insecurity as to the future. The fact that the Commission has chosen to ignore this reality must be underlined, for it suggests that this is different from a neutral exercise seeking to find workable arrangements.**

Clearly then, flexicurity may (or indeed ought to) take different forms in different member states. But the challenge to Europe's economic standing and social cohesion is said to be common to all, and flexicurity serves as a rallying cry to bring diverse systems under a common roof operating on the basis of a common flexicurity manual. In this vein the Commission launched the 'Mission for Flexicurity' in 2008, an expert group comprising diverse stakeholders (Commission, European Council, social partners) to 'promote the

<sup>36</sup> European Commission, *Towards common principles of flexicurity.*, COM (2007) 359 final, 2007, p. 1.

<sup>37</sup> European Parliament, *Green Paper "Modernising labour law to meet the challenges of the 21<sup>st</sup> century.*, Briefing Note IP/A/EMPL/NT/2007-5, PE 385.633, 2007.

implementation of flexicurity in different national contexts by *raising the profile of the flexicurity approach*<sup>38</sup>.

More evidence pointing to the Commission's activism has emerged. Officials from the Directorate General for Employment and Social Affairs have pushed for flexicurity in the formative stages in 2006 to strengthen the European Employment Strategy (EES) and reconcile the different views on flexicurity that existed among European Council members<sup>39</sup>. In 2007 it was again Commission officials who arranged a last minute compromise between the social partners on flexicurity ahead of the European Council meeting of that year and aware of the persisting differences between member states<sup>40</sup>. Such activism has allowed flexicurity to remain high on the agenda and be perceived, albeit with increasing scepticism on the part of the unions, as a satisfactory response by the EU to the 'challenge of globalisation'<sup>41</sup>.

This is corroborated by evidence stemming from both the Commission and Council (Secretariat and the Employment Committee [EMCO]). The Council Secretariat, in flexicurity-related documents sent to the Employment Social Affairs, Health and Consumer Affairs Committee (EPSCO) in 2007 and 2008 uses a necessarily guarded language on flexicurity. It repeats the mantra of inevitable globalisation and technological change, sees those as necessitating 'far-reaching economic restructuring' and identifies flexicurity as a solution because it allegedly allows both employees and employers to 'take a wider view' on the issue of restructuring<sup>42</sup>.

The EU's coordinative discourse is to a large extent driven by the Commission on whom the European Council relies to coordinate national positions and engage in dialogue with stakeholders. Both the Commission and the European Council use a discourse that links flexicurity to globalisation's alleged *real* policy impact and its *inescapable* constraints and challenges. This, in turn, is a reflection of policy choices made by member states at the domestic level and which they wish to see reflected at EU level and beyond. In that context, then, it is convenient for member states to argue that the 'necessities' of globalisation call for the adoption of flexicurity. In other words, a particular type of interpretation is ascribed to globalization, which then combines with domestic political imperatives to push flexicurity on the EU agenda.

38 European Council, *Implementation of the common principles of flexicurity.*, 17047/1/08 REV 1 (en), 2008, p. 4.

39 M. Mailland, *The common European flexicurity principles: how a fragile consensus was reached.*, [in: ] *European Journal of Industrial Relations*, 16 (3), 2010, pp. 244.

40 M. Mailland, op. cit. 2010, p. 248.

41 D. Tsarouhas & S. Ladi, *Globalisation and/or Europeanisation: the case of flexicurity.*, [in: ] *New Political Economy*, 18(4), 2013, pp. 480-502.

42 European Council 2008:, p.4 quoted in D. Tsarouhas & S. Ladi, op. cit. 2013.

## Communicative Discourse

The Commission is the EU's protagonist in communicating a particular type of discourse on flexicurity. This is both because of its institutional role regarding coordination, and its desire to enhance its own role within the EU by highlighting the significance of flexicurity and policies, such as the EES, that flow from it. It is important that in this type of discourse globalisation is used less as an empirical reality and more as a conceptual framework that necessitates action in establishing a 'European labour market'. The European Council stresses the need to

*'Promote the awareness of citizens of flexicurity policies and their importance for the reform of European economic and social models'<sup>43</sup>.*

The use of plural on Europe's diverse socio-economic systems is a confirmation of an empirical reality but also a potent reminder of divisions between European Council members regarding flexicurity. It is for that reason that the Expert Group chaired by Ton Whilthagen identified four 'pathways to flexicurity'. These reflected some of the common challenges faced by member-states, but had to be drafted in a general manner so as not to identify particular member-states and not exclude others. The pathways entail 'tackling contractual segmentation', flexicurity within the firm, tackling opportunities and skills gaps among the workforce and improving labour market chances for benefit recipients and the informally employed<sup>44</sup>.

In a 2006 Communication the Commission argued for the need to see flexicurity in a pan-European context:

*It is important to put the issue of flexicurity in the broader context of the European employment strategy and at the same time not to make the flexicurity discussion into a debate about any of the individual components alone<sup>45</sup>.*

This would then allow the Commission to retain a commanding role in the process. In this 2006 document the Commission makes clear that the aim of strengthening the EES through flexicurity ought not to be hampered by individual preferences for one or other flexicurity element. Instead, it is the adoption of flexicurity by more and more member states that becomes the goal, leaving the actual content of labour market policy resulting from this adoption a bit vague.

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43 (emphasis added, European Council *Implementation of the common principles of flexicurity.*, 17047/1/08 REV 1 (en), 2007, p. 3.

44 European Expert Group, *Flexicurity Pathways: Turning hurdles into stepping stones.*, Brussels: June 2007.

45 European Commission, *Modernizing labour law to meet the challenges of the 21<sup>st</sup> century.*, COM (2006) 708 final 2006, p. 1.

In its Communication entitled 'towards common principles of flexicurity' the Commission emphasized that the Lisbon targets need to be fulfilled by member states 'and the Union' so as to secure that 'Europe' can adjust to the 'shocks imposed on its economy'<sup>46</sup>. The common principles were put in place so that member states would learn from each other. Moreover, mutual learning and benchmarking should be used to successfully implement the Lisbon Strategy<sup>47</sup>.

By 2010 and whilst assessing the Lisbon project, the Commission declared that member states had moved forward with flexicurity in terms of policy learning and within the context of the Open Method of Coordination, the preferred way of Europeanizing labour market policy at EU level<sup>48</sup>. The document argued that flexicurity had been a success and represented the ability of 'Lisbon to stimulate and frame policy debates and generate mutually acceptable solutions...'<sup>49</sup>. The discourse on flexicurity was thus utilised by the Commission to push forward its agenda on the Europeanisation of labour market policy.

In 2011 the Commission adopted its 'Europe2020 Agenda for new skills and jobs' aiming *inter alia* at an employment rate of 75 per cent by the year 2020<sup>50</sup>. Stressing that flexicurity had helped many member states weather the economic crisis yet vulnerable groups had been hit hard by it, the document underlined the need to strengthen flexicurity in the post crisis period and rebalance its four components to adjust to the new environment<sup>51</sup>. The absence of such rebalancing is now more apparent than ever and, as suggested above, far from accidental. More importantly and as mentioned above, the contribution of flexicurity to weathering the crisis is far from clear. The Commission uses 'potential employment output levels' in calculating member states' performance, and the fact that these are 'potential' leaves a lot of room for different interpretation and *ipso facto* analysis. Finally, flexibility has been shown to have only a second order effect on employment and therefore not lie at the heart of the factors accounting for employment growth<sup>52, 53</sup>.

## **Flexicurity in Action: an Empirical Critique**

The discourse discussed in the previous section allows the EU and in particular the Commission to portray flexicurity not only as congruent with its vision of Europe's political

46 European Commission, *Commission Communication on flexicurity*, MEMO/07/256, Brussels 2007, p. 3.

47 European Commission, *Towards common principles of flexicurity.*, COM (2007) 359 final, 2007, p. 10.

48 European Commission, *Lisbon strategy evaluation document.*, SEC(2010) 114 final. 2010, p. 7.

49 European Commission, *ibidem*, p. 3.

50 European Commission, *Europe2020: An Agenda for new skills and jobs* Luxembourg: Publications Office of the European Union 2011.

51 European Commission, *ibidem*, p. 7-8.

52 See: S.Hauptmeier et al., *Methodische Fragen mittelfristiger gesamtwirtschaftlicher Projektionen am Beispiel des Produktionspotenzials*, Mannheim: ZEW Economic Studies 2009.

53 I thank Ronny Mazzocchi for alerting me to this aspect of the debate.

economy but also as a paradigm that balances employee and employers' interests. However, as Keune and Jepsen<sup>54</sup> point out, there is little intrinsically new in this debate. Member states have long been using elements of flexicurity in their domestic systems. Their record in combining flexibility with security is mixed, depending on a whole series of institutional factors most of which have little to do with the alleged 'imperatives of globalisation'. It is therefore plausible to argue that the Commission has sought to utilise this debate to disseminate its preferred knowledge on how to deal with contemporary 'economic realities', and at the same time strengthen its institutional position within the Union. In the absence of a European labour market to which some form of flexicurity could be put in practice, the current argumentation by the Commission remains unconvincing.

There are more issues that the debate as discussed here highlight and are worthy of attention. First, the approach adopted by the Commission ever since the 1997 Green paper implies the overcoming of class-based antagonism in the labour market, preferring to choose the (existing) imbalances that pit insiders against outsiders. This is an a-historical approach to the evolution of labour markets and social policy alike. It also means that searching for a successful solution to the growing problem of unemployment will become even more difficult, since the notion of employee empowerment is rendered a historical relic with little relevance to today's conditions. There is, however, a growing body of statistical data that points to growing employee alienation manifested in the form of increased stress levels and declining job satisfaction. Addressing those issues through forms of employee involvement in the running of enterprises is not an anachronism, but one of the ways to tackle the lack of engagement in the workplace often leading to deteriorating work conditions. The Commission used to make references to the need of adopting such a strategy, which is a genuinely modern way of addressing labour market challenges. Recently, Employment Commissioner Andor suggested that a Scoreboard of social indicators be integrated into the European Semester so as to identify worrying trends in the labour market early. Undoubtedly a step in the right direction, the Scoreboard is unlikely to have much of an impact to the extent it remains tied to the 'policy recommendations' framework frequently ignored by governments, and foresees no implementation mechanisms in case its results point to persistent policy failures.

Factors pushing the debate forward (or are being promoted by the Commission) are not neutral at all. Adopting the discourse of 'globalization' and 'markets' hides away the fact that MNCs and factor capital more general is *already* enjoying systemic benefits over employees in terms of mobility, easiness of investment in a liberalized economic framework and so on. The uncertainties and challenges that have recently risen are not

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54 M. Keune & M. Jepsen, *Not balanced and hardly new: the European Commission's quest for flexicurity.*, [in: ] H. Jørgensen & P.K. Madsen (eds.), *Flexicurity and Beyond: Finding a New Agenda for the European Social Model*, (Copenhagen: DJØF Publishing), 2007, pp. 189-214.

therefore external to the debate but intrinsic to the nature of contemporary capitalism<sup>55</sup>. Any flexicurity debate that genuinely seeks to reconcile the conflicting attitudes of the two sides ought to begin from that premise but this has failed to materialize in practice. In other words, the flexicurity debate has been political for a long time (though few actors dared to admit it), and has become ever more politicized over the past few years.

This is one reason as to why ETUC has adopted an increasingly sceptical stance towards flexicurity. It is noteworthy that the organization welcomed the debate in its early phase, contributed to the stakeholders consultation exercise as seen above and sought to play a constructive role in promoting its agenda. In recent times, however, the tone has soured even further on the part of the European trade unions. The most recent statement of ETUC on the subject posted on its website discusses the origins of the concept but then goes on to state that

*The current flexicurity debate favours business at the expense of workers, placing greater emphasis on relaxing rules for hiring and firing, on dismantling labour standards and job protection, and imposing tough conditions for social support, thereby providing business with the opportunity to downgrade the quality of jobs and work contracts.*<sup>56</sup>

A further issue raised in the literature relates to the usefulness of the concept. Hyman<sup>57</sup> has argued that 'flexicurity' is little more than a 'composite resolution' whereby an attempt is made to combine what are linguistic opposites with the aim to apply them both to any possible mix of public policies. The criticism is far from trivial. **As has been shown above, a conscious attempt is often made by the Commission to obscure the inevitable differences between different state policies so as to reach an acceptable minimum denominator that will allow it to proclaim flexicurity as a 'European' policy and thus link it to its own policy initiatives. This often means that the essence of the flexicurity policy mix is diluted leading to sub-optimal policy outcomes.** In addition, this tendency is problematic because it shies away from confronting the very real policy challenges that many states face in terms of low employment rates for vulnerable groups and inadequate investment in education and skills programmes. This, then, offers states the chance to argue that they abide by flexicurity policy recommendations whilst all they do in reality is pay lip service to a fuzzy concept and go on with business as usual.

**Finally, the debate on flexicurity has tended to be superficial in terms of its empirical reach to the extent it has remained tied to the national level of labour**

55 L. Burroni & M. Keune, *Flexicurity: a conceptual critique*, [in: ] *European Journal of Industrial Relations*, 17(1), 2011, p. 84.

56 <http://www.etuc.org/r/1118>

57 R. Hyman, *Trade unions and the politics of European integration.*, [in: ] *Economic & Industrial Democracy*, 26(1), 2005, pp. 9-40.

market arrangements and welfare provision. The fact of the matter is that modern economies are internally much diversified and that different regions will often have very different needs<sup>58</sup>. This is particularly pronounced in those states marked by high intra-regional inequality in terms of access to capital, entrepreneurship, education levels and skills. Countries such as Italy and Greece spring to mind, and it is little accident that they suffer from high youth unemployment rates. A targeted flexicurity approach that would take into serious consideration local needs and help design local institutions in ways that will add value to the local economy is therefore required to overcome this limitation.

## Conclusion

What are the conclusions one can draw from this analysis? Starting from the more theoretically inclined aspect of this paper one could stress that as far as the coordinative discourse is concerned, the EU counts on *external consultation*, that is, consulting relevant NGOs, associations, employer and firm federations and trade unions. It does so as a result of its 'stakeholding' understanding on public policy and its desire to incorporate views outside the institutions so as to legitimise its role and function. The main form of coordination at EU level resides with the efforts undertaken primarily by the Commission, often in cooperation with the European Council. **As it has been shown, the Commission after the Delors era and the European Council identify globalisation as a real policy constraint in the labour market calling for change, hence their embrace of flexicurity. This type of stakeholder exercise has in recent years reached its limits, in parallel to the drop in enthusiasm for the concept displayed mainly by the trade union side.** Since the Commission continues to stress that a consensual approach by the social partners is necessary (if only in theory) this is pretty much inevitable.

Whereas the EU uses globalisation as a policy constraint when coordinating its discourse on flexicurity, communicative discourse reveals that the Commission makes use of globalisation as a rhetorical device to strengthen its own role within the Union's institutional matrix and division of power. Concretely, the Commission seeks to expand the implementation and use of flexicurity so as to strengthen its own role in the EU, given the key role it plays in coordinating the Union's and member state policies in that field through initiatives such as the OMC and policy instruments such as the EES. This tendency has been reinforced in recent years. By now flexicurity is at the centre of the next noble EU initiative, the Europe2020 strategy. Moreover, the institutional restructuring under way which promotes closer Commission surveillance of national reform programmes means that a form of flexicurity becomes a precondition for the successful implementation of labour market goals. Flexicurity may not be discussed as intensely as a few years ago, but the policies associated with the concept are more prevalent than ever.

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58 L. Burroni & M. Keune, op. cit., 2011.

The EU is often depicted as an antidote to globalization, a form of regional resistance to its more extreme elements. **The paper has argued by contrast that the EU is not acting as an antidote to globalisation's alleged imperatives on labour market reform. Rather, it sees itself constrained by globalisation in what it can do.** The implications of this approach are far-reaching. They suggest that, should the parameters of the EU discourse concerning labour market reform remain unchanged, the Union is likely to continue trying to exit the economic crisis by adopting yet more 'flexibility' policies at the expense of employee security. If globalisation calls for more competitiveness via more flexible labour markets, a paradigm well established in the EU today, then the lure of flexicurity will increasingly concentrate on its employer-friendly solutions and less on what it offers to workers. One could in fact argue that such a trend is already evident, and the ETUC position on the subject presented above suggests as much. The consequences of this approach are felt ever more intensely in the streets of Athens, Lisbon, Rome or Madrid. Taking all of the above into consideration, it is important to question the extent to which flexicurity is still the kind of concept around which policy makers and the social partners should seek to form a new labour market consensus. The term has acquired connotations that link it directly to a very partisan debate on labour market restructuring deemed by many as socially destructive and encouraging the further flexibilization of the labour market. The result of this is that it moves the EU away from its cherished Social Model, however defined.

**It may therefore be time to be imaginative in seeking to move beyond the narrow confines that the current flexicurity debate has acquired. Perhaps a more explicit focus on those aspects of labour market flexibility that promote work-life balance by taking nothing away from productivity would be a way to relaunch this extremely timely debate on a healthier footing. This would then be a call for a progressive definition of flexibility going beyond the current defensive stance adopted (for fully good reasons) by different actors.** A new terminology could thus accompany a new approach to the debate, highlighting those aspects of flexibility that serve the purpose of assisting employees rather than making their life all the more stressful and uncertain.

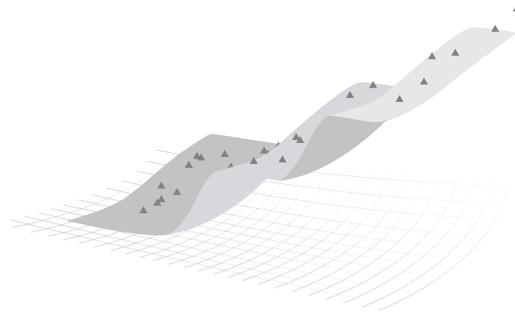
**A more explicit focus on those aspects of labour market flexibility that promote work-life balance by taking nothing away from productivity would be a way to relaunch this extremely timely debate on a healthier footing. This would then be a call for a progressive definition of flexibility going beyond the current defensive stance adopted (for fully good reasons) by different actors.**

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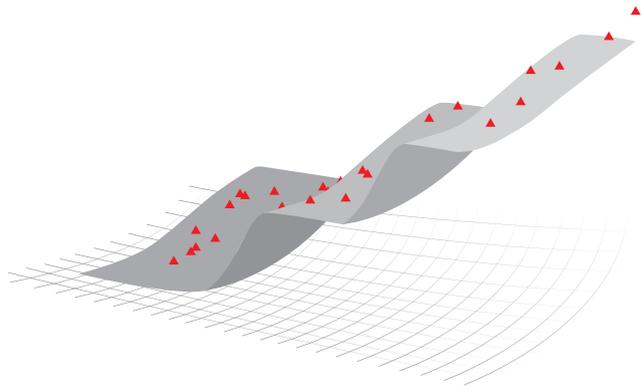


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Nadia CARBONI

# **Quality of Justice for a New Social Europe: Better Access, More Equality and Better Democracy**



**Keywords:**

**Gender Equality - Social Inclusion - Justice - Democracy - Public Value**

**Abstract:**

The following article debates a very challenging question about access to justice. This is a very important issue, strictly related to the functioning and working of democracy as a measurement of execution of a Social Europe based on public value. Access to justice has come increasingly to the fore in the last decades, due to the growing of cross-border disputes among European citizens and organizations. The author argues that improving access to justice could help in getting more equality and better democracy across Europe. By a public value approach, the article first analyses the main policies related to access to justice, which have been recently carried out in Europe. Then three main streams are sorted out: the information and communication technology (ICT) as enabler/facilitator, the citizens/users involvement, the key role of alternative dispute resolution mechanisms and bodies. Finally, the case studies analysis shows that all the above dimensions can contribute to get a fairer and stronger New Social Europe based on an easier, faster and cheaper access to justice especially for people in weak conditions such as the women and the poor. The question of access can be determined by a number of different factors, among them the empowerment of the women/poor in respective societies can play a decisive role. Hence, the more social partners and social services organisations are stronger and rooted in societies, the more individuals can have support, ask for advice and for representation.

The most recent comparative studies in the public administration field<sup>1</sup> highlight a deep transformation of the public sector in western democracies over the last three decades. The introduction and the adoption of the private sector assumptions, rationality, procedures and tools according to the New Public Management (NPM) and post-NPM paradigms have increasingly changed public organizations<sup>2</sup>. These paradigms have also been embraced in the administration of justice, inspiring a number of attempts to evaluate and improve the functioning of courts<sup>3</sup>.

However, the design principles advanced by NPM have been criticized by the public value school<sup>4</sup> that highlighted the contrasts between the NPM principles and the values that a public administration should support. This argument can be retrieved in the justice system evaluation literature where some authors<sup>5</sup> highlighted the frictions between the efficacy-oriented tenets of the NPM school and the values that justice systems should support as the equal access to justice. As an example, the introduction of ICT in the justice systems, as the NPM approach argues, may translate in a disparity of accessibility between the more and less technologically literated users.

**Within the public value perspective, a special attention is given to access to justice, as one of the key indicators of quality of justice. The citizens' access to justice is a tricky issue for improving individuals' rights to a fair trial. At the EU level, and more specifically at the level of trans-border cases, the lack of statistics available and the difficulty to provide up-to-dated information to citizens about their own rights is a serious problem and needs to be solved in order to give better services in the justice field.**

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1 E. Page & V. Wright (eds.), *Bureaucratic Élités in Western European States*, Oxford, Oxford University Press, 1999; Peters G. & J. Pierre, *Politicians, Bureaucrats and Administrative Reform*, London, Routledge, 2001; Pollitt, C. & J. Bouckaert, *Public Management Reform*, Oxford Press, Oxford, New York 2004.

2 N. Carboni, *Professional Autonomy vs. Political Control: how to deal with the dilemma. Some evidence from the Italian core executive*, [in:] *Public Policy and Administration*, Vol. 25, N. 4, p. 18.

3 F. Contini and D. Carnevali, *The quality of justice: from conflicts to politics*, [in:] Coman, R. and C. Dallara (eds.), *Handbook of Judicial Politics*, European Institute Editions, Iasi 2010; N. Carboni, *Il New Public Management nel settore giudiziario*, [in:] IRSIG-CNR, p. 5, 2012; N. Carboni & M. Velicogna, *Electronic Data Exchange Within European Justice: e-CODEX Challenges, Threats and Opportunities*, [in:] *International Journal For Court Administration*, p. 3, 2012.

4 A. Cordella & C. Bonina, *A public value perspective for ICT enabled public sector reforms: a theoretical reflection* [in:] *Government information quarterly*, 29 (4), pp. 512-520, 2012; A. Cordella & L. Wilcocks, *Government policy, public value and IT outsourcing: the strategic case of ASPIRE* [in:] *The journal of strategic information systems*, p. 18, 2013.

5 F. Contini & R. Mohr, *Reconciling Independence and Accountability in Judicial Systems*, [in:] *Utrecht Law Review*, vol. 3, N. 2, p. 35, 2007.

The paper investigates the extent to which judicial reforms have affected (and are affecting) the level of citizens' access to justice, by empirical accounts of the main policy trends across Europe. Among them, **the participation of citizens and principal users to the decisions that affect the service provided by Courts plays a key role as a measurement of execution of a Social Europe based on citizens' empowerment.** An example of this approach, are the participative experiences implemented in some Swedish courts<sup>6</sup>. These can be considered best practices of modernization and improvement of service through deliberation, improvement of the "access" of citizens to the organization of courts and judicial proceedings, inclusiveness<sup>7</sup> and involvement of all actors at any level.

**the participation of citizens and principal users to the decisions that affect the service provided by Courts plays a key role as a measurement of execution of a Social Europe based on citizens' empowerment.**

The paper is structured as follows. The first part deals with the theoretical framework, by focusing on the public value approach in the literature. Then the concept and the definition of *access to justice* are clarified in relation to the information side: more information to citizens equally means more and better access. The third part faces with the main policy reform trajectories about the citizens' access to justice across Europe: according to them, best and good practices (the case studies) are sorted out, in order to set up a checklist of tools and guidelines for improving access to justice, to be translated into policy recommendations. Conclusions are drawn about the strict relationship between democracy, equality and a New Social Europe.

## Theoretical Framework

Our analytical framework is based on previous works within the public administration literature. We mainly refer to the recent findings related to the public value approach. This theoretical stream is based on the notion that public services, like the private sector, create value but, unlike the private sector, this value cannot be simply reduced to financial profit and loss in the way it usually works for business companies.

In recent years, public administration research has paid greater attention to the study of public values<sup>8</sup>. After a rather one-sided focus on efficiency, a key aspect of this new

6 F. Contini, *The reflective court: dialogue as key for "quality work" in the Swedish judiciary.*, [in:] P Langbroek (ed.), *Quality management in courts.*, Strasbourg: CEPEJ, 2010.

7 A. Fung, *Deepening Democracy: Institutional Innovations in Empowered Participatory Governance.*, London: Verso, 2003.

8 T. Beck Jørgensen & L. Andersen, *An Aftermath of New Public Management: Regained Relevance of Public Values and Public Service Motivation*, [in:] T. Christensen & P. Lægreid (eds.), *The Ashgate Research Companion to New Public Management*, Oxon: Ashgate, p. 337, 2011; T. Meynhardt, *Public Value Inside: What is Public Value Creation?*, [in:] *International Journal of Public Administration*, vol. 32, p. 199, 2009.

interest is the acknowledgement of the multidimensionality of the value universe. Even the OECD – with its traditional emphasis on efficiency – has paid increased attention to the variety of public values<sup>9</sup>.

Public value refers to the value created by government through services, law regulations and other actions. The close relationship between the concept of public value and e-government/ governance was first noted by Kearns<sup>10</sup>. From this perspective, the use of ICTs to improve government and governance is also a means to improve the production of public value.

A public value-based evaluation must be performed by considering the value that citizens perceive in their interactions with Public Administration<sup>11</sup>.

In the public value idea, public intervention should be directed towards meeting citizens' needs in a fair, effective and accountable way. Hence, the public value concept acknowledges the necessity to involve citizens and civil society actors to build a democratic governance system. Emphasizing the importance of focusing on citizens to deliver public value, this paradigm is useful to guide civil servants towards the achievement of economic and social outcomes. **In the public value perspective, public interest comes at the centre of civil servants' actions; the role of public managers is highlighted as contributing to democratic processes.** Furthermore, the public value concept stresses the need to strike a balance between the demands of the democratic political process and those of an effective management of public resources.

As such, the **public value can only be identified and assessed through a process of democratic engagement between service providers and service users. For most public value theorists this means the establishment of forums within which providers and users set priorities and develop strategies for public service delivery. The public value model reinstates citizenship at the heart of public services.**

A number of value classifications have been developed over time. To this regard Misuraca et al.<sup>12</sup> identified three main value drivers that constitute the basis of a theoretical framework for ICT-enabled governance, and which include various dimensions:

- a) **Performance:** effectiveness and efficiency (enabling optimal use of resources for citizens and tax payers in the service delivery); and also, indirectly, responsiveness (serving all citizens in a consistent and predictable way).
- b) **Openness:** access to information as a proxy for participation (enabling the empowerment

9 OECD, *Ethics in the Public Service*. Paris: OECD, 1996; OECD, *Building Public Trust: Ethics Measures in OECD Countries*. Paris: OECD, 2000; OECD, *Observatory on Ethics Codes and Codes of Conduct in OECD Countries Retrieved*, Paris: OECD, 2008.

10 I. Kearns, *Public Value and E-Government*, Institute for Public Policy Research, London, p. 34, 2004.

11 J. Alford, *Defining the client in the Public Sector: a social-exchange perspective*, [in:] *Public Administration Review*, vol. 62, p. 3, 2002; F. Bannister, *Citizen Centricity: A Model of IS Value in Public Administration*, [in:] *Electronic Journal of Information*, p. 27, 2002.

12 G. Misuraca, A. Reid & M. Deakin, *Exploring emerging ICT-enabled governance models in European cities*, Luxembourg: Publications Office of the European Union, p. 5, 2011.

of citizens so that they can legally control service delivery to their advantage) and transparency (bringing visibility to citizens of the service workflow by means of automated service delivery); and accountability (creating standards against which the individuals providing a service and the service delivery can be held accountable), that also serves the goal of ensuring consensus orientation (following democratic practices).

- c) **Inclusion:** equity and inclusiveness (referring to citizens receiving a service on an equal basis and providing services to disadvantaged and minority groups), which involve respect for the rule of law (ensuring that laws and regulations governing the service are applied impartially).

Hence, public value is an approach that places a very strong emphasis on the use of dialogue between service providers and users as a way of identifying how public value should be generated by a particular service. This means making use of deliberative techniques to identify consensus on priorities and strategies for change. **Public value can therefore play a role in addressing the ‘democratic deficit’ that exists in public services, and indeed, in the wider political establishment.**

### **Definition of “access to justice”: more information, better access**

“Access to justice” has come increasingly to the fore in the last decades, becoming indeed, the leitmotiv of the recent wave of judicial reforms all over the world. Such a concept is usually associated with human rights: “*access to justice is a basic human right as well as an indispensable means to combat poverty, prevent and resolve conflicts*”<sup>13</sup>. “Access to justice” refers to the right of an individual to seek (both substantially and procedurally) an unbiased remedy within the judicial system. There are strong links between establishing democratic governance, reducing poverty and securing access to justice<sup>14</sup>. Democratic governance is undermined where access to justice for all citizens (irrespective of gender, race, religion, age, class or creed) is absent. Lack of access to justice limits the effectiveness of poverty reduction and democratic governance programs by undermining participation, transparency and accountability.

Within the justice administration discourse, access to court relates to easiness to find the courthouse and specific offices or courtrooms within it, opening hours, the presence of physical and language barriers, attention of the personnel to the court user needs, availability of forms to be filled<sup>15</sup>.

13 UNDP, *Access to Justice: Practice Note*, [Online] Available at: <[http://www.undp.org/governance/docs/Justice\\_PN\\_English.pdf](http://www.undp.org/governance/docs/Justice_PN_English.pdf)> , p. 3, 2004.

14 *Ibid.*, p. 5.

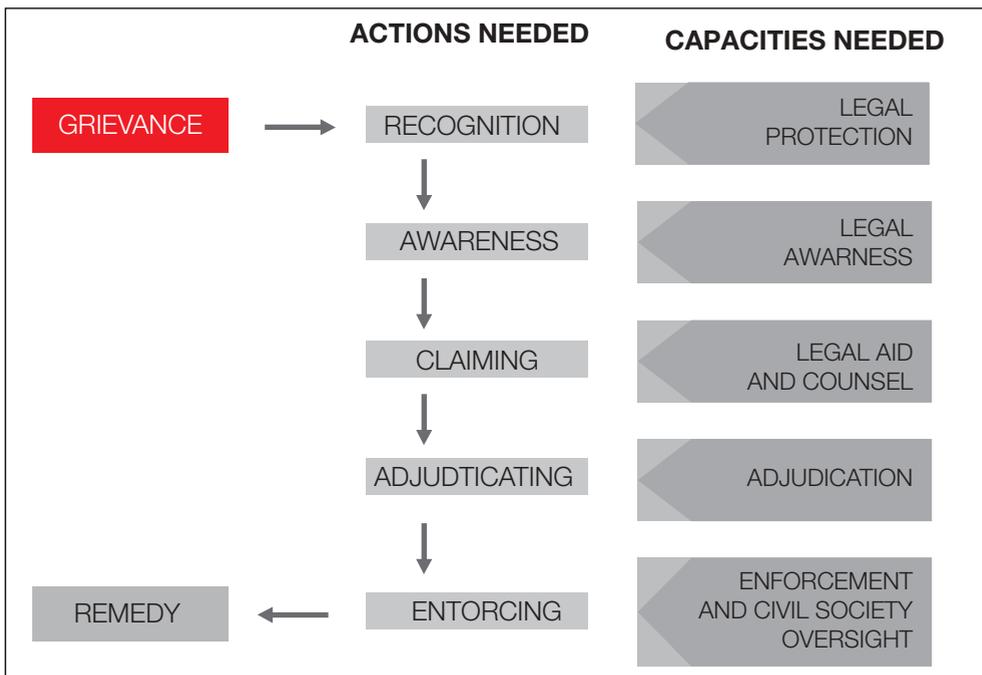
15 M. Velicogna, *Electronic Access to Justice: From Theory to Practice and Back.*, [in:] *Droit et Cultures.*, N. 61, p. 78.

However, **access to justice through courts is a much broader concept, which involves more than just court access. It relates to the problem of allowing the claim-holders to be able to claim their rights in court and receive a judicial decision, which is fair, and of good quality, within a reasonable time and at a reasonable cost.** While alternative actions to the access to court (such as marches, pacific protests, media and political mobilization) may result in positive outcomes, they indeed may lead to an erosion of public trust and confidence in the justice system. It is therefore imperative for courts and justice systems to address access to justice in order to improve it. In order to investigate how, it can help to reflect on the barriers that potential and actual court users must confront to get access to justice. The United Nations Development Programme (UNDP) practice note on “Access to Justice” identifies a number of barriers to access to justice. From the user’s perspective, the justice system is frequently weakened by UNDP<sup>16</sup>:

1. Long delays; prohibitive costs of using the system; lack of available and affordable legal representation, that is reliable and has integrity; abuse of authority and powers, resulting in unlawful searches, seizures, detention and imprisonment; and weak enforcement of laws and implementation of orders and decrees.
2. Severe limitations in existing remedies provided either by law or in practice. Most legal systems fail to provide remedies that are preventive, timely, non-discriminatory, adequate, just and deterrent.
3. Gender bias and other barriers in the law and legal systems: inadequacies in existing laws effectively fail to protect women, children, poor and other disadvantaged people, including those with disabilities and low levels of literacy.
4. Lack of *de facto* protection, especially for women, children, and men in prisons or centres of detention.
5. Lack of adequate information about what is supposed to exist under the law, what prevails in practice, and limited popular knowledge of rights.
6. Lack of adequate legal aid systems.
7. Limited public participation in reform programs.
8. Excessive number of laws.
9. Formalistic and expensive legal procedures (in criminal and civil litigation and in administrative board procedures).
10. Avoidance of the legal system due to economic reasons, fear, or a sense of futility of purpose.

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16 UNDP, *Access to Justice: Practice Note*, [Online] Available at: <[http://www.undp.org/governance/docs/Justice\\_PN\\_English.pdf](http://www.undp.org/governance/docs/Justice_PN_English.pdf)> 2004, p. 4.



**Figure 1. Fundamental elements of access to justice**

Source: UNDP (2004, pp. 6)

Among the main obstacles to access to justice, the “legal awareness”, that is the access to understandable rules, is of major importance. The first way to make judicial institutions more accessible is to introduce general measures to inform the public about court’s activities<sup>17</sup>. The lack of statistics available to the public and the lack of information provided to citizens about their own rights is a serious problem.

Above all, citizens should receive appropriate info on the organization of public authorities and the conditions in which the laws are drafted. It is just as important for citizens to know how judicial institutions work. Access to justice perceived as the access to information played a pivotal role in the judicial policy reforms. The failure of a public authority to respond to a request for information is common in many countries. Denying access to information impacts upon an essential aspect of participatory democracy. When public authorities hold information and do not provide it upon request, they disregard not only the information principle, but also the participation principle. Lack of access to information is a considerable obstacle to effective public participation. Needless to say, the premise is straightforward: the access to understandable rules is conceived as the *condicio sine qua non* for access to justice<sup>18</sup>. This element entails both a procedural and

<sup>17</sup> CCJE, *Opinion n. 10*, Strasbourg 2007.

<sup>18</sup> M. Vannoni, *Access to data as the condicio sine qua non of access to justice: the European e-Justice Strategy*, [in:] *Effectius Newsletter*, 2011, n. 15, p. 17.

a substantive side. Indeed, on the one hand, the capacity-building part consists of the creation of instruments (usually related to ICT) in order to improve the actual accessibility of data. On the other hand, rules have been revised, harmonised and categorised in order to be more understandable to stakeholders, especially to non-practitioners. Under this light, in the last decades several reforms have been carried out both at the national and the supra-national level.

## **Policies on access to justice**

The policy reforms on access to justice across Europe have been developed according to three key dimensions.

### **a) ICTs support to access to justice.**

The regular reports issued by EU monitor the introduction of systems of external audit (such as statistics, surveys, etc.) and encourage member states to introduce legal databases accessible to the public also thanks to ICTs, which allow citizens to interact directly with the courts.

Since its very beginning, the EU has been equipped with a website comprising an up to date legislation database called Eur-lex (which substituted the previous version, i.e. Celex), which goes far beyond a simple online official journal. Indeed, advanced research tools are available to search for results within a database of 2 815 000 documents (e.g. treaties, legislative acts, preparatory works, case studies etc.) with texts dating back to 1951. It is updated on an annual basis and it is available in the 23 official EU languages<sup>19</sup>.

With the deepening of the European integration, also the (procedural) approach to access to justice enlarged its scope. After judicial cooperation in civil matters was included in the European Community aims by the Amsterdam Treaty, ICT technologies have been bolstered by the use of hard law in order to effectively implement them: member states and national courts are legally bound to supply information via the Internet. According to this line, two networks have been established<sup>20</sup>: the European Judicial Training Network (EJTN) and the European Judicial Network (EJN). The former was set up in 2000 by a Belgian law as an informal network of national judicial training agencies with the task of spreading data and exchanging practices through its website. The EJN favours cooperation in criminal matters by pooling together national authorities in charge of international judicial cooperation and by diffusing information through its website.

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<sup>19</sup> Ibid., p. 19.

<sup>20</sup> M. Storskrubb, *Civil Procedure and EU Law A Policy Area Uncovered*, Oxford: Oxford University Press, p. 45, 2008.

A forward step is the Multi-Annual European e-Justice Action Plan 2009-2013<sup>21</sup>. The Commission started a comprehensive e-reform by issuing the 2008 Communication, urging for a European strategy for e-justice. Such a preparatory work, strongly supported by the European Parliament (EP), gives priority to the operational side of access to justice by emphasizing the prominent role ICT should play: e-justice became the leitmotiv of the Community approach to access to justice. Its primary goal is conceived by the Commission as to help justice to be administered more effectively throughout Europe, for the benefit of citizens. The first hallmark of priority projects should be that they help legal professionals to work more effectively and citizens to obtain justice more easily. They must also contribute to the implementation of existing European instruments in the field of justice and, potentially, involve all or a large majority of Member States<sup>22</sup>.

Furthermore, international e-justice initiatives may prove to be a relevant platform where practitioners share and spread ideas and 'good practices' related to the challenges they face.

### **b) The users' perspective, satisfaction, participation.**

Contemporary issues concerning access to justice are concerned with the system's ability to involve users actively in the proceedings.

For users, winning the case is only one of the factors that will influence the image they have of the justice system. If the codes of justice remain a mystery to them and its formality constantly seems strange, if they do not really understand the roles of the various people involved and cannot make an informed assessment of the merits of the actions they undertake, the rights and channels open to them will remain sources of suspicion and uncertainty. Ultimately, the degree of understanding they achieve will enable them to assume their role as actors and handle their contact with the judicial system more effectively, from the earliest stages of access to justice.

Furthermore, the participation of citizens in thinking about the future and role of the justice system is a form of access to justice. Civil society could and should play a role in improving the administration of justice. For this purpose, it could be involved in consultative bodies to which key proposals concerning the functioning of the system would be submitted.

Only a few cases for example provide with the participation of citizens in juries or in committees of evaluation of courts' performances<sup>23</sup>.

21 Notice 2009/c75/01, *Multi-annual European E-justice Action Plan 2009-2013*, 31 March 2009.

22 CEC, *Proposal for regulation of the European Parliament and of the Council regarding public access to European Parliament, Council and Commission documents*, Commission of the European Communities, 2008, p. 3.

23 F. Contini & R. Mohr, *Reconciling Independence and Accountability in Judicial Systems*, [in:] *Utrecht Law Review*, vol. 3, N. 2, 2007, p. 33.

The introduction of standards of societal accountability represents a step forward in the direction of a client-oriented judiciary<sup>24</sup>. In order to make a judiciary accountable to civil society it is necessary for the judiciary to be transparent toward the public. Since 2003, when CEPEJ was created, the COE started to monitor the societal accountability according to the following dimensions:

1. Relations with the public and the educational role of the courts in democracy.
2. Relations with all those involved in court proceedings.
3. Accessibility, simplification and clarity of the language used by the court in proceedings and decisions.

So far, the CCJE<sup>25</sup> defined European standards of societal accountability to be applied to EU judicial systems, such as:

- Transparency: front office; systems of e-filing.
- Public communication: websites of judicial institutions; broad and free availability of info about rights of citizens.
- Openness: info about the development of judicial procedures.
- Trust: statistics and surveys available to public.

### **c) Alternative dispute resolution mechanisms (ADR).**

Massive procedural and substantive reforms of the judicial systems of states have been carried out in the last ten years. Among the former noteworthy reform is the introduction of alternative dispute resolution (ADR) mechanisms. The extra-judicial or alternative dispute settlement mechanisms include the typical methods falling short of litigation, such as negotiation, mediation, conciliation and arbitration. These mechanisms could provide complainants with the advantages of a swifter and cheaper access to redress.

These out-of-court mechanisms cover schemes that lead to the settling of a dispute through the intervention of a third party, such as an arbitrator, a mediator or an ombudsman. This third party can propose or impose a solution, or, in other cases, can merely bring the parties together and assist them in finding a solution.

As an example, mediation is now more than a distinct process for settling cases and tends to be an adjunct to the traditional judicial system in Europe, working with it interdependently. The emergence of this idea probably indicates a growth in the role of mediation in many member states. From the qualitative point of view, mediation often makes it possible for user needs to be better taken into account, particularly in criminal matters, where it may give victims a voice. It also offers access to a new, less confrontational approach to dispute settlement that strives to calm down tensions after redress has

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24 D. Piana, *Judicial accountabilities in new Europe: from rule of law to quality of justice*, Farnham, UK: Ashgate, 2010.

25 CCJE, *Opinion n. 10*, Strasbourg 2007.

been provided and to foster the reintegration of the offender in criminal cases. From the quantitative point of view, the results are more qualified: civil and family mediation reduce the workload of the judicial system, making judges more available and therefore more accessible to the users<sup>26</sup>.

Furthermore, **within this field, an active role could be played by equality bodies, NGOs, trade unions and other associations which offer an alternative course of action to that provided by the general courts and often use ADR tools themselves.**

In the next paragraph, best or good practices of a more concrete nature related to the above policy streams are sorted out, in order to identify concrete measures to improve both information and access to justice for citizens. The case studies selection is therefore the result of the policy framework analysis: the European e-justice portal, the Swedish participative experience and the anti-discrimination and gender equality ADR mechanisms are all explanatory of the main policy trends improving access to justice. They could be useful in order to highlight policy recommendations in the conclusions.

## **Best or good practices on access to justice**

### **The European e-justice portal**

The European e-Justice Portal is one of the most challenging and innovative initiatives recently taken by the European Union to promote the harmonization of rules in several fields, in order to improve access to justice. Officially launched in 2010 within the Multi-Annual European e-Justice Action Plan 2009-2013, the e-justice portal is supposed to be the one-stop-shop website for e-justice in Europe and the main source of information for European citizens on the European justice. It aims at providing judicial support to 22 language speaking stakeholders with its 12 000 pages of contents<sup>27</sup>.

This is to play a three-fold task. First of all, the portal - as a kind of judicial tourist guide' for EU citizens in another country - will provide access to relevant information to European citizens regarding: a) victims' rights and in general citizens' rights in criminal proceedings; b) guidelines to initiate and manage proceedings in another member state. Secondly, the European e-Justice Portal will be at the centre of a network consisting of the already functioning legislation databases, such as Eur-lex. Finally, in the long run such a portal will become an e-justice tool in the proper sense, envisioning not only consultation of data, but also more complex functionalities and services<sup>28</sup>.

<sup>26</sup> CEPEJ, *Access to justice in Europe*, 2010, p. 86.

<sup>27</sup> EUROPA Press Release, *European e-Justice internet portal offers quick answers to citizens' legal questions*, 16 July 2010, Available at: < <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/956>>.

<sup>28</sup> M. Vannoni, *Access to data as the condicio sine qua non of access to justice: the European e-Justice Strategy*, [in:] *Effectius Newsletter*, n. 15, 2011, p. 14.

As far as now, this portal already supplies citizens, judicial practitioners and businesses with helpful and practical information. Not only may citizens deepen their knowledge on other member states' judicial system, but they are also provided with information on facts related to real-life events, which may occur in another country: how to find a specific practitioner, how to use ADR mechanisms etc. Practitioners have the opportunity to access legislation databases and to create a sort of judicial community using this platform. On their part, businesses are able to consult insolvency and property registers in other member state<sup>29</sup>.

Since the beginning of 2011 the European e-Justice Portal made facts about defendants' rights available: now a citizen is able to know road traffic offences fees in other member state<sup>30</sup>. In the future, it will also be also possible to pay fees issued in another MS via an online transfer mechanism hosted by such a portal.

Furthermore, the e-justice portal is going to include the Judicial Atlas<sup>31</sup>, the tool enacted by the European Commission in order to provide a user-friendly access to information relevant for judicial cooperation in civil matters. Atlas aims to help individuals and businesses to identify the competent courts or authorities to which one may apply for certain purposes.

## Challenges

The e-justice portal is an access to justice issue in order to support and develop free market within the EU, so technically everyone should be able to use it<sup>32</sup>. However, language, semantic and technical barriers have been experienced during these procedures, from filling out the form to filing it at court. Recent studies<sup>33</sup> have demonstrated that e-services such as the European Payment Order and the Small Claim Procedure need a high level of interoperability among the actors involved in their application. First of all, these procedures entail forms of cooperation at vertical level between national authorities and users and between European institutions and member states. For example member states should provide the European commission with all the relevant information for the practical application of these rules in the national courts in order for the latter to create a common platform of exchange of information, such as the European judicial Atlas in civil matters.

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29 EUROPA Press Release, *European e-Justice internet portal offers quick answers to citizens' legal questions*, 16 July 2010, Available at: < <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/956>

30 Ibid.

31 COE, *Implementation of the European e-Justice action plan - State of play of the revised roadmap.*, Council of the European Union, 2012.

32 G. Ng, *Experimenting with European Payment Order and of European Small Claims Procedure*, [in:] F. Contini & G. Lanzara, *Building Interoperability for European Civil Proceedings online.*, CLUEB Bologna, 2013.

33 F. Contini & G. Lanzara, *Building Interoperability for European Civil Proceedings online.*, CLUEB Bologna, 2013.

Furthermore, these procedures entail important levels of horizontal interoperability, that is mechanisms of cooperation between member states and their national authorities. Interoperability needs for the exchange of information between the national competent authorities (seized courts, judicial functionaries, etc...) concerning international civil cases.

Both vertical and horizontal level of interoperability should work efficiently so as to contribute to the good functioning of the European procedures in civil justice<sup>34</sup>. The construction of a European judiciary space does not only depend on setting common rules but also on the functioning of common mechanisms of interoperability. All the actors involved in the procedure should cooperate and dialogue to avoid the failure of these European procedures, due to their high complexity and their distance from the national users.

### **The participative experiences in Sweden**

The Sweden case-study refers to a peculiar methodology for Quality Court Management implemented since 2003 in the Swedish courts that had positive effects in terms of citizens' access to information and access to justice<sup>35</sup>. The projects are based on the use of internal and external dialogue for identifying positive or negative aspects that regard the court's day-to-day functioning and gather proposals for improving court's functioning and service. On the one hand, the internal dialogue experience consisted in gathering judges' and court staff's opinion on the court's management and on the policies that can be implemented to improve court's activities. On the other hand, through the external dialogue, also lawyers, prosecutors, external users as witnesses or defendants have been involved in the process. The elaboration of quality policies has been based on the use of surveys, questionnaires and discussions in small groups. The suggestions gathered during this processes have been discussed by judges and in most of the cases put in practice.

### **The method**

The method has been used in the Court of Appeal of Western Sweden since 2003 and is now used in six other Swedish courts: Court of Appeal of Skåne and Blekinge, Administrative Court of Appeal of Stockholm, District Court of Hässleholm, District Court of Borås, District Court of Vänersborg and District Court of Göteborg.

34 M. Mellone, *Legal Interoperability: the case of European Payment Order and of European Small Claims Procedure*, [in:] F. Contini & G. Lanzara (eds.), *Building Interoperability for European Civil Proceedings online*, CLUEB Bologna, 2013.

35 F. Contini, *The reflective court: dialogue as key for "quality work" in the Swedish judiciary*, [in:] P. Langbroek (ed.), *Quality management in courts*,. Strasbourg: CEPEJ, 2010.

On one hand, internal dialogue with all judges and other staff results in a decision by the court manager of what areas that should be chosen for quality work and what measures that should be taken to improve the functioning of the court in these areas. On other hand, external dialogue with lawyers and prosecutors give further suggestions for measures in the areas that the court is already working with as well as suggestions for new areas for the quality work of the court. The external suggestions are discussed internally and decisions are made about further measures and new areas for the quality work of the court. Furthermore, external dialogue with the users of the court (plaintiffs, defendants and witnesses) about the information, treatment and service to the users of the court gives suggestions for measures to improve the functioning of the court in those areas. Moreover, both internal and external dialogue is used as a method for self assessment and feed-back<sup>36</sup>.

The result of the quality work at the Court of Appeal of Western Sweden shows that internal and external dialogue is a good method for quality work in courts. Since the work of improving the handling of civil cases started, the time for handling and passing sentences in civil cases has been cut. The Court of Appeal has now taken the lead among the six courts of appeals in Sweden when it comes to short turnaround time for civil cases (sentences are passed within 7 months in 75 % of the civil cases)<sup>37</sup>.

Finland, Denmark and the Netherlands also have good experiences of the method of a dialogue between judges and interested parties as a tool for improving the functioning of the courts there.

In Finland the Rovaniemi Court of Appeal Jurisdiction and the Court of Appeal meet every year to discuss and decide issues for the quality work of the courts for the following year. After deciding on the themes, judges form working groups with lawyers and prosecutors and sometimes police to work out a proposal for better routines and practices. The proposals are discussed by all judges at the end of the year and then implemented as recommendations for all judges to follow.

In Denmark judges in the Copenhagen area have agreed to work together to improve the written sentences and the treatment of the users during court proceedings. Judges have read each others sentences and watched each others treatment of the parties and witnesses during court proceedings. They have then entered in a dialogue with each other on how to improve their work.

In the Netherlands systematic quality work is presently managed in all courts of the country. That work was initiated by a several years long period of internal dialogue among judges where the majority of judges eventually agreed on 13 areas where improvements

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36 M. Hasgard, *Internal and External dialogue: a method for quality management in courts*, Working Paper, p. 5, 2012.

37 *Ibid.*, p. 12.

were needed in order to achieve a better functioning of the courts. Within these 13 areas projects were started, where judges took part in suggesting measures to improve the functioning of the Dutch courts<sup>38</sup>.

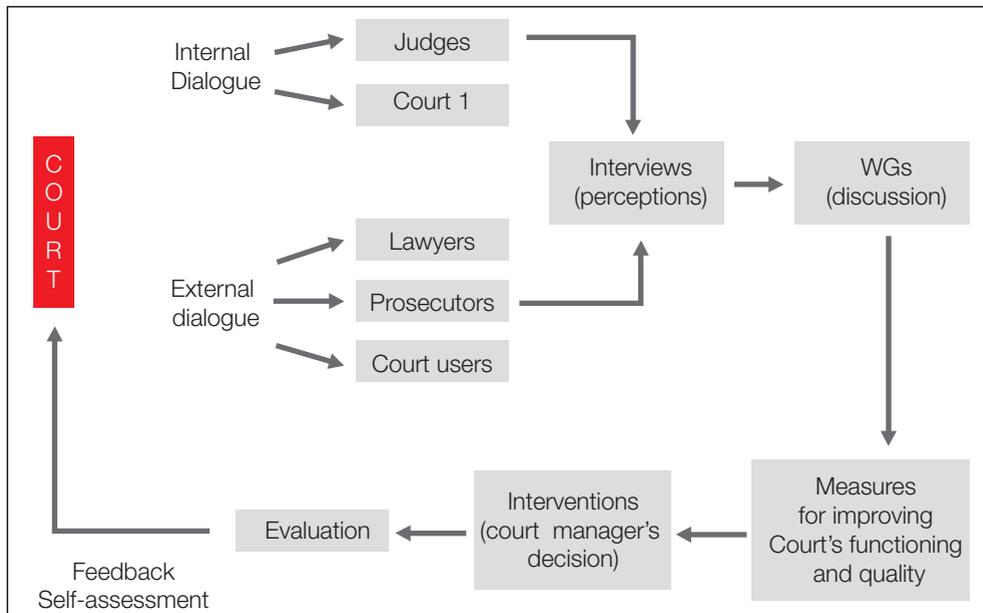


Fig.1 - Internal and External dialogue

**The ADR mechanisms in the gender equality and anti-discrimination law**

The principle of access to justice is of fundamental importance for victims of discrimination seeking redress. An effective access to justice is a precondition to obtain an effective remedy.

A number of procedural guarantees have been developed by EU legislators and the Court of Justice to ensure effective access to justice in discrimination and gender equality cases. Directives 2000/43/EC, 2000/78/EC, 2004/113/EC and 2006/54/EC reflect much of the Court of Justice case-law and establish a number of key principles as regards access to justice including provisions on defence of rights, the reversal of the burden of proof and the requirement for an effective, proportionate and dissuasive remedy.

Alleged victims of discrimination may seek redress through the general judicial mechanisms and in accordance with the general national procedural rules. Labour courts or employment tribunals also play an important role in access to justice for victims of discrimination in the field of employment. It is noteworthy that the existence of courts

38 Ibid., p. 18.

specifically set up to deal with discrimination or fundamental rights cases is extremely rare. To mention, the Equality Tribunal in Ireland which is a specialist body established to deal with discrimination cases and the Spanish law on Integrated Protection Measures against Gender Violence which creates specific courts dealing with violence against women, as well as any related civil causes.

In addition, a number of extra-judicial or alternative dispute settlement mechanisms are available in the EU Member States and in the EFTA/EEA countries. 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 redress. 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.

Based on a comparative study<sup>39</sup> regarding the 27 EU member States and the EFTA/EEA countries (Iceland, Liechtenstein and Norway) as regards access to justice in cases of discrimination on grounds of gender, race or ethnic origin, religion or belief, disability, age and sexual orientation, examples of alternative dispute resolution mechanisms have been selected as follows:

- In the Czech Republic, independent mediators are available in discrimination cases if agreed to by both parties;
- In Italy, equality advisors, trade unions and associations provide conciliation with an aim to end the discrimination. If conciliation leads to an agreement, the agreement can be enforced;
- The National Office for Conciliation in Luxembourg, formed of representatives of employers' and trade union organizations as well as representatives of the employers and the employees of the undertakings involved, assesses industrial disputes in the private sector and votes on a decision. If the conciliation process is unsuccessful, the parties can refer the dispute to an arbitration panel;
- Independent mediation centres are available in Slovakia if mediation is agreed to by both parties;
- The Advisory, Conciliation and Arbitration Service is the most well known alternative dispute resolution provider in the UK. It is involved in conciliation in collective disputes, providing facilities for settling existing or anticipated trade disputes by conciliation. It is also involved in conciliation in individual cases.

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39 Milieu LTD, *Comparative study on access to justice in gender equality and anti-discrimination law*, available on [http://ec.europa.eu/justice/gender-equality/files/conference\\_sept\\_2011/final\\_report\\_access\\_to\\_justice\\_final\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/conference_sept_2011/final_report_access_to_justice_final_en.pdf), 2011, p. 3.

Other options are institutions such as the office of the Ombudsman. In some countries, the Ombudsman's competence is specifically focused on the protection of fundamental rights; in others, it is a more general entity dedicated to the review of administrative actions. The equality bodies also play a role in assisting victims of discrimination seeking access to justice. Some of the common functions performed by national level bodies such as equality bodies and Ombudsmen are:

- a) providing information on the legal situation;
- b) receiving, investigating and examining complaints;
- c) providing advice, assistance and support to victims of discrimination;
- d) providing conciliation, mediation or negotiation between the parties;
- e) monitoring the implementation of anti-discrimination legislation<sup>40</sup>.

These bodies offer an alternative course of action to that provided by the general courts and often use alternative dispute resolution tools themselves. For example:

- The Federal Ombudsman on Equal Treatment and the Federal Equal Treatment Commission in Austria and the Equal Treatment Commission in the Netherlands provide conciliation and mediation services;
- Equal Opportunities Flanders in Belgium finances contact points whose mission is to find negotiated solutions in cases of discrimination;
- The Estonian Chancellor of Justice and the National Council for Combating Discrimination in Romania mediate disputes between private persons in regard to discrimination on several grounds;
- In Liechtenstein there is a mandatory, free of cost mediation body for discrimination cases whereby an appointed judge advises the parties and settles the dispute.
- The Equality and Human Rights Commission in the UK provides a conciliation service as an alternative route to court action. If a complaint is resolved during the conciliation, it can result in a binding settlement. If it is not resolved, the complainant still has the option of taking the action to court.

**In practice, equality bodies can be divided into two basic ideal types: promotional and quasi-judicial bodies<sup>41</sup>. EU member states have one or the other, or both.**

Promotion-type equality bodies favor good practices in organizations, raise awareness of rights, develop a knowledge base related to equality and non-discrimination, and provide legal advice and assistance to individual victims of discrimination. Quasi-judicial type equality bodies focus their actions on hearing, investigating and deciding on individual cases of discrimination. Some equality bodies also combine these two models, while some states have both types of bodies.

<sup>40</sup> Ibid., p. 9.

<sup>41</sup> European Union Agency for Fundamental Rights (FRA), *Access to justice in cases of discrimination in the EU. Steps to further equality*, Luxembourg: Publications Office of the European Union, p. 56, 2012.

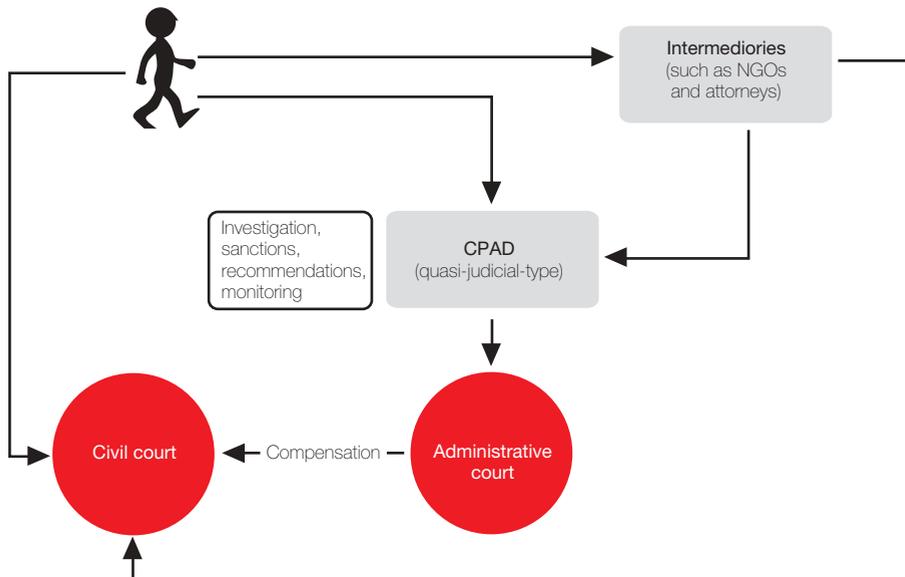
Let's see three representative cases for each ideal type.

## Bulgaria

In 2004 Bulgaria released the Protection against Discrimination Act and settled up in 2005 the Commission for Protection against Discrimination (CPAD), a quasi-judicial type equality body. It has the task to hear and investigate complaints from victims of discrimination and to start proceedings on its own initiative. CPAD issues legally binding decisions and mandatory instructions for remedial or preventive redress. It can make recommendations to public authorities, including for legislative change, and can assist victims of discrimination. CPAD may also carry out independent research and publish reports. When a complaint is filed, CPAD initiates proceedings. Admissible cases begin with a fact-finding stage and, after a public hearing, CPAD decides on the merits of the case. CPAD cannot, however, award compensation; courts alone can do this.

Complainants can approach courts (after an administrative court decision, a civil court must be approached) either initially or following a CPAD decision in order to claim compensation. NGOs offer guidance, financial assistance, and other kinds of support to complainants before CPAD and the courts. Some NGOs also act on behalf of complainants or intervene as a third party in proceedings.

Fig. 2 - Paths to access to justice in Bulgaria

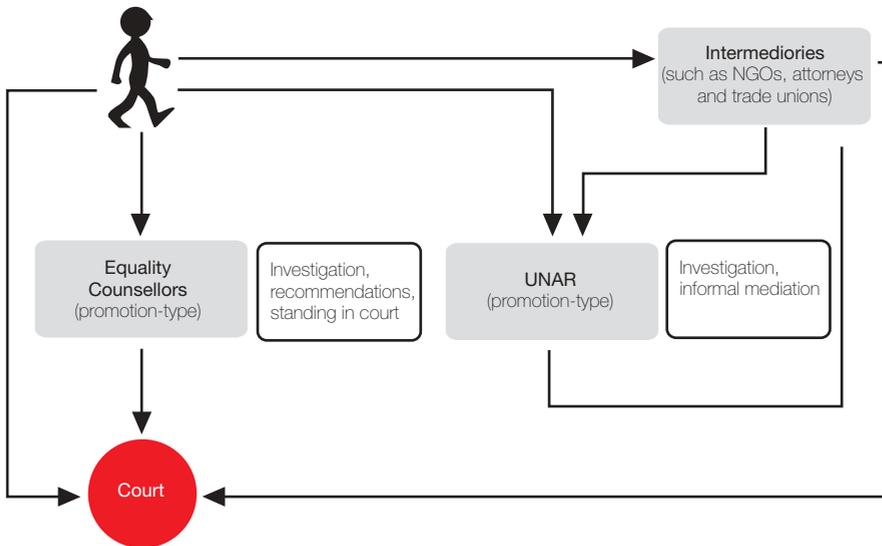


Source: FRA, 2012

**Italy**

Italy has two main non-discrimination laws, both dating from 2003. Institutional assistance is provided for the grounds of sex and ethnic origin or race. The Minister of Labour in consultation with the Minister for Equal Opportunities appoints Equality Counsellors (Consigliere/i di parità) at provincial, regional and national level with the mandate for issues of equal treatment of men and women in the labour market. The National Office Against Racial Discrimination (Ufficio Nazionale Antidiscriminazione Razziale, UNAR), a promotion-type equality body, was established in 2003. Its task involves the prevention and elimination of discrimination on grounds of race or ethnic origin, the promotion of positive action and the undertaking of studies and research, including awareness-raising activities such as information on discrimination on grounds of age, disability, sexual orientation, 'transgenderism', religion and belief. At the level of the provinces and regions, UNAR has established non-discrimination offices and focal points in some locations in cooperation with local authorities and NGOs. These provide first-stage legal advice, counselling and mediation. Equality Counsellors, for the ground of sex, exist at national and regional levels, and are mandated to receive complaints, provide counselling and offer mediation services.

**Fig. 3 - Paths to access justice in Italy**



Source: FRA, 2012

The Equality counsellors cooperate with Labour inspectors (Ispettorati del lavoro) who have investigative powers to establish facts in discrimination cases. The Equality counsellors also have legal standing in court cases with collective impact if no individual

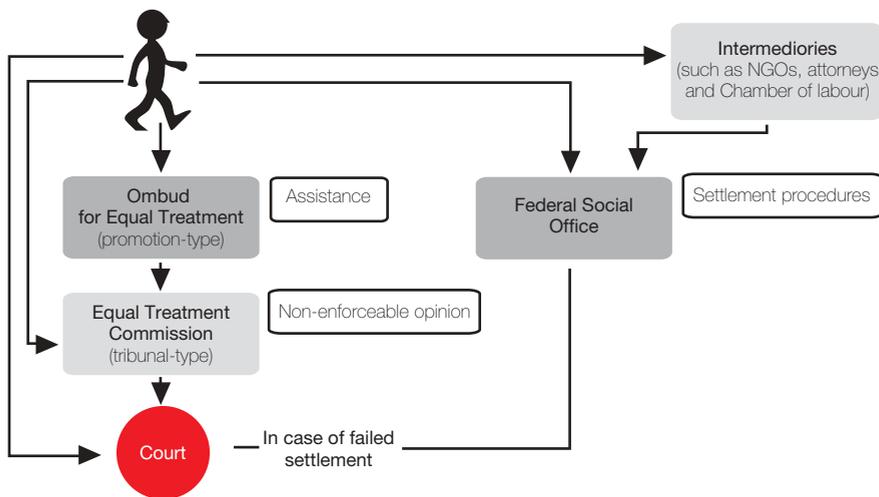
victim can be identified. Cases of discrimination on grounds of race or ethnic origin can be referred to UNAR, which initiates investigation procedures and offers informal mediation procedures. UNAR has no legal standing in court, but it can refer victims of discrimination to NGOs and other legal entities listed in a national register of organisations which are entitled to provide legal representation and take action in the general interest of a group.

Regular courts alone can make decisions about the discriminatory content of an action, regulation or other matter, by following the general rules of civil procedures.

### Austria

In Austria, the 2004 Equal Treatment Act ensures the transposition of the EU equality directives. Two equality bodies, the Ombud for Equal Treatment (Gleichbehandlungsanwaltschaft), a promotion-type equality body, and the Equal Treatment Commission (Gleichbehandlungskommission), a quasi-judicial-type equality body, have the mandate to handle issues of equal treatment in the labour market, on the grounds of ethnic origin, religion or belief, sexual orientation or age.

Fig. 4 - Paths to access justice in Austria



Source: FRA, 2012

In most instances complainants have two choices. They can bring their case before the Equal Treatment Commission, which can issue a legally non-binding decision on whether or not the treatment in question was discriminatory. Alternatively, they can go to the competent civil, labour or social welfare court and claim damages. Victims of sexual harassment can go directly to criminal court. Complainants can obtain assistance from the Ombud for Equal Treatment, NGOs or, in employment cases, the Chamber of Labour. In cases of discrimination on the ground of disability, the complainant must contact the Federal Social Office (Bundessozialamt)

before filing a claim with a court. The Federal Social Office is obliged to initiate a settlement procedure, which must be attempted before a claim can be filled.

The number of bodies and channels through which disputes can be settled shows the complexity of accessing justice for victims of discrimination. Although the existence of specific structures dealing with discrimination is a positive fact that benefits alleged victims, it is crucial that the proliferation of these mechanisms is accompanied by effective dissemination of information about their availability<sup>42</sup>.

## Conclusions

**Access to justice is a very important issue related to the good functioning of democracy. If access is restricted, citizens do not have the tools to exercise their rights.** Our study has shown that the most relevant obstacles in order to get access to justice have an informative side. The circulation of information is limited, especially concerning cross-border cases. This is where more difficulties come out, caused by language barriers, different functioning of the judicial institutions and diverse political-administrative systems and cultures.

**It is necessary working on the homogenization/standardisation of rules and tools especially related to cross-border disputes, which are growing and growing thanks to the EU enlargement and the increasing relationships among citizens from different member states as far as the work and family dimensions. Labour policies but also social policies should take into account these important elements related to democracy. Furthermore, the boom of digital tools and data can improve access to justice but at the same time they should be sized on citizens' use.**

In detail, three key important factors emerge from our study, in order to improve access to justice and, as a consequence, the quality and functioning of democracy.

### a) The ICT as enabler/facilitator.

The use of ICTs related to e-justice can play a key role in improving access to justice, especially in the proceedings concerning cross border judicial disputes. The e-justice portal could provide European citizens with the tools to solve the increasing number of cross border disputes. Technology is a tool that, if rightly used, can enhance and support democratic processes. E-justice is an opportunity, enabler and facilitator for increased citizens participation, improved functioning and quality of European judicial systems. It is about offering access to more information, closely linked to the concepts of transparency

<sup>42</sup> Milieu LTD, *Comparative study on access to justice in gender equality and anti-discrimination law*, available on [http://ec.europa.eu/justice/gender-equality/files/conference\\_sept\\_2011/final\\_report\\_access\\_to\\_justice\\_final\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/conference_sept_2011/final_report_access_to_justice_final_en.pdf), 2011, p. 9.

and accountability, and of good governance. However, there are no 'one size fits all tools available'. As far as the use of ICT is concerned, on the one hand the digitalization of a public service may improve efficiency and reduce costs. On the other hand, ICT may affect negatively equality because it creates a discrepancy of treatment between those who are technologically literate and have access to ICT technology, and those who don't. Citizens/users need to be trained to the ICTs use and instructions should be comprehensive as much as possible, by avoiding language barriers. It means that the e-justice platform needs to be made interoperable on a technological, organizational and institutional dimension. The challenge is to develop systems that balance between procedural simplicity and minimal complexity requirements compatible with functionality and legal fairness, and at the same time capable of evolving and adapting to changing circumstances.

### **b) The citizens/users involvement.**

The focus on the Swedish participative experience is interesting because refers to techniques of citizens' involvement on the decisions affecting their courts.

The method of an internal and external dialogue has shown to be a critical factor in improving the quality and functioning of courts, especially related to the access to justice. By involving court's staff and users (lawyers, citizens, etc.) in a broad dialogue of what needs to be improved – a bottom-up approach – leads to greater improvements in the functioning of an organisation than a traditional top-down approach.

The techniques implemented by some Swedish courts can be considered a version of 'deliberative forums' applied to justice. The citizens' and external users' involvement and the tools that favour dialogue (for instance the fact that heads of court do not actively participate in focus groups where court staff or external users are involved in order to foster participation to discussion), are typical characteristics of deliberative projects implemented in several other contexts. This has a twofold implication on the access to justice issue. On the one hand, deliberation and participation procedures are accompanied by cognitive processes; the deliberation brings about an exchange of information between participants (in this case, external users and court staff). On the other hand, citizens empowerment in the decisions regarding their court, gives them the opportunity to propose policies for both access to justice and judicial systems functioning improvement.

### **c) The key role of equality bodies and administrative/judicial institutions.**

ADR mechanisms enhance access to justice, providing a cheap and expeditious alternative to court dispute resolutions. ADR schemes aim to settle disputes in an amicable way, and are more flexible than ordinary court procedures.

The gender equality and anti-discrimination law ADR case shows a wide range of different approaches, including arbitration, ombudsmen, mediation and conciliation schemes. All EU Member States have transposed the EU equal treatment directives into national law and designated a body or bodies to ensure access to justice in discrimination cases. Given the institutional autonomy of the Member States within the EU, the directives do not prescribe a specific structure. There are consequently many differences in the structures established. The justice systems in discrimination cases in EU Member States can be characterised by three different types: quasi-judicial-type equality bodies and courts, promotion-type equality bodies and courts and hybrid systems with both promotion-type and quasi-judicial-type equality bodies and courts. Even within these three categories, equality bodies play a range of roles and offer a variety of paths to access justice. The paths available depend on the national context as well as on the type of case and ground of discrimination.

Furthermore, the impact of the decisions adopted by ADR schemes also differ: some are merely non-binding opinions, whereas others are binding on the parties, if the complainants accept the final decision taken by the equality body.

Last, but not least, a recurring issue raised by the EU level associations is that whilst there is progress in terms of awareness and promotion of fundamental rights, this is not matched by an equivalent level of awareness of, and accessibility to, remedies for these rights. Often, victims of discrimination are not aware of the legal remedies available and do not know how to access courts or alternative mechanisms for defending their rights.

The question of access can be determined by a number of different factors, among them the empowerment of the women/poor in respective societies can play a decisive role. Hence, **the more social partners and social services organizations are stronger and rooted in societies, the more individuals can have support, ask for advice and for representation.**

In conclusions, the three dimensions emerging by our case studies in the justice field show that adopting a public value approach to public services is useful to improve the relationship between democracy and equality: it helps to increase both the currently low democratic legitimacy of public actions and the degree of responsiveness of public services to the wishes of users and citizens.

Considering that public services usually operate in an environment of scarce resources and that there is a need for constant and open deliberation and negotiation with all users, stronger links between producers and users based on shared principles of quality and equity are necessary. However, it's not a one size fits all model: creating responsiveness and productivity requires a tailored response for each service. Indeed, the public value approach needs to be enhanced by elaborating a series of core principles to be translated into policy recommendations:

- engagement with users to determine public service delivery strategies and implementation plans with a precise focus on identifying what public value users and the wider community want a service to generate;
- considering that public value must involve not only *what* a service should deliver but also *how* it can be delivered in a cost- effective way;
- the development of public service delivery strategies and implementation plans based on efficiency, quality and equal access;
- services delivered for the public good rather than for profit;
- the development of collaborative models rather than competitive and fragmented ones;
- the involvement of public service staff in the process of strategy and implementation planning;
- the setting of feedback mechanisms and evaluation processes for staff and users during the implementation and delivery phase of any strategy.

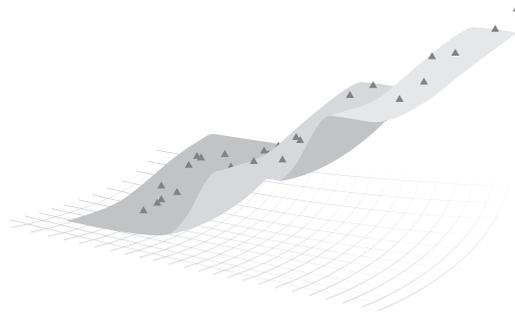
**All the above policy measures can definitely contribute to get a fairer and stronger New Social Europe based on citizens empowerment, by addressing the ‘democratic deficit’ that exists in public services, and indeed, in the wider civil society.**

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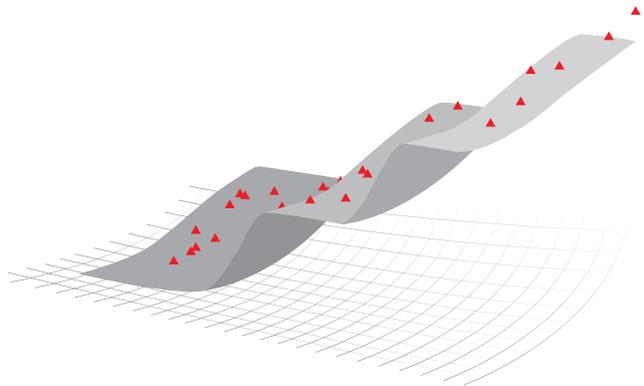
**Organising Financial Capitalism  
– a Strive for Ethically  
Prevailing Argument**

**SIVE**



Carlo D'IPPOLITI

# **The European Union as Peter Pan. Global and Foreign Policy Implications of the Eurozone Crisis**



**Keywords:**

**Euro – Austerity - Balance of Payment - Mercantilist Policy -  
International Monetary System**

**Abstract:**

The paper argues that Europe's austerity strategy, which is frequently criticised for being ineffective in reducing public debts and masochist in its social impact, is also likely to induce hostile reactions on the side of the rest of the world. Without noticing (or caring), Europe is fostering a world-wide pursuit of uncooperative economic policies and global instability.

A progressive strategy should instead aim at the full establishment of the euro as an international reserve currency. In turn, this would allow for a progressive growth model in Europe, based on the growth of internal demand (in particular investments and wage growth). Not by combination, such European strategy would turn out to be beneficial for the stability of the international monetary system too.

**A progressive growth model in Europe, based on internal demand (in particular investments and wage growth), would be facilitated by the full establishment of the euro as an international reserve currency. This, by combination, would turn out to be beneficial also for the stability of the international monetary system.**

The international spill-overs of monetary and fiscal policies are often over-criticised in the USA, and overlooked in Europe. In this paper it is argued that Europe's austerity strategy, which is frequently criticised by progressive commenters for being ineffective in reducing public debts, and masochist in its social impact, should also be regarded as likely to induce hostile reactions from the rest of the world. Without noticing, Europe is fostering a world-wide pursuit of uncooperative economic policies and global instability.

On the contrary, a progressive growth model in Europe, based on internal demand (in particular investments and wage growth), would be facilitated by the full establishment of the euro as an international reserve currency. This, by combination, would turn out to be beneficial also for the stability of the international monetary system. Alas, right-wing opposition to such goals still seems to be very high.

The argument develops as follows. In the next section, the European export-driven growth model is contrasted to the American one, based on internal demand and a strong international role of the dollar. A long-term historical view shows that such different growth strategies are strictly connected with the different positions of Europe and the USA within the international monetary system. In section 2 the Eurozone crisis is introduced from the same international perspective, and it is shown that the policy response to it is mere business as usual. However, shortly before the crisis Europe, through the creation of the Single Market and then of the euro, had taken on a markedly different global role, of which it still seems to be unaware. Just like Peter Pan, not recognising that it has "grown up", Europe is producing damage to itself and to the rest of the world, as it is shown in section 3. Section 4 explains how a different growth strategy, more progressive and more based on internal demand, would almost necessarily also require a different role of the euro in the new international monetary system. Section 5 concludes.

## 1. How we came here

During the Cold War, most Western European countries' foreign policy was rather passive, except for each country's relation with its former colonies. At the same time, their long-term

economic policy, especially in the countries that today adopt the euro, was basically that typical of ‘small open economies’: in several success stories, it was an export-led model.

Such model relies on some other country to generate adequate demand for the goods and services produced by the firms. Indeed, from an international relations perspective, a country's international trade surplus amounts to a transfer of aggregate demand from the rest of the world to that country. As a consequence, it means that the country is “exporting unemployment” elsewhere. At the same time such model is passive because the country renounces to manage its own trade cycle and growth trend, and instead it critically depends on the pace of growth of other economies.

Thus, with a human metaphor we may describe such growth model as passive aggressive. Such an uncooperative policy stance was tolerated and even appropriate in Western Europe, at a time when:

- (i) these countries were recovering after the enormous war damages,
- (ii) they were at the border with the Eastern Bloc (thus in several cases they had to be lured into remaining strictly rooted in the capitalist bloc), and
- (iii) they were several small economies, none of which could singularly be accused of generating global imbalances.

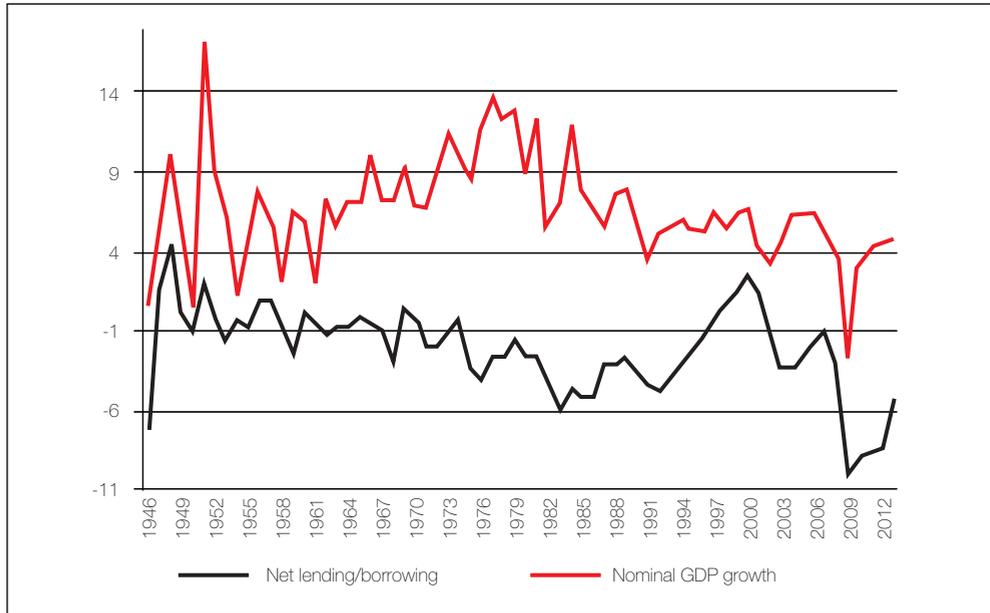
By contrast, both the foreign and the economic policy of the USA were radically different. If we exclude the short period that immediately followed the war (with the Marshall Plan), internal demand has consistently been the driver of US economic growth. Indeed, one may say that after the Great Recession XX-century US capitalism has been based on an implicit social contract that, among other things, warranted near-full employment at almost any cost. These “costs” very often included crass Keynesian policies of the “vulgar” type (to follow Joan Robinson's definition), i.e. continuing and sustained budget deficits that go well beyond Keynes' own ideas. Indeed, as shown in fig. 1, since the 1960s there were only two short-lived periods of general government budget surplus in the USA: the single year 1969, and the extraordinary period 1998-2001 during Clinton's administration.

Despite large and persistent current account deficits in the US balance of payments, such secular Keynesian strategy was made possible by the unique role of the US dollar, as the ultimate international reserve currency, i.e. that in which international transactions are billed and which thus becomes an international store of value. Such role granted there would always be high demand for dollars, almost irrespective of increasing US public and foreign debts<sup>1</sup>.

Thus, the divarication of growth strategies between the USA and Europe (as well as Japan) was inscribed in the very nature of the international monetary system established after World War II. Indeed, the piling up of US debt vis-à-vis the rest of the world and the role of the dollar as the international reserve currency are two sides of a same phenomenon. If the USA is to provide dollars and dollar-denominated financial assets to the rest of

1 C. P. Kindleberger, *Power and Money*, New York: Basic Books 1970.

Fig. 1 – Growth and fiscal policy in the USA



Note: nominal GDP growth is reported in percentage points, general government net lending/borrowing is shown as a percentage of nominal GDP.

Source: Office of Management and Budget (2013), *Budget of the U.S. Government, Fiscal Year 2013. Historical Tables*, U.S. Government Printing Office, Washington (DC). Available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist.pdf>

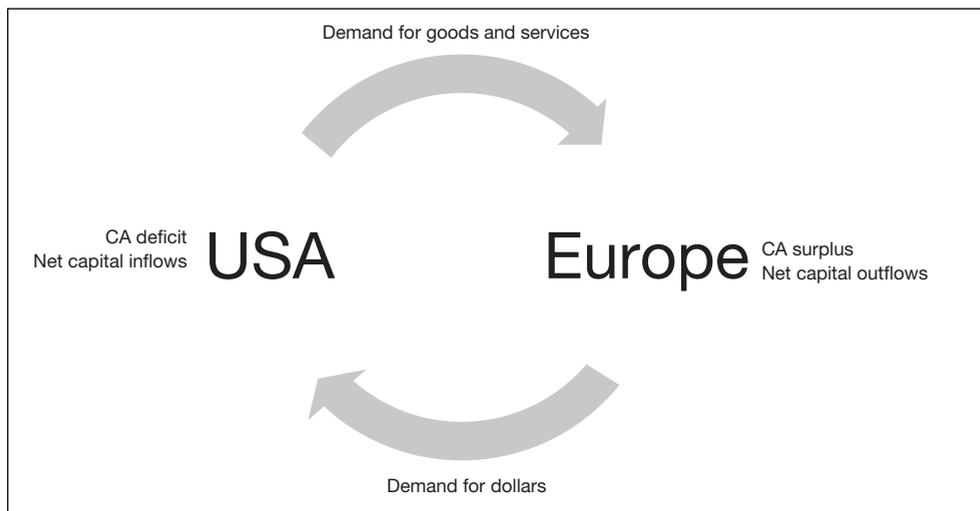
the world, for the world to use them as “global money”, the USA must exhibit a capital inflow (i.e. the rest of the world brings money to the USA to buy dollars) and at the same time necessarily a negative trade balance (Fig. 2).<sup>2</sup> Thus, the USA will also systematically accumulate foreign debt: a tendency called “Triffin Dilemma” after the work by Triffin<sup>3</sup>.

Specularly, the European countries’ current account surplus implied they accumulated exactly the same amount of assets (credit, loans, official reserves, etc.) vis-à-vis the rest of the world, as summarised in Fig. 2.

2 Because the balance of payments of a country always sums to zero, if we exclude systematic imbalances in the “errors and omissions” and “official reserves” accounts, net capital inflows (i.e. the sum of capital and financial accounts) exactly match the current account. Loosely speaking, the situation can visualised as follows. A country, call it *A*, cannot sell its goods and services to country *B*, unless either it also buys something from *B* for exactly the same amount (trade balance equals 0), or it lends to *B* exactly the amount necessary to buy its merchandise. This is because if *A* transferred goods and services to *B* without receiving the same value back, it would be providing a gift. Thus, if a country exhibits a surplus in the current account (it buys more than it sells), it also simultaneously and necessarily accumulates assets (“loans”).

3 R.Triffin, *International currency and reserve plans.*, Banca Nazionale del Lavoro Quarterly Review, vol. 7 1954, nn. 28-29, pp. 5-22.

Fig. 2 – Current accounts (CA) and capital flows across the Atlantic



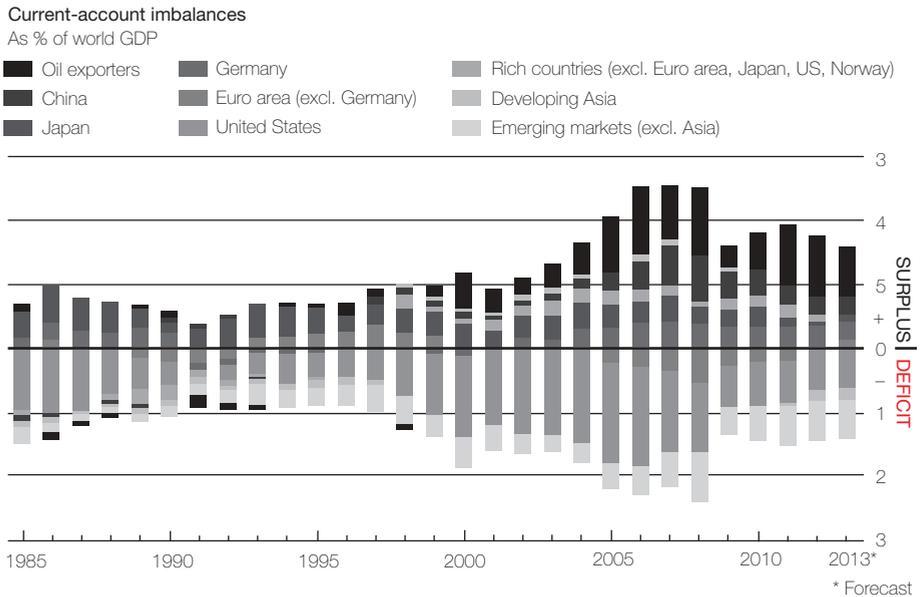
Evidently, the current account surpluses/deficits and capital flows between the USA and Europe were not exactly equal because both areas entered into trade and financial transactions with the rest of the world too. Thus, as shown in Fig. 3 a crucial role in posting current account surplus and accumulating assets has historically been played by oil producing countries and, more recently, China, while developing and emerging countries increasingly 'help' the United States in generating world aggregate demand through sustained current account deficits and foreign debt. However, it is evident that such situation can be considered as equilibrium only as long as both sides agree to accumulate debt and credit, respectively, and continue to work more than they consume (Europe) or less (USA).

The accumulation of such macroeconomic imbalances is a 'dilemma' because US foreign debt can quickly become so large as to deteriorate confidence in the stability of the dollar, thus undermining its role as a store of value and as an international reserve currency and, at the global level, proving a source of uncertainty and instability. And indeed in the post-WWII period, within a couple of decades after the Bretton Woods agreements, the gargantuan debt in the USA and the enormous assets in the creditor countries undermined confidence in the capacity of the USA to convert into gold at a fixed price all the dollars in foreign hands. To prevent a rush on the dollar, in 1971 President Nixon unilaterally ended the dollar gold convertibility, and thus brought to a conclusion the "Bretton Woods" world order<sup>4</sup>.

However, in the absence of a new international agreement, what followed was an international monetary system ("Bretton Woods II") in which the dollar kept its unique role,

4 M. De Cecco, *Global Imbalances: past, present and future.*, paper presented at the INET Bretton Woods Conference, available at <http://ineteconomics.org/bretton-woods/paper-presented-bretton-woods-conference-marcello-de-cecco> 2011.

Fig. 3 – A historical view of current accounts imbalances



while being a fiat currency (i.e. not convertible into gold or any other commodity at a fixed rate), and all other currencies floated against the dollar and against each other with flexible exchange rates.

Standard economic theory held it that a market-based system would re-equilibrate any imbalance through price movements (the exchange rate being the price of a currency). However, the global imbalances that characterised the Bretton Woods era remain during the current Bretton Woods II period. Similarly, the USA's and Europe's growth strategies so far have remained unaltered.

Again, when looking at the USA, the relation between the growth regime and the international monetary system is no chance. As Varoufakis<sup>5</sup> vividly puts it, the United States act as a "Global Minotaur" by generating the aggregate demand that is necessary to produce a great part of global GDP growth, and by so doing they absorb the 'toxic' current account surpluses of the other countries, including the European trade surpluses.

Yet, despite the similarities in the international role of the dollar and in the growth strategies followed respectively in the USA and in Europe, the Bretton Woods II system is proving as a period of radical change. The old Cold War equilibrium has left way to a multipolar world: several new global players are emerging, and the European countries' relative standing

5 Y. Varoufakis, *The Global Minotaur.*, 2nd ed., London: Zed Books 2013.

is rapidly lowering.<sup>6</sup> Partly in response to these changes, the European environment is changing too. A multi-tier European Union emerged that, even only considering its “inner ring”, i.e. the Eurozone, stands out as the largest economic area in the world.

However, a further dramatic complication of these trends came in the form of the financial and economic crisis in the USA and then in the Eurozone.

## 2. The Eurozone's crisis management and growth strategy

Talking about a “Minsky moment”, when analysing the causes of the crisis that hit the USA in 2008 some economists<sup>7</sup> stress the relevance of financial phenomena, such as excessive risk-taking and unsustainable financial leverage on the side of large financial institutions. Others<sup>8</sup> highlight the role of disequilibria in the real economy: both internal, e.g. rising income inequality, and global, such as the macroeconomic imbalances described in the previous section. Indeed, at least **at the international level, the two explanations should be integrated, because:**

- 1) **massive real imbalances made the “excesses” of finance necessary, both to compensate for increased inequality at home and to finance ever-increasing stocks of foreign debt; and**
- 2) **in turn such financial excesses, by making those imbalances possible, contributed to lengthen and magnify their accumulation<sup>9</sup>.**

Similarly, when asking why Europe was hit by the crisis even harder than the USA, it is necessary to consider financial issues, i.e. the accumulation of excessive public and private debt, the latter in particular in the form of banks' debt; but also real issues, i.e. the simultaneous accumulation of unsustainable current account imbalances within the Eurozone<sup>10</sup>.

However, again, the policy response to the crisis was very different on the two sides of the Atlantic. As President Obama remarked, “one of the interesting things that we don't talk about enough is the contrast between what's happened in the United States and what's happened in a lot of other developing [sic.] countries, Europe in particular. It's pretty rare

6 As for example explicitly suggested by Chinese authorities during the 2012 solar panels trade dispute: compare e.g. Hille K. (2013), “China says EU must recognise its decline amidst trade war”, *Financial Times*, June 6, available at <http://www.ft.com/intl/cms/s/0/a2711f68-ce7f-11e2-8e16-00144feab7de.html#axzz2fiZfJFRs>

7 e.g. P. Krugman, *The Third Depression*., [in: ] *The New York Times*, 28 June 2010, p. A19.

8 such as: J. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers our Future*., W.W. Norton, New York 2012.

9 C. D'Ippoliti, *Introduction: there is more to Keynesianism than public spending alone*., [in: ] *PSL Quarterly Review*, vol. 65 n. 260, 2012, pp. 3-10.

10 for more details on the latter see the paper by R. Mazzocchi in this volume; for a survey of the different explanations of the causes and consequences of the Eurozone crisis, see C. D'Ippoliti, op. cit., 2012.

where we have the chance to look at two policy approaches and follow them over several years and see which one worked.”<sup>11</sup>

**We can distinguish three legs of the European approach to crisis resolution. First, as it is well known, both the USA and the EU embarked in very expansionary “unorthodox” monetary policies, though the EU did so later and to a smaller extent.** They differed, though, in two respects: on the one hand, the ECB did not buy Eurozone sovereign bonds in the primary market, and conducted the bulk of its monetary expansion through a large-scale scheme of low-cost three-years loans to European banks (the LTRO scheme), whereas the Fed was allowed significantly more freedom in the choice of policy instruments, timing and goals. Several economists consider such difference in the role of the respective central banks a crucial reason for the relative success of the USA in exiting the crisis before and better than Europe<sup>12</sup>.

**The second leg of the European approach to crisis resolution was the creation of two rescue funds (the EFSF and the ESM) for the Member States who were unable to meet their refinancing needs on the market.** As it is well known, in the USA the Congress and the Federal Reserve employed massive amounts of money to rescue the financial<sup>13</sup>. Instead, in Europe it was national public finances to be called upon for the matter, and only then European funds went into rescue of those Member States that could not bear the weight.<sup>14</sup> Indirectly, the ECB too sustained troubled Member States, when it decided to accept their sovereign debt as collateral in exchange for its financing of European banks.

Overall, such strategy was informed by the principle that there should not be total or partial defaults of European sovereign bonds, while also avoiding an outright banking crisis. Thus, between 2009 and 2013 a shift of “troubled assets” took place from the banking system (including the shadow banking system) to the public sector, including international organizations such as the IMF, which was later involved into several rescue operations (Greece, Cyprus).

As a consequence, haircuts on the stock of the existing (unsustainable) public debts, or any other form of debt forgiveness would today impose a loss on public institutions, which may fall or not on Europe’s taxpayers depending on the potential role of the ECB in absorbing such losses.

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11 J. Calmes J. & M. D. Shear, *Interview with President Obama.*, The New York Times, July 27 2013, available at <http://www.nytimes.com/2013/07/28/us/politics/interview-with-president-obama.html?pagewanted=all&r=0>

12 for a review, see the work done within FEPS Next Left by the working group on Economic Governance of the Young Academics Network.

13 sector (and even some non-financial corporations), see: M. Fratianni & F. Marchionne, *The Banking Bailout of the Subprime Crisis: Size and Effects.*, [in:] *PSL Quarterly Review*, vol. 63 n. 254 2010, pp. 187-233.

14 At least in the cases of Ireland, Cyprus and Spain; the Greek and Portuguese cases are relatively different, as it is well known.

From a global perspective, a by-product of such strategy is that Europe has put the IMF in the very difficult condition of risking, for the very first time, a loss on its loans<sup>15</sup>. If this was the case, developing and emerging countries, which have again and again suffered IMF interventions, may finally find a conclusive argument to win a reform of the organization's governance – because it is obviously unconceivable that what has always been denied too poor countries should now be accorded to Europe. Paradoxically, the whole process might at least have a positive consequence.

However, the most likely scenario is that the IMF will somehow be insulated from incurring in any losses, as probably the ECB will. Thus, a prolonged period of “extend and pretend” should be expected, i.e. a long span of time during which interest payments are reduced and capital instalments postponed, on the false assumption that sooner or later the debt may finally become sustainable. This is the most likely scenario for Greece, Portugal and maybe Ireland and Cyprus. Such slow and painful deleveraging would lengthen Europe's stagnation, thus adding to the Continent's fall in international standing.

**Finally, the third ingredient to Europe's attempt at crisis management concerns fiscal policy. The whole European Union, even outside the Eurozone, embarked in a massive effort of both public and private debt reduction (“deleveraging”), simultaneously in all EU member States – including those, such as Germany, that had no clear economic rationale for doing so<sup>16</sup>.** To reduce their debt, both the private and public sectors must save, i.e. they must reduce their demand for goods and services. On the contrary, the USA let the federal budget deficit increase considerably as a response to the crisis. Since then it is slowly reducing it, but despite the political clamour around the “sequester”, this happens mostly as a consequence of mild economic growth rather than through massive spending cuts or tax increases<sup>17</sup>.

**Thus, one can summarise the European austerity strategy as an attempt at reducing the European countries' private and public debts while trying to benefit from aggregate demand stimulus policies enacted in the rest of the world.**

**Crucially, this policy is not different from the usual export-led growth model that Europe has followed before the crisis. It is the growth strategy that ruled before the Eurozone became, from a set of independent small open economies, the largest economic area in the world. But as mentioned meanwhile the world has changed.** With the integration of the European economies into the Single Market and, for many of these economies, with the adoption of a joint currency, the pursuit of the old export-led

15 namely, the Greek one; see: A. Mody, *A New Greek Test for Europe.*, Project Syndicate, September 16 2013.

16 C. D'Ippoliti et al., *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) 2013.

17 J. Kregel, *Resolving the US Financial Crisis: Politics Dominates Economics in the New Political Economy.*, [in:] *PSL Quarterly Review*, vol. 64 n. 256, 2011, pp. 23-37.

growth strategy cum continued fragmentation and substantial passivity in the diplomatic field, may not be feasible anymore. From a European and progressive perspective, it may also be not desirable.

Progressive economists and policy-makers have so far criticised the austerity drive on three grounds. First, because it is harmful. As shown in fig. 4, employment rates have fallen significantly and do not appear to recover either in the Eurozone or in the EU. Associated with the fall in employment are the rise in poverty and social exclusion (with associated negative social consequences, such as a not negligible gender impact<sup>18</sup>). Second, because it is useless and self-defeating: as shown in figure 5, the consolidated gross public debts both of the Eurozone and of the EU continued to increase throughout the crisis period, disrespectful of the deleveraging attempts and the policy-makers (bad) intentions.

Finally, austerity has so far been criticised for its undemocratic characteristics as well as the nationalistic and anti-EU reactions that is driving throughout Europe (fig. 6). Indeed, from a progressive point of view it should be noted that a crucial political pitfall of the current EU strategy is to drive attention away from the structural economic problems of the area and from the failure of free unfettered financial markets towards inappropriate and misleading international tensions. This is true in the “Central” Eurozone countries, where public perceptions increasingly focus on borrowers as guilty and the sole responsible of their bad fate, as if the creditors bared no responsibility in the accumulation of unsustainable debt. And in the “Periphery” countries, where anger against external constraints to economic and social policy is directed against European institutions and governments (especially Chancellor’s Merkel’s) and not against the financial markets that are the real impediment to further fiscal expansions.

However, it is crucial to consider here that there is a fourth major drawback of the austerity drive. The three conditions that brought about the international tolerance for Europe’s passive aggressive growth strategy, mentioned in section 1 (several small economies at the border with “the enemy”, which must reconstruct their infrastructure after a major war), are no longer in place. **The European Union is today a large economy whose policies have increasingly large repercussions in an interconnected and globalised world. In this new context, austerity has a severe negative impact on several other economies, which is likely to contribute to international political tensions as well as economic instability and possibly global stagnation.**

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18 F. Bettio et al., *The Impact of the Economic Crisis on European Men and Women and on Gender Equality Policies*, ENEGE Report, prepared for the European Commission, DG Justice, Brussels 2012.

Fig. 4 – Employment rates

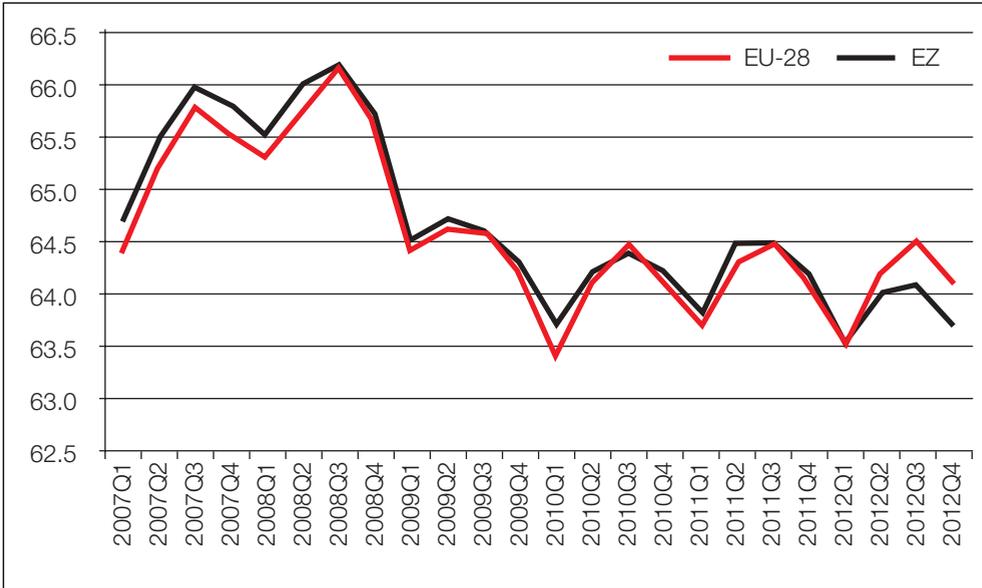
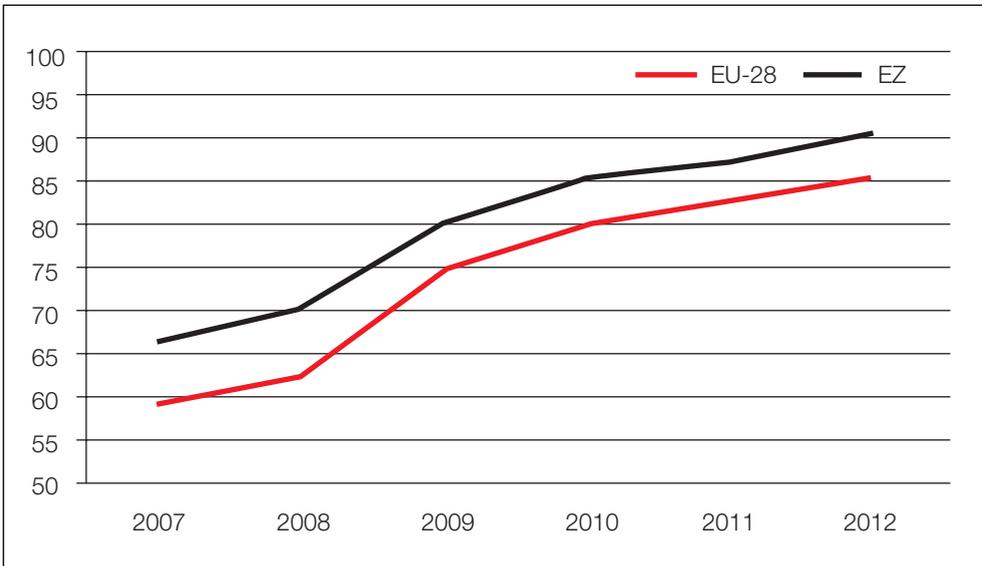


Fig. 5 – Consolidated gross public debt (% of GDP)



Source: Eurostat.

Fig. 6 – Rising international tensions within the Eurozone



### 3. Consequences of austerity for the rest of the world

The implications of Europe's growth strategy for the rest of the world are not totally absent from the debate. They are indeed explicitly considered within the discussion on the macroeconomic imbalances within the Eurozone. Whenever it is argued that the countries exhibiting a current account surplus should contribute to rebalancing as much as those exhibiting a deficit, what is usually implied is that wages and prices should grow, especially in Germany, faster than productivity growth and specifically faster than in the other Eurozone countries. The usual response is that it is against these countries' interest (or even Europe's interest) to lose competitiveness vis-à-vis the rest of the world<sup>19,20</sup>. Instead, it is argued, those countries that currently exhibit a deficit towards other Eurozone countries should compensate it with surpluses towards non-Eurozone countries. Coherently, the Eurozone as a whole should exhibit a current account surplus towards the rest of the world<sup>21</sup>.

The strategy is partly succeeding. As it is shown in Fig. 7, the Eurozone current account was roughly on balance before the crisis, it underwent a major fall at the end of 2007 (likely due to sudden strong capital inflows, flying away from the USA, then epicentre of the

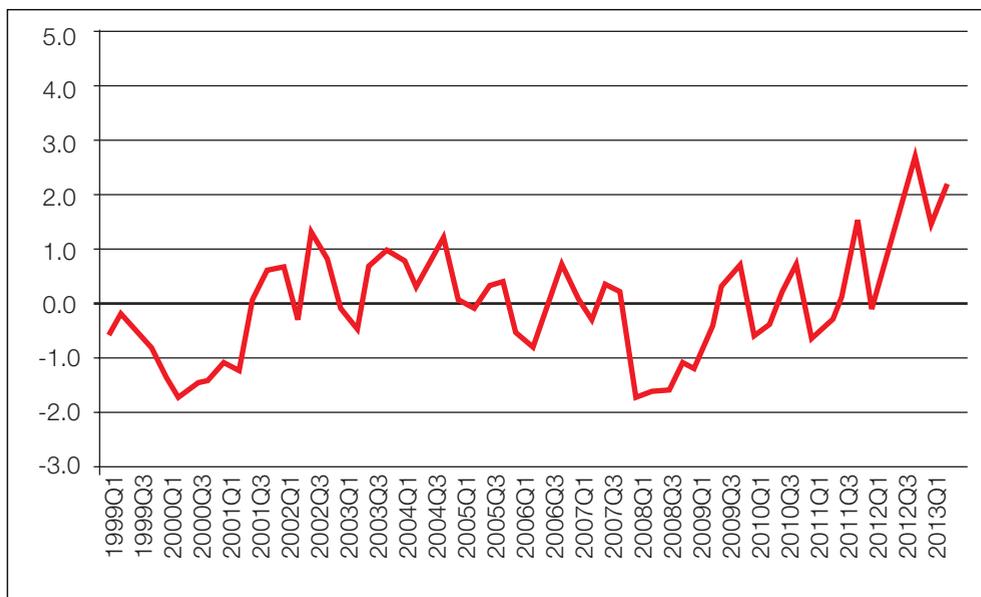
19 see e.g. O. Rehn, *Turning Germany's surplus into a win-win for the eurozone.*, *Olli Rehn's Blog*, November 11<sup>th</sup> 2013.

20 The recent decision to include Germany among the countries for which an in-depth review will be conducted within the Macroeconomic Imbalance Procedure (see the *Alert Mechanism Report 2014*) makes no exception. Echoing the vague content of the *Council Recommendation* n. 11216/13 of 8 July 2013, the decision was anticipated by a few days by the Economy Commissioner Olli Rehn (2013) who however only suggested Germany should reduce "high taxes and social security contributions" and liberalize some services sectors. In all evidence, it is a business as usual approach, founded on policy suggestions that would have been (and indeed were) advanced anyways, and which may even increase Germany's price competitiveness.

21 See: e.g. European Commission, *Current Account Surpluses in the EU.*, [in: ] *European Economy*, n. 9., 2012.

crisis), and since then it exhibits a consistent upwards trend, surpassing 2% of the area's GDP today. EU countries outside the Eurozone follow the same approach too.

Fig. 7 – Current account of the Eurozone, as a percentage of the area's GDP



Source: Eurostat.

If the strategy were successful in a medium-to-long term, we would observe a further appreciation of the euro and an accumulation of foreign assets in the Eurozone. That is, the re-proposition of those very imbalances that determine the Eurozone crisis today, reproduced on a global scale. One must not do a great effort to imagine, then, future Eurozone leaders reprimanding the deficit countries, starting from the USA, for their excessive debt and profligate policies.

Instead, it is the European growth strategy to amount to free-riding, i.e. selfish, unfair and uncooperative behaviour based on the other countries' inability or unwillingness to do the same. As shown in section 1 such behaviour, instead of creating demand for the goods and services produced by the firms, tries to capture the demand generated elsewhere, and it effectively exports unemployment abroad. For this reason, explicit condemnation of such strategy, though often narrowly directed against Germany, due to the sheer size of its current account surplus, are slowly starting to emerge<sup>22</sup>.

22 e.g. US Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, Office of International Affairs, Washington (DC); disponibile alla URL [http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2013-10-30\\_FULL%20FX%20REPORT\\_FINAL.pdf](http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2013-10-30_FULL%20FX%20REPORT_FINAL.pdf) 2013; IMF, *World Economic Outlook*, October, IMF: Washington (DC) 2013.

However, the experiment is unlikely to succeed, for two reasons. First, it is not a solution to the Eurozone crisis, at least not in the sense currently attributed to the word “solution”. As already mentioned, the current crisis exit strategy is based on the precept that the whole outstanding debt of the Eurozone countries has to be paid back in full. However, as shown in section 1 (compare in particular Figure 2) for capital to flow back to creditor countries, i.e. for debts to be paid back by the debtor countries, the country receiving a financial flow must necessarily exhibit a current account deficit. Although the point is a bit technical, the political implication is clear: “Greece” cannot repay “Germany” unless Germany starts exhibiting a current account deficit and Greece a surplus.<sup>23</sup> It is not a matter of willingness or nicety, but an insurmountable financial requirement. Thus, the current strategy effectively prevents the possibility for debtor countries to honour their debts, irrespective of growth, competitiveness or any other development. As a consequence, there are only two options: either the strategy will eventually be modified to allow for all-too-late defaults on the peripheral Eurozone debt, or the whole argument that Germany must not lose its competitiveness must be dropped.

Second, the strategy cannot succeed in the medium term also from a macroeconomic perspective. On the one hand, a great part of the current account improvement in the peripheral Eurozone countries depends on a fall in imports (contributing from 116% of the improvement in the Greek balance of trade between 2008 and 2012, to 18% in Italy, with a 37% average contribution in the PIIGS).<sup>24</sup> Thus, it has to be expected that as soon as a little growth will ever (if at all) come back to these countries, imports would suddenly recover and a current account deficit would re-emerge. On the other hand, given the size of the Eurozone, the rest of the world's economy is unable to create sufficient aggregate demand to drag the Eurozone back to growth, while also keeping the USA afloat.<sup>25</sup> So far at least, that is until the Eurozone's GDP shrinks to manageable levels.

Indeed, the current free-riding strategy is based on a doctrine that has been floating for a while during 2008-2009, that of a decoupling of growth in the developing and emerging countries from “growth” in the developed economies. Implicitly, given the long-term difficulties that still characterise the US economy, the European strategy attributes the burden of revitalising world aggregate demand mainly to the BRICS.

However, these countries' economies are too small and too fragile (not too say equally dependent on foreign demand) to do the job. As shown in Fig. 8, we observe clear signs of a slowdown of growth in the BRICS (from 6.2% in 2011 to 4.9% in 2012 to a forecasted

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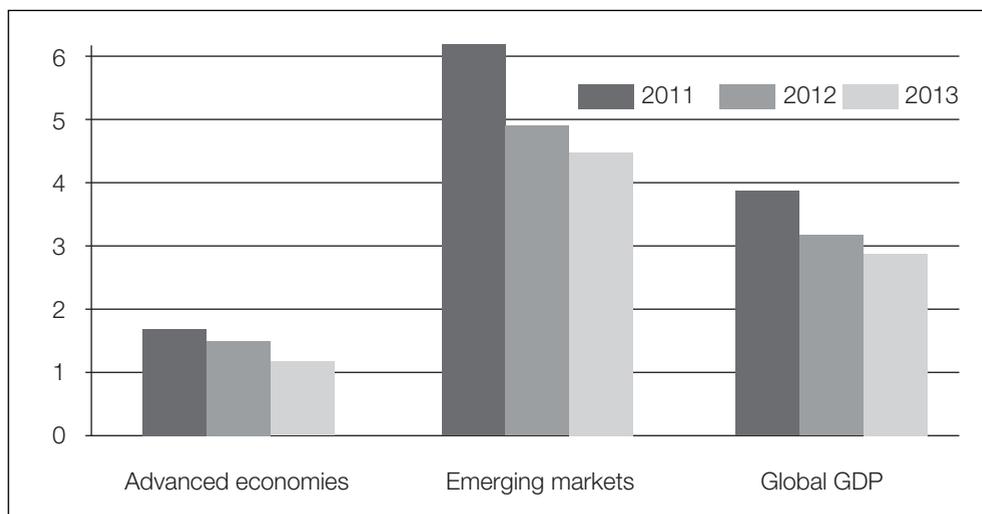
23 Of course, Germany's deficit may be vis-à-vis a third country, which may in turn exhibit a deficit vis-à-vis Greece, but such “triangulation” is a minor complication that does not change the argument.

24 The exception being Ireland, where imports have marginally increased (by 2%) in the 2008-2012 time span.

25 On the difficulties of the US economy, see e.g. L. Summers, *On secular stagnation.*, *Reuters Blog*, December 16, available at <http://blogs.reuters.com/lawrencsummers/2013/12/16/on-secular-stagnation/> 2013.

4.5% in 2013) and as a consequence, given what was said before, in global GDP (from 3.9% in 2011 to 3.2% in 2012, to a forecasted 2.9% in 2013).

Fig. 8 – The slowdown of world growth



Source: IMF (2013).

Thus far, most commentators have pointed to idiosyncratic difficulties in the single countries, such as China's difficulty to "rebalance" its growth model, India's delay of necessary "structural reforms", the "bottlenecks" created by the lack of adequate infrastructures in Brazil, etc. Or they looked at purely financial trends, such as the appreciation of emerging markets' currencies that followed the Federal Reserve's announcement of an imminent "tapering" of its Quantitative Easing (the program of massive US bond buying operations). Few observers so far have explicitly recognised the simple failure of the whole doctrine of a decoupling of growth in the BRICS from that in the developed countries<sup>26</sup>.

**In trying to obtain an impossible result the EU, as the largest economic area, represents a problem for the world economy. Curiously, the international spillovers of domestic monetary and fiscal policies, often over-criticised in the USA, are overlooked in Europe.** For example the European Commission, in a recent policy note highlighting the "Economic growth perspectives for Europe"<sup>27</sup>, presents future scenarios using two "key dimensions" defining the future state of the Continent: a strengthening of supply-side capabilities in Europe, and global demand for goods and services. In

<sup>26</sup> for an exception see: D. Gros, *Emerging Markets' Euro Nemesis*, Project Syndicate, September 6, available at <http://www.project-syndicate.org/commentary/how-the-euro-is-sinking-the-emerging-economies-by-daniel-gros> 2013.

<sup>27</sup> K. Pichelmann, *Economic Growth Perspectives for Europe*, ECFIN Economic Brief, n. 21, DG Economic and Financial Affairs, Bruxelles 2013.

other words, according to the Commission not only demand management should not be a concern for Europe, but even global aggregate demand is assumed to be completely independent (exogenous) from Europe's policies. As suggested above, the grown-up Continent still thinks of itself as a small child.

On the contrary, **Europe's free-riding must be seen as a major cause (though not the only one) of the ensuing 'currency war'**. Through a depreciation of the respective currencies, the USA, the UK, Japan and other countries attempt to escape from the depressionary trap that is to a large extent produced by Europe.<sup>28</sup> Such strategy, as it is well known, harms every country's trade partner and is thus likely to produce both further economic imbalances and diplomatic tensions (consider for example the role of "currency manipulation" accusations in the China-USA relations).

#### **4. Consequences of austerity for the international role of the euro**

**The involuntary promotion of protectionism and of a creeping currency war is not the only external consequences of the post-crisis European growth (or better, recession) strategy. In the financial domain, another consequence is the complication of the global struggle towards monetary and financial stability.** The topic has several relevant aspects (banking regulation, the regulation of the shadow banking system, the role of sovereign funds, etc.), but the most relevant from the point of view of the interconnection between the international system and a country' (or an area's) growth strategy concerns the international payment system and specifically the role of the euro.

As shown in fig. 9, real imbalances of the kind described in section 1 still characterize the world economy: they are summarized by the accumulation of foreign debt in some countries and correspondingly the accumulation of official reserves in others (i.e. claims towards the debtor countries). Due to Triffin's dilemma, the USA leads the group of debtor countries, thereby generating aggregate demand for the rest of the world and providing it with the dollars it needs for settling international transactions. However, also in the Bretton Woods II system, the growth in US debt is increasingly perceived as unsustainable. In the medium term, this may lead to the ousting of the dollar from its international role, or at least the adoption of a plurality or a basket of currencies as "the" international reserve currency. For example, as shown in fig. 9 a flight from the dollar is implicit in the increasing share of

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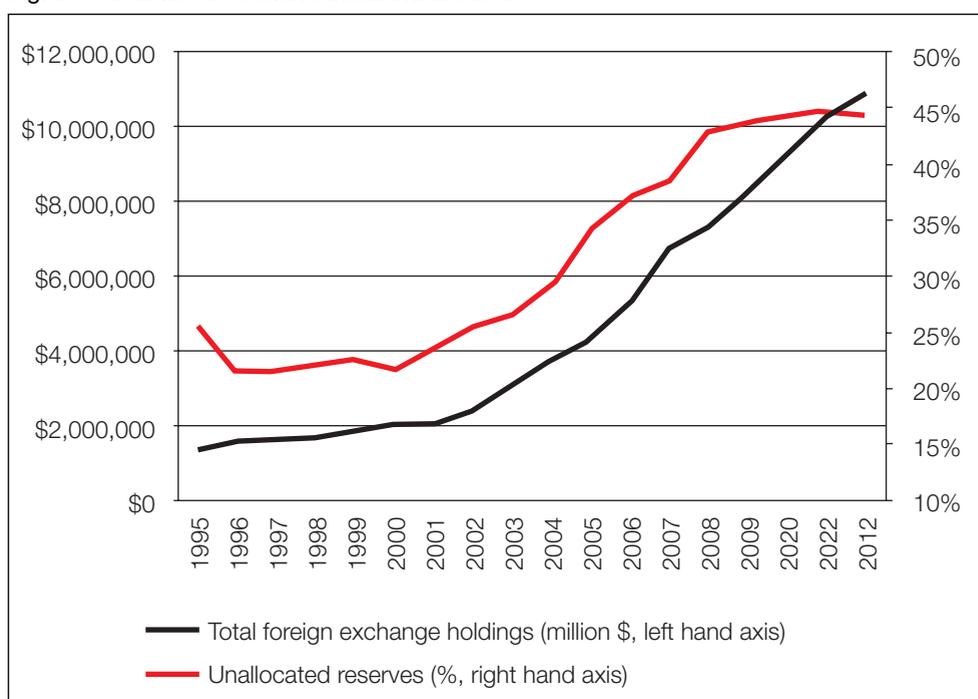
28 On the contrary, and as opposed to the 1930s, more limited 'unfair' competition seem possible in the field of international trade policy (i.e. through tariffs, quotas etc.) due to the existence of binding international treaties and multilateral organisations aimed at preventing it. However, a slowdown of the process of further trade liberalisation is to be expected, as well as a documented raise in such practices that we may deem "micro-protectionism" (see: e.g. S. J. Evenett, *Débâcle: The 11th GTA Report on Protectionism.*, Centre for Economic Policy Research, London 2012).

official reserves that are not allocated in any currency (thus for example they take on the form of commodities, such as gold or other financial assets).

Creditor countries increasingly feel the urge to diversify their portfolios, fearing a possible long-term fall in the value of the dollar. At the same time, the emerging economies claim a stronger role in global economic governance and a reduction of the 'exorbitant privilege' that the dollar conveys to the USA. In the case of China, the two policy stances are simultaneously present<sup>29</sup>.

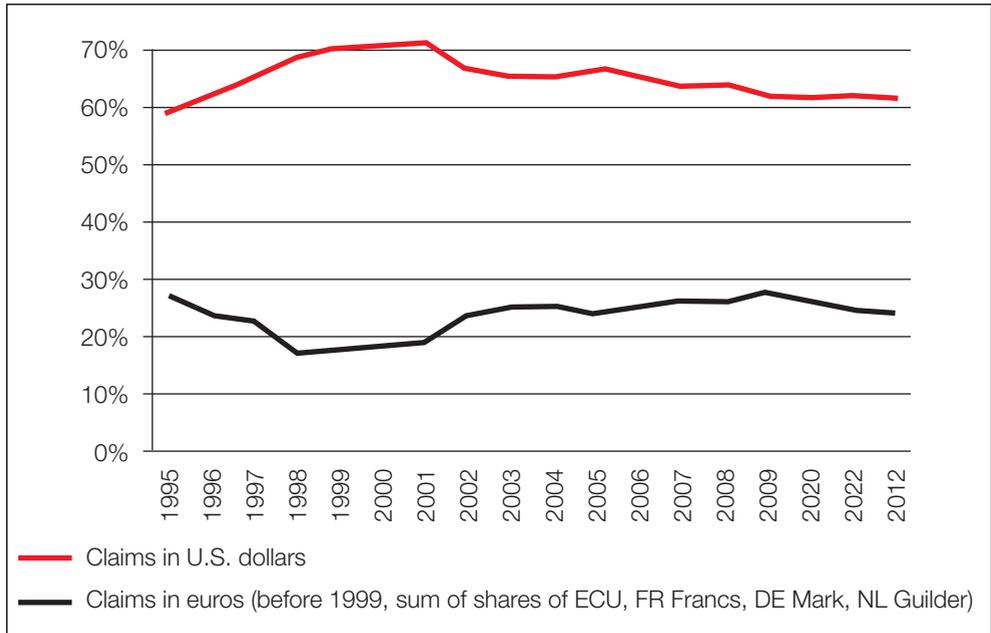
However, as shown in fig. 10, the euro is hardly benefiting from this trend. The share of disclosed official reserves held in euros has slightly increased during the 2000s, but it is not different from the sum of the shares of the ECU, Deutsche Mark, French Franc and Dutch Guilder prevailing in the 1990s. Today, less than 1/3 of world disclosed official reserves are held in euros, mainly as a consequence of portfolio diversification on the side of the central banks of the creditor countries. If we compare such share to the size of the Eurozone's GDP, one cannot seriously consider the euro as a likely candidate to the role of "international money" in the near future.

Fig. 9 – Persistence of international imbalances



29 see e.g. the statement by Zhou Xiaochuan, *Reform the International Monetary System.*, Speeches, Beijing: People's Bank of China, March 23, available at [http://www.pbc.gov.cn/publish/english/956/2009/20091229104425550619706/20091229104425550619706\\_.html](http://www.pbc.gov.cn/publish/english/956/2009/20091229104425550619706/20091229104425550619706_.html). 2009, the central bank's governor.

Fig. 10 – The role of the euro and the dollar



Source: IMF, Currency Composition of Official Foreign Exchange Reserves (COFER).

Specifically, the financial crisis in the USA has not had any dramatic impact on the share of the dollar in the international reserves, whereas since 2009 the euro more neatly reversed its upward trend. Such trends are partly a consequence of still insufficient confidence in the financial markets on the stability (indeed, in the survival) of the euro. However, they also denote that the dollar still enjoys a ‘safe haven’ status, despite high uncertainty on the future conduct of monetary policy as well as strong political turbulence that, in the case of the debt ceiling debates, repeatedly brought the country to the edge of a sovereign default.

In the wake of such situation, the current European strategy is an obstacle to the affirmation of the euro as a complement (or potentially as a substitute) of the dollar from two points of view. On the demand side, by compressing aggregate demand the strategy is producing no or feeble growth in the Continent, thus reducing the financial attractiveness of the currency. The euro is indeed appreciating on the markets, but mostly as a consequence of the other currencies’ depreciation, whereas the long-term prospects of the euro remain obscure.

On the supply side, the quest for a current account surplus, which as shown in fig. 1 was reached in 2012, implies that the capital and financial accounts of the balance of payments of the Eurozone must exhibit an outflow of resources (see footnote 1). Thus, rather than the rest of the world demanding euro-denominated reserves, we deliberately created a situation in which European residents systematically accumulate foreign assets.

Again, a strong growth of aggregate net euro holdings by foreign residents is not just unlikely, it is financially impossible.<sup>30</sup>

From a long-term perspective, this state of affairs is broadly in line with the long-term objectives of at least some European institutions. As Mario Draghi, President of the European Central Bank puts it, “[t]he international role of the euro is primarily determined by market forces, and the Eurosystem neither hinders nor promotes the international use of the euro”<sup>31</sup>. Such an approach should not come as a surprise. Indeed, as Eichengreen<sup>32</sup> shows, the Deutsche Bundesbank (Germany’s central bank) was never at ease with the Deutsche Mark’s role as a “safe haven” asset because this implied massive capital inflows in West Germany when tensions heightened at the international level, and capital outflows when the international economy was heating. In other words, in a country whose money is at least partly an international reserve currency, market movements may make the Central Bank loose (at least partly) control over the supply of money, specifically inducing hatred (Keynesian) counter-cyclical monetary policies.

However, **from several points of view the establishment of the euro as an international reserve currency seems a precondition for a return to much needed expansionary policies in Europe.**<sup>33</sup>

First, a high and stable foreign demand for a currency allows the issuing country to more easily enact expansionary fiscal and monetary policies, because the status of reserve currency makes sustainable (at least temporarily) significantly higher levels of debt. As shown in section 1, this is indeed the not too secret ingredient of American prosperity in the XX century. On the contrary, if any other country, i.e. one whose currency is not widely adopted as international reserve asset, attempts sustained Keynesian policies for a long period of time, it will necessarily incur into the “external constraint”. That is, a country cannot grow significantly higher than its exports, because otherwise imports grow too fast and a balance of payments crisis comes next<sup>34</sup>. This is even more true for countries that adopt a fixed exchange rate, or the member States of a currency union, such as the euro.

**However, from several points of view the establishment of the euro as an international reserve currency seems a precondition for a return to much needed expansionary policies in Europe.**

30 Thus several arguments in support of the current “no sovereign default” policy lose their significance.

31 ECB, *The International Role of the Euro.*, July 2013, Frankfurt: European Central Bank 2013, p. 6.

32 B. J. Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System.*, Oxford University Press, New York 2012.

33 They are especially to be enacted at the European level, because otherwise balance-of-payments imbalances may arise within the Eurozone itself (see: R. Mazzocchi, op.cit. 2013).

34 A. P. Thirlwall, *Balance of Payments Constrained Growth Models: History and Overview.*, [in:] *PSL Quarterly Review*, vol. 64, 2011, n. 259, pp. 307-351.

Second, the “liquidity premium” accorded to assets denominated in the international reserve currency implies that the market demands lower interest rates on such assets, for any given level of debt and of underlying risk. Thus, by lowering interest rates and raising the demand for euro-denominated assets, an international reserve currency status for the euro would promote much-needed investments in Europe.

As the very good inaugural issue of longterm bonds by the ESM shows, there is strong demand for financial assets that are jointly issued by the Eurozone countries. Besides reducing pressure on the dollar, they also provide a viable way for foreign actors to diversify their financial portfolios. However, such issuances (also by the European Investment Bank) do not cover even a small fraction of what would be needed to make euro-denominated assets so highly liquid on international markets as to credibly complement (or challenge) the dollar. Joint European bonds, of the kind that so high objections have so far encountered in Germany, are needed to such aim.

Incidentally, once again such an alternative growth strategy, based on internal demand and the international role of the euro, would contribute to global financial stability, also from a financial point of view. As the closest thing to “risk-free assets” available on the markets, Eurobonds would constitute an instrument required for the efficiency of financial markets.<sup>35</sup>

## 5. Concluding remarks

In conclusion, **Europe’s self-centred strategy, which is frequently criticised by progressive commenters for being ineffective in reducing public debts and masochist in its social impact, should also be regarded as prone to inducing hostile reactions on the side of the rest of the world, and possibly fostering a world-wide pursuit of uncooperative policies and global instability.**<sup>36</sup> Europe is, of course, not the only global player following such strategy (a chief suspect being e.g. China), but it is the largest one.

**Europe’s lack of global vision has consequences for its internal dynamics as well.** A different growth strategy, more clearly based on internal demand, would require even more centralisation and coordination of the Eurozone countries’ policies and institutions (e.g. it would require common Eurozone bonds). That is to say, it may induce even more tensions with the EU countries that do not belong to the Eurozone<sup>37</sup>. Some such countries may already be moving in other directions: for example the UK, with the recently announced currency swap agreement with China’s central bank, aimed at making

<sup>35</sup> See: Economic Sciences Prize Committee of the Royal Swedish Academy of Sciences 2013.

<sup>36</sup> This is not to talk of other policy areas in the international relations field, such as Europe’s conspicuous absence, or irrelevance, in the search for a more stable financial system.

<sup>37</sup> See: for example the interview with Anders Borg, Sweden’s finance minister, Financial Times of 19/02/2013.

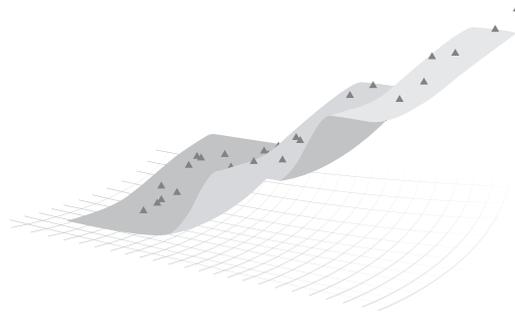
of London the largest offshore renminbi centre (considering Hong Kong as part of China), or the recent move by ICBC, China's first mainland bank to issue an offshore renminbi bond in London.

Thus, although foreign policy is obviously not limited to economic matters, it seems that the current economic crisis crucially requires a clarification of the relative standing of the EU and the Eurozone, as well as of both entities' role in the global economy. At stake is not only Europe's citizens welfare (especially in the peripheral Eurozone countries) but also global stability and the pursuit of shared prosperity. Paraphrasing George Soros, it seems that the euro must decide either to lead the global economy (jointly with other major economic areas) or to leave the scene.

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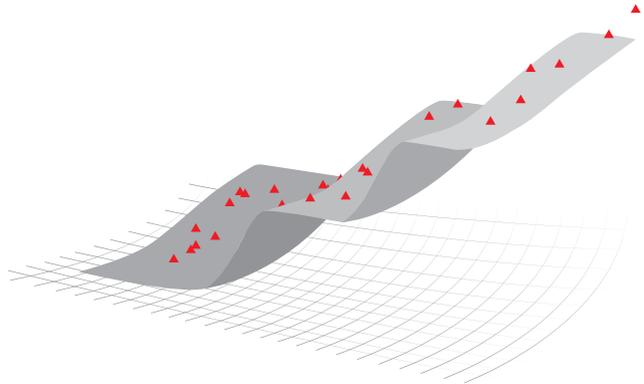


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Amandine CRESPIY

# **Mediating (Rather Than Eluding) Contention for Enhanced Democracy in the EU**



**Keywords:**

**Contention – Democracy – Meaning – Linkage - Responsiveness**

**Abstract:**

This article engages with a reflection on forms of political contention in the European Union (EU) by elaborating on the notion of contention. An analytical framework is put forward for assessing the potential of various forms of opposition with regard to the democratic legitimacy of the EU. This framework aims at examining to what extent various forms of opposition provide linkage, meaning and responsiveness within the European multi-level system. It is argued that institutional settings are paramount for shaping not only the expression of opposition but also responses that emanate from established decision makers. In contrast with national or intergovernmental settings, transnational settings are more conducive of linkage, meaning and responsiveness. An illustration is provided by a paired comparison of four instances of political contention over European issues: referendum campaigns for (failed) ratification of the European constitutional treaty, protest against austerity plans in response to the debts crisis in the Eurozone, mobilisation against the EU directive for services liberalisation, and protest against the international counterfeiting agreement (ACTA).

The debt crisis in the Eurozone and, more generally, the political climate accompanying current European times of austerity poses the question of conflict over European integration more acutely than ever. Not only does it take the legitimacy crisis of the European Union (EU) itself to a new climax, but it also casts shadows on national democracies as some countries on the continent have poorly governable.

Three broadly admitted propositions have shaped the debate regarding political conflict in the EU. First, although the politicisation of Europe has increased in the post-Maastricht era characterised, bringing about a constraining dissensus among the publics<sup>1</sup>, the EU has remained a not very salient issue in everyday politics. EU integration does not constitute a new cleavage, which has upset traditional party systems and, if punctually awake like during referendum campaigns, the “giant” is still sleeping in “normal times”<sup>2</sup> and that most citizens are more indifferent towards Europe<sup>3</sup>. Second, the literature on Euroscepticism has mostly forged the idea of a clear difference between hard hostility towards the EU itself or the project of supranational integration, on the other hand, and softer hostility towards policies decided at EU level, on the other hand<sup>4</sup>. While, from a normative point of view, the latter could be considered more or less legitimate, the former emanated from nationalist Eurosceptics or marginal neo-Communists whose voice was *de facto* negligible. Third, the EU has largely been conceived as a system geared towards the creation of consensus. The rise of the deliberative paradigm within has mainly served an elite-driven and centrist conception of European politics within the Brussels microcosm populated by professionals of Europe. The ‘Brussels consensus’ exclusive of most critical voices has been rather counterproductive with regard to the democratic deficit of the EU. The politics of the Euro-crisis challenge these propositions very seriously. The fact that, more than sixty years after the end of World War 2, a neo-Nazi party enters a democratic parliament (in Greece) should alert us about the awakening of the sleeping giant. One also needs to note that, rather than institutional issues or a grand debate over federalism, it is the effects of monetary integration on economic, fiscal, and social policy and, more recently, the perceived failure of monetary integration which feeds citizens’ resent towards

1 L. Hooghe and G. Marks *A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus.*, [in: ] *British Journal of Political Science*, 2009, 39 (1), pp.1-24.

2 C. van der Eijk and M. Franklin, Potential for contestation on European matters at national elections in Europe., [in: ] G. Marks & M. Steenbergen, *European Integration and Political conflict.*, Cambridge: Cambridge University Press, 2004, pp. 32-50.

3 V. van Ingelgom, *Integrating Indifference. A comparative, qualitative and quantitative approach to the legitimacy of European integration.*, Colchester: ECPR Press 2014.

4 A. Szczerbiak & P. Taggart, *Opposing Europe ? The comparative Party Politics of Euroscepticism. Comparative and Theoretical Perspective.*, Oxford, New York: Oxford University Press 2008.

the EU. As noted elsewhere, the EU suffers from a “contentious spill over”<sup>5</sup> from policy to polity, calling for a shift away from the conventional conceptions of Euroscepticism.

All of this suggests that, **while conflict on European integration is pervasive, it is still unstructured and comes to expression under punctual, idiosyncratic, and increasingly radical forms.** Surprisingly, the issue of conflict in the EU political system has received little attention as the literature tends to focus either on adaptation and reactions of national political systems or on contentious mobilisations in more globally. This paper therefore seeks to make a contribution to the (scant) literature that brings power and protest in the EU together<sup>6</sup>. As a normative starting point, it takes issue with the consensus-oriented conception of European politics. Literature in political theory<sup>7</sup> and sociology of collective action<sup>8</sup> provides solid arguments as to why the expression of political conflict (between interests, values, identities, etc) lies at the core of democratic politics and acts as the engine for the democratization of political systems<sup>9</sup>. Assuming that democratic legitimacy results from the ability of the political system to deal with conflict, the question the paper tries to answer is therefore: how and when can conflict in the EU be expressed, mediated and alleviated?

The argument put forward is of institutionalist nature<sup>10</sup>: in order for conflict to enhance

**All of this suggests that, while conflict on European integration is pervasive, it is still unstructured and comes to expression under punctual, idiosyncratic, and increasingly radical forms.**

5 A. Crespy, A. *Legitimizing resistance to EU integration: Social Europe as a europeanized normative frame in the conflict over the Bolkestein Directive.*, [in: ] *Les Cahiers européens de Science Po*, 2010/03.

6 R. Balme and Chabanet, D. *European Governance and Democracy. Power and Protest in the EU.*, Lanham: Rowman & Littlefield 2008.

7 Young, I. M. *Inclusion and Democracy.*, Oxford: Oxford University Press 2000; N. Fraser, *Social Justice in the Age of Identity Politics: Redistribution, Recognition, and Participation.*, [in: ] N. Fraser & A. Honeth, *Redistribution or Recognition?*, London : Verso, 2003, pp. 7-109; J. Dryzek, *Foundations and Frontiers of Deliberative Governance.*, Oxford: Oxford University Press 2010.

8 M. Giugni et al., *From Contention to Democracy.*, Lanham, Maryland and Oxford: Rowman & Littlefield 1998; C. Tilly, *Contention and Democracy in Europe, 1650-2000.*, Cambridge: Cambridge University Press 2004.

9 in EU context, see: A. Crespy, *Deliberative democracy and the legitimacy of the European Union: a reappraisal of conflict.*, [in : ] *Political Studies*, 2014, 62(S1), pp. 81-98.

10 This echoes the argument made by Marks and McAdam (1996) that the institutional functioning of the EU shapes the way non-institutional actors mobilise. In that sense, the argument presented here echoes the well-known theory of opportunity structures (Kitschelt 1986, Kriesi, Koopmans, Duyvendak and Giugni 1995). While drawing from these approaches, this paper brings new insights in two respects. First, the argument that institutions of the EU polity shape the forms of protest has been made mainly in reference to the multi-level nature of the EU (Grande 1996) as we know that different contentious coalitions have adapted their practices in order to direct their claims to regional, national and European authorities at the same time. Here, the focus lies on a different way institutions can impact the forms of political contention, namely the contrasted procedures for decision making in different policy areas. Whether decisions are to be made in the national, intergovernmental or transnational setting, I argue, has a decisive impact on the nature of conflict or opposition. Second, it has been highlighted in the literature that mimesis between multi-level institutionalised politics and contentious interest representation has implied the domestication of conflict and the prevailing of moderate claims and actors over the most radical

the legitimacy of EU policies and institutions, the expression of conflict can best be expressed, mediated and alleviated in transnational settings, as opposed to national or intergovernmental settings<sup>11</sup>. The paper puts forward an analytical framework with three dimensions: the activation of linkage between political institutions and citizens<sup>12</sup>, the articulation of meaning through contention<sup>13</sup>, and responsiveness by decision makers<sup>14</sup>.

In order to provide empirical support for such a claim, the paper compares four instances of conflict over EU matters or, more precisely, on two contrasted pairs of cases. On one hand, contention in national-intergovernmental settings with the campaigns the European Constitutional Treaty (ECT) and the Lisbon treaty by referendum respectively in France and Ireland; and protest against recent austerity policy in Spain and Greece. On the other hand, contention in a transnational setting, that is under co-decision and the consent procedure, with opposition to the Services Directive and the international anti-counterfeiting agreement (ACTA). Whereas the first two cases occurred how conflict in juxtaposed but uncoordinated national arenas leads to anti-system claims and poorer legitimacy of the European multi-level polity, the two latter cases provide evidence that the transnational setting allowed for a process of conflict mediation and (even modest) re-legitimisation of the EU and national governments as a whole. The analysis of the national-intergovernmental cases relies on the abundant available literature, while the data on transnational oppositions builds on original field research.

One major finding is that in transnational settings, **the role of the EP is key for activating linkage, meaning and responsiveness as both peripheral and mainstream political groups contribute to channel grass-roots contention into the political institutions.**

The first section explains in what respects the EU lacks opposition politics and builds the analytical framework. The second section presents the cases and the data. The third section provides for an analytical and synthetic account of the case studies. The conclusion enlarges on the implications of the findings.

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ones. Here, we look at protest that has both radical and moderate components. Rather, the emphasis is put on the outcome of contentious processes and potential for conflict alleviation and legitimation of the EU polity.

11 Institutional setting is defined here as the specific combination of legal procedures and political arenas which are relevant for the decision making process. The nature of the institutional setting determines *who* is included in or excluded from decision making.

12 H. Kitschelt, *Political Opportunity Structures and Political Protest: Anti-Nuclear Movements in Four Democracies*, [in : ] *British Journal of Political Science*, 1986, 16(1), pp. 57-85.

13 D. A. Snow & R. D. Benford, *Ideology, Frame Resonance and Movement Participation*, [in: ] *International Social Movement Research* 1988, 1, pp. 197-218; Tarrow 1992)

14 P. Mair, *Representative versus Responsible Government*, MPIfG 09/8, 2009, available from <http://www.mpifg.de/pu/workpap/wp09-8.pdf> (date accessed 13 May 2013).

## 1. The mechanisms for conflict mediation

### 1.1 Activating linkage

The analytical framework used for the case studies focuses on three dimensions as to how opposition politics can effectively mediate conflict in a political system: *linkage*, *meaning*, and *responsiveness*.

Firstly, *linkage* between citizens and decision makers is regarded as a main feature of political systems. In his review of the (fragmented) literature about the notion of linkage, Kitschelt identifies two main forms of voter-elite linkage in democracies, namely programmatic and clientelist linkage, leaving aside charismatic linkage provided by strong personalities. Kitschelt underlines an important point: from an analytical point of view the distinction between both types of linkages does not reside in their different normative nature or end effects, but is primarily procedural. Programmatic linkage – present both in Lipset and Rokkan's cleavage theory and Down's spatial theory of political systems – allows voters to anticipate the redistributive effects of parties' programs and relies on organizational structures, procedures and articulation of policy issues for party competition and the conduct of public policy. In contrast, clientelist linkage occurs through direct exchanges aiming at the satisfaction mutual benefits either through face-to-face interaction or via larger scale providers of selective incentives in the political system. Furthermore, in representative democratic regimes, linkage is mainly performed by elected members of parliaments through the abstract notion of representation. Representation has little to do with the sociological representativeness of elected representatives *vis-à-vis* voters, but more with the representation specific constituencies' interests combined with the political commitment and discursive articulation of programmatic goals. For Kitschelt, both types of linkage are empirically equally conducive of political stability and no trade-off exists between them. Starting from there, what can we say about linkage in the EU? In many respects, the various – social, functional, participatory, or collective – dimensions of linkage performed by elected representatives in national democracies remain weak at European level<sup>15</sup>.

Back to Kitschelt, few selective incentives are available as to EU elites. The few resources and distributive policies are not important at the scale of the Union and are either focused on not very large constituencies (agricultural policy) or on diffuse territories (regional policy) and, more importantly, they are filtered by national and regional administration. On the other hand, programmatic linkage is hindered by the fact that the mere replication of national cleavages at European level cannot be assumed. European party confederations' manifestos are compromise documents which remain largely unknown from the wider

15 P. Norris, *Representation and the democratic deficit.*, [in: ] *European Journal of Political Research*, 1997, 32(2), pp. 273-82.

public, the programmatic profile of national parties is frequently diluted in the compromises due to ideological discrepancies within the own European party family or due to diverging views in the various institutions of the EU. Historical experiences of contentions show that the lack of voter-elite linkage is both the cause and the consequence of the threat posed by contention to representative democracy itself. The question therefore arises as to what extent and under what conditions can opposition outside the parliamentary realm provide for linkage between citizens and EU institutions, the PE in particular?

For assessing this, it may be useful to adopt a more pragmatic approach to *linkage* and try to assess to what extent can contention establish more or less direct interactions through mobilisation on the ground, lobbying, etc during a contentious debate or a campaign and the proclaimed defence of more or less specific or diffuse interests by representatives or decision makers in EU institutions. In this pragmatic, interactionist perspective, *linkage* is rather the result of a mechanism, which is punctually activated rather than structurally given in the political system. Furthermore, it cannot be isolated from, if not programmatic linkage – an ideational dimension related to argumentative exchange and the necessary dynamics of persuasion that accompanies political conflict.

## 1.2 Articulating of meaning

The articulation of meaning aiming at persuasion – by means of ideas and ideologies, rhetoric, framing, visual representations, and so on – constitute the substance of democratic politics. However, it is now a commonplace to underline that the political culture at the European supranational level has consistently valued expertise over ideology and the technocratic making of policies over politics. In fact, decision makers at European level have mainly used a “coordinative” type of discourse targeting epistemic communities and policy networks, rather than “communicative discourse” addressing voters and public opinions at large<sup>16</sup>. As a consequence, it is difficult for a vast number of citizens to articulate an opinion on many European issues because these do not make sense in a political way for them. The articulation of “meaning work” has been identified as a main dimension of grassroots mobilisation by students of social movements and is at the root of research on framing processes. While framing and meaning work overlap to a certain extent with programmatic linkage, there are distinct mainly in two ways. Although they may be grounded in well-known political ideologies<sup>17</sup>, frames are more fluid and do not constitute political structured grammars and can bring together elements emanating from opposed traditions of thought. Frames more often entail a strong cultural and identity dimension which has waned in large

16 V. A. Schmidt, *Democracy in Europe. The EU and National Politics*. Oxford & New York: Oxford University Press 2006.

17 D. A. Snow & R.D. Benford, *Ideology, Frame Resonance and Movement Participation*, [in: ] *International Social Movement Research* 1988, 1, pp. 197-218., P. Oliver & H. Johnston, *What a Good Idea! Frames and Ideology in Social Movement Research*, [in: ] *Mobilization* 2000, 5 (1), pp. 37-54.

mainstream parties' manifestos with the decline of class politics. They aim at mobilizing support because they clearly delineate protagonists and antagonists in a conflict. At the end of the day, conflicts are also often conflicts over the meaning of things. The purpose here is therefore to shed light on the conditions in which extra-parliamentary forms of opposition can not only serve the expression of conflict, but make sense of European issues in a way that allows conflict resolution and can be conducive of legitimacy for the EU.

#### 1.4 Triggering responsiveness

The *responsiveness* of governing institutions to claims and demands emanating from citizens is a key aspect of political legitimacy. Mair has stressed the growing tension, in contemporary political systems, between government responsiveness, "*whereby political leaders or governments listen to and then respond to the demands of citizens and groups*"<sup>18</sup>, and responsibility, which refers to the "administration of things"<sup>19</sup> and policy making in increasingly constraining environments. He therefore associates responsiveness with democratic representative "input legitimacy"<sup>20</sup> or "the world of public opinion"<sup>21</sup>, and responsibility with efficient "output legitimacy" or "the world of problem-solving"<sup>22</sup>. However, in the European context characterised by the weakness of representation and input legitimacy, it is useful to look at what Easton called throughput legitimacy, as recently suggested by Schmidt<sup>23</sup>. Throughput legitimacy results from the involvement of (more or less organised) civil society during the very process of policy making, thus referring to the democratic nature of governance procedures. It is therefore important to examine if and in what circumstances do EU institutions and leaders prove able to respond to contention in the course of policy formulation and adoption. Such responsiveness seems to be particularly important in order to offset the lacks of other dimensions such as the weak input of citizens through the EP election. Furthermore, the absence of effective response by decision makers and institutions can only strengthen the feeling widespread among citizens that EU integration is ineluctable and that both they and their elected representatives are powerless in effectively shaping its course.

In a nutshell, the analytical framework put forward here suggests that **contention in the EU will lead to enhanced legitimacy of EU policies and institutions if it generates linkage across the EU multi-level political system, if it confers political meaning**

18 P. Mair, op. cit., 2009, p. 11.

19 Ibidem p. 3.

20 F. Scharpf, *Governing in Europe. Effective and democratic?*, New York: Oxford University Press 1999.

21 J. Leca, *Ce que l'analyse des politiques publiques pourrait apprendre sur le gouvernement démocratique.*, [in: ] *Revue française de science politique* 1996, 46 (1), pp. 122-33.

22 Ibidem

23 V. A. Schmidt, *Democracy and Legitimacy in the European Union Revisited : Input, Output and Throughput.*, [in : ] *Political Studies* 2013, 61(1), pp. 2-22.

making European issues resonate in an intelligible way for citizens and if it brings about a response from decision makers. The following argument is that this can be performed in some institutional settings better than in others.

## 2. Cases and methods

### 2.1 Cases

The typical instance of opposition to the EU comes about with referenda over EU treaties or issues. The recent rejection of the ECT by referendum in France and the Netherlands, and of the Lisbon Treaty by Ireland offers a good illustration of popular opposition to the EU. After the approval by a large majority of Spanish voters in February 2005 (76,7%), the clear 'no' that came out of the French polls (54,9%) on May 29<sup>th</sup> that same year was a shock for European leaders. Three days later, the refusal of a majority of voters (61,5%) of voters in another founding EU Member State definitively stopped the ratification process of the so-called European Constitution. National referenda over EU treaties are typically considered as instances of dissent over constitutional issues, i.e. the regime itself. Interestingly, however, European treaties in this respect are intrinsically ambiguous since they contain the entire EU law including the lengthy and complex provisions over each EU policy. This has been seen as a factor feeding potential opposition as the likelihood of dissent increases with the number of issues at stake. Indeed, referendum campaigns in the three countries at stake did not focus on constitutive regime issues – which were targeted by the treaty reform – but on the contrary on specific policy issues, notably market regulation, social policy, financial solidarity, abortion, effects of the common currency, etc. Various policy issues were then connected to procedures and institutions and fed the idea of the EU being un-democratic. This article will examine the referendum on the European Constitutional Treaty in 2005 in France and the referendum on the Lisbon Treaty in 2008 in Ireland. While the content of the Lisbon treaty was largely similar to that of its predecessor, both countries have deeply contrasted political systems and cultures. This will allow showing that, beyond national differences, the referendum as a procedure has similar overall effects on the legitimizing dynamics in the EU as a whole.

A second form of contention over EU issues is protest over various EU issues at the national level. As scholars of social movements have shown, domestication of conflict – where national actors target national governments – has remained by far the main form of voice against EU policies and institutions<sup>24</sup>. The most recent illustration concerns the debt crisis and protest against austerity policy. On the one hand, plans including drastic measures of budgetary austerity (job cuts in the public sector, in welfare benefits,

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24 D. Imig & S. Tarrow, *Mapping the Europeanization of Contention: Evidence from a Quantitative Data Analysis.*, in D. Imig and S. Tarrow., *Contentious Europeans. Protest and Politics in an Emerging Polity*. Lanham, Boulder, New York & Oxford: Rowmann & Littlefield, 2001, pp. 27-49.

in pensions, etc) were imposed by the IMF, the ECB and the EU Commission upon governments in Ireland, Greece and Portugal as a condition for receiving financial help from the EFSF and EMS. In the other European countries more or less drastic austerity plans were enforced to reduce public debt and deficit in order to avoid resorting to financial support (Italy and Spain) or simply to abide by the common rules agreed in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (also known as the “fiscal compact”) adopted in 2012 by all EU Member States except for the United Kingdom and the Czech Republic. Member States’ commitment to these rules is being closely watched by the European Commission which has started to issue specific recommendations for the Member States to achieve the targets. All of this therefore accounts for the increased intertwining of national and European politics. While mobilisation in Greece, the *Indignados* and the Occupy movements can be regarded as belonging to the same cycle of protest, coordination among national borders remained too loose to be seen as transnational mobilisation remained too loose<sup>25</sup>, spill-over of these movements, for instance to France and Italy, were limited; the European Social Forum played no role as the 2010 meeting in Istanbul recorded low attendance. In fact, these movements operated primarily in the national framework. The march from Madrid to Brussels launched in October 2012 only gathered a few hundreds of *Indignados*. While claims were denouncing the responsibility of national governments, the Troika and the IMF in detrimental and undemocratic neo-liberal policy, the EU institutions did not stand out as a main addressee of grievances. Each government was facing a different movement made of the actors characterising the national political scene, for instance as to the presence of trade unions or radical anarchist groups are concerned. Hence, although these movements undeniably display transnational similarities as far as claims are concerned, they can be regarded as mainly national from an organisational and performative point of view.

In contrast, several cases of transnational opposition over EU issues can be found in the recent past of EU politics. Protest against the Services Directive, better known as the “Bolkestein Directive”, stands out as a striking moment in contemporary EU politics. Between 2004 and 2006, a myriad of civil society organisations mobilised against the piece of legislation which foresaw the far-reaching liberalisation of all services activities in the EU. This occurred under the framework of co-decision, or the ordinary legislative procedure. Claims were mainly related to risks of social, wage and regulatory dumping, - notably between firms and workers from the West and the East – and the liberalisation of public services. Protest occurred in several countries (including Belgium, France, Germany, Spain and Sweden)

25 M. Pianta & P. Gerbaudo, *European alternatives : trajectories of mobilisation responding to Europe's crisis.*, published on *OpenDemocracy* 2012, available online from [www.opendemocracy.net](http://www.opendemocracy.net) (date accessed : 25 April 2013); A. Wigger & L. Horn, *Ungleiche Entwicklung und politischer Widerstand.*, [in : ] *Das Argument* 2013, 55, pp. 301-2.

and was coordinated transnationally with two large Euro-demonstrations in Brussels and Strasbourg in 2005 and 2006. The debate had widely interfered with the ratification of the ECT. Although relating to a policy issue, the debate actually staged a wider debate on the nature of capitalism in Europe opposing a market-based neoliberal vision of the EU to a regulated European social market economy. This debate also conflated with claims about the democratic nature of the EU. After two years of contention, a compromise was forged (mainly in the European Parliament) in a milder version of the liberalization directive which takes on board the criticism addressed by pro-regulation contenders.

A further, more recent, example of transnational contention deals with the international treaty known as ACTA. The Treaty had been signed by all European government after negotiations steered by the European Commission. Since the entry into force of the Lisbon Treaty, the EP has to give its consent on international treaties, which gives the assembly a power of veto (consent procedure). While the main object of the treaty was the counterfeiting of manufactured goods, protest crystallised provisions aiming at a strict enforcement of intellectual property rights, including the penal sanctions against internet practices widespread among consumers, as well as on the issue of generic medicines. Mobilisation was led by associations promoting civil liberties on the internet and various NGOs. It was particularly strong in Central and Eastern European countries as well as in Germany. Large demonstrations took place in numerous large and medium-sized cities across the continent February 2012. Beyond treaty provisions, opponents denounced the lack of transparency in the negotiations, the ambiguous stance of the EU Commission and, more generally, the non-democratic way in which the EU's position on international treaties is determined. For the first time, the EP was had to exert its new competence on international treaties conferred by the Treaty of Lisbon. On 4 July 2012, a majority of MEPs rejected the treaty which had been signed by 22 out of 27 EU governments. The non-ratification by the EU was to result in the burial of the international treaty.

## 2.2. Data and methods

Why should we compare these four cases? The methodology used here is that of paired comparison as outlined by Tarrow<sup>26</sup>. Comparison does not solely rely on the identification of similarities but rather on logical patterns of similarities and differences. The four cases selected here display a number of shared commonalities related to the fact that we operate in a single multi-level political system. In all cases:

- a) EU integration is the object of contention,
- b) opposition is expressed both inside and outside the institutional realm thus involving conventional and unconventional forms of contention,

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26 S. Tarrow, *The Strategy of Paired Comparison: Toward a Theory of Practice.*, [in: ] *Comparative Political Studies* 2010, 43(2), 230-59.

- c) contention focuses at the same time on policy as well as on institutional aspects thus confirming the assumption that a strict separation between policy and polity contestation is not operational.

Against this backdrop, the main difference is the institutional setting with two cases occurring in national settings versus two cases in transnational settings. These cases can therefore serve well the purpose of paired comparison which is to “use the differences in institutional form as a variable to demonstrate the sources of intra-systemic behaviour”<sup>27</sup>. In comparative politics, this has traditionally involved the comparison between different (national) political systems. In the EU, although we are operating in one multi-level polity, institutional differences appear within the system as the EU displays particularly complex patchy governance with differentiated decision making procedures in different policy areas. This comes from the incremental and functional development of the EU. Shedding light on the effects of such differentiated procedures and settings on contention is precisely the purpose of this book.

The purpose of having four cases, therefore operating a double paired comparison, is to expand the empirical coverage hence increase generalisation and escape the singularity of studies based on one or two cases. Of course, this implies a trade-off in terms of the degree of detail which is possible to achieve in a paper. For this reason, this paper relies heavily on existing literature which has provided already a number of empirical observations on the cases at stake.

The data related to the cases defined as national, i.e. referenda and protest against austerity emanates from the abundant literature available on this topic. Referendum campaigns and results have been examined by scholars who have provided analyses not only of polls on voters’ motivations, but also on campaigns dynamics, actors involved and topics at stake in the national debates, including comparative analyses. In relationship with the more recent protest against austerity in the context of the debt crisis in the EU, it is possible to rely on the field research conducted mainly by students of transnational social movement. A lot of this work is still unpublished or in course of publication but is available online in the form of working papers or research reports. This research provides data about the coordination, the discourse and the effects of such mobilization. Data on the two cases defined as “transnational”, i.e. opposition to the Services Directive and ACTA, comes from original field research. The debate over the Services directive was investigated in 2008-2009 through documentary research and a wide set of over forty interviews with actors who opposed the directive proposal in numerous associations, unions, and political parties in Belgium, France and Germany as well as at the EU level. Mobilization against ACTA was researched in 2012 through similarly documentary research including press reports, online documents emanating from the organizations opposing ACTA (including

<sup>27</sup> S. Tarrow, *op. cit.*, 2010, p. 245.

coordination via social networks), official documents from the EU institutions, etc, and complemented by a more limited set of five interviews conducted in Brussels<sup>28</sup>.

Across all cases, research was guided by process tracing, i.e. geared towards the understanding of analytical sequences the unfolding of opposition, from the formulation of the first criticism to formal decision making. The focus was on data which allow analysing interactions between the various actors with regard to three dimensions:

- the coordination of opposition: who is involved? were direct contacts/meetings established between the various actors? By which means/media was mobilisation coordinated (or not) transnationally? Can processes of direct or indirect diffusion between various places or arenas be detected?
- ideas and discourse: what were the main frames used to a) make sense of an issue and politicize it and b) gather support from organizations and citizens? To what extent are ideas similar to various arenas? When and by whom were ideas certified (or not) by key actors in the decision making process?
- outcomes of mobilization and procedures: what were the reactions to opposition? what was the concrete impact in terms of decision making?

Due to insufficient space, the choice was made not to provide a detailed narrative account of each case but to provide, in the next section, for a synthetic account of key data and facts in tables allowing for the comparison of all four cases regarding linkage, meaning, and responsiveness.

### 3. Case studies: how institutional settings matter

#### 3.1 Creation of linkage

The data reported in Table 2 confirms what can be found in the existing literature, namely that that the expression contention in national referendum campaigns produces rather weak forms of linkages. On one hand, **direct linkages between citizens to EU institutions are strongly impeded by the national framework for referenda as there are few incentives for European actors to get involved in national referendum campaigns and no incentives for mobilised groups to target EU institutions or organise transnationally.** On the other hand, **indirect legitimation via national politics and representation appears difficult and distorted.** These findings confirms the

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<sup>28</sup> Interviews were conducted with assistants of involved MEPs, with representatives of the Party of European Socialists as well as with the co-founder of *la Quadrature du Net*, a main NGO mobilized in Brussels and Europe wide against ACTA.

**literature on party politics<sup>29</sup> and extra-parliamentary mobilisation<sup>30</sup> in referendum campaigns which brought evidence that referenda are strongly disruptive for the government-opposition pattern at national level: they reinforce and tend to be disconnected from parliamentary opposition.** Both in France and Ireland, several opposition and/or government parties were split. In contrast, it is small radical peripheral parties which capitalised on the anti-Treaty campaign.

In the case of the Eurocrisis, where decisions were made in a markedly intergovernmental setting, no linkage between contentious citizens and decision-makers can be detected. On the contrary, they appeared to be strongly dis-connected. The intergovernmental setting offered no entry point for contentious actors to interact with decision-makers at the national or EU level. In turn, no decision maker did explicitly take part in or strongly endorse protest, although a few left or centre left politicians proved sympathetic to the claims. In spite of indirect diffusion of similar claims, oppositions to austerity policy have remained uncoordinated transnationally and strongly isolated from parliamentary actors both at national and EU level. Only in Greece have mobilised groups on the far right massively entered into the parliamentary arena in the 2011 elections.

When looking at opposition to the Services Directive and ACTA, co-decision and consent are strong drivers for establishing transnational mobilisation patterns and linkages. European parliamentarism plays a pivotal role in four respects. First, since the EP is formally the co-legislator, it becomes a major target for challenging groups. This is because, as the only elected institution of the EU, it is more open to claims meaning from civil society. Second, MEPs themselves are not only targets but they tend to be protagonists as they take part in mobilisation at the national level and therefore playing a role of intermediaries. Third, this brings about collaboration with national MPs in the opposition (and sometimes in the majority) aim at shaping the position of the government (in the Council). Fourth, as a result, these dynamics contribute to bridge the gap between contentious contention and parliamentary opposition, thus making conflict patterns globally consistent in a multi-level parliamentary field<sup>31</sup>.

29 M. Petithomme, *Awakening the sleeping giant? The displacement of the partisan cleavage and change in government-opposition dynamics in EU referendums.*, [in: ] *Perspectives on European Politics and Society* 2011, 12(1), pp. 89-110.

30 J. Fitzgibbon, *Citizens against Europe? Civil Society and Eurosceptic Protest in Ireland, the United Kingdom and Denmark.*, [in: ] *Journal of Common Market Studies* 2013, 51, 1, pp. 105-21.

31 Opposition patterns will never entirely overlap since electoral cycles are not coordinated and different parties are represented in the parliament at national and European level. This however, is the case in all multi-level (federal) polities.

Table 1: Creation of linkage

Definition Institutional setting Cases	Connection between citizens to institutions through the channelling of claims to decision-makers					
	National			Transnational		
	Referenda	Ireland	Eurocrisis	Services Directive	ACTA	
Groups mobilised	France Far-right (Front national) but mainly leaders, no grass root mobilisation Far Left/ Gauche du 'non' (radical left, Greens, alterglobalist) Left wing of PS (+ Former Prime Minister Fabius)	Ireland Mainly Civil Society, few cues with established parties Far-right (Fundamentalist and pro-life groups) and Neo-liberals (Libertas)	Eurocrisis Far-right (only in Greece) Left (Indignados in Spain, Occupy movements, Democracy Real Ya)	Services Directive Far-right (no grass-root mobilisation) Far Left peripheral parties, NGOs, global justice movement, Greens Social democrats Union (both radical and moderate)	ACTA Left Liberals Pirate party NGOs focused on the e-sphere (Avaaz, Quadrature du Net, European Digital Rights, etc) Non-affiliated grass-root mobilisation	
Connection with parliamentary opposition at national level	Weak Most opposition parties (PS and Greens) divided	Weak Only via Sinn Féin/ Plus: mild or split (Greens)	Uneven In Greece: main challenging groups have entered the Parliament In Spain and the UK: large gap between contention and institutional politics	Strong In France: Communist, Greens, Socialists In Belgium: Greens (but also with government) In Germany: Linke and Greens France: Communist Party, Greens, Socialist Party	Strong Belgium: PS, Greens Bulgaria: BPS, Greens (?) In Germany: SPD, Grünen, Pirate Party Poland: Paikot, law and Justice	

<p>Connection with actors in other EU countries</p>	<p>Weak (with Attac Deutschland and die Linke)</p>	<p>None</p>	<p>Weak Limited diffusion Weak coordinated indignados/occupy movement 3 Euro-demonstrations against austerity by ETUC</p>	<p>Strong Diffusion of conflict Coordinated actions, activation of transnational networks (European Social Forum), two euro-demonstrations in Brussels (2005) and Strasburg (2006)</p>	<p>Strong Diffusion of conflict Coordination among NGOs concerned with democracy and internet Facebook as a major tool for coordinating Europe wide demonstrations in January and February and June 2012</p>
<p>Connection with actors in EU institutional politics</p>	<p>Weak Mainly with MePs from the GUE/NGL (Francis Wurtz)</p>	<p>None</p>	<p>Weak No direct connection Claims endorsed by ETUC and by United Left/Greens and, more recently, Socialists and Democrats in EP (however, for the latter, at odds with action by national parties)</p>	<p>Strong MePs as both target and part of mobilisation at national and EU level  ETUC as major broker between Social Democrats, Liberals and Conservatives in the EP Activation at national coalitions aiming at changing government position in the Council</p>	<p>Strong MePs (Social democrats and Greens, Liberals) leading contentious discussions within EP  NGOs invited for audition at EP</p>
<p>References</p>	<p>Laurent &amp; Sauger 2005, Ivaldi 2006, Dufour 2006, Crespy 2008</p>	<p>Holmes 2008, Fitzgibbon 2013</p>	<p>Planta and Gerbaudo 2012, Okonomakis and Roos 2013,</p>	<p>Parks 2008, Crespy 2012</p>	

### 3.2 Articulation of meaning

One main effect of national referenda is that they (unsurprisingly) structure political contention along national lines, i.e. into compartmentalised debates which do not connect to each other. As the French and Irish campaigns epitomise, the same provisions – like the telling example of abortion in the Charter of Fundamental Rights<sup>32</sup> – can be interpreted in opposite ways in various national public spheres. Although some claims are common to different countries, such debates almost inevitably take a confrontational turn picturing a national “we” under the threat of exogenous antagonists, may they be EU institutions or other – more powerful – member countries. The “meaning work” performed by anti-austerity movements is located beyond opposition to established forms of power. Mobilisation is grounded on a radical contestation of the political and economic order in the Western world as a whole. It is entirely geared towards the *praxis* of new forms of democracy, starting with the rehabilitation of emotion, through indignation, and to the re-appropriation of the public space reflected by the idea of occupation. **A European political project is rarely articulated. Rather, two competing discourses – the reversal of EU integration and a post-liberal Europe in a cosmopolitan order – seem to underlie opposition to austerity<sup>33</sup>.**

**Under transnational settings, political debates were structured along common transnational lines besides the specificity of the various national spaces of mobilisation.** Regarding mobilisation against services liberalisation, the main frame was the opposition between a neo-liberal Europe grounded on competition between workers, national social and regulatory regulation, on one hand, a social Europe able to preserve worker’s rights in an integrated regulated market. Furthermore; this debate importantly featured the technocratic neoliberal Commission, which initiated the legislation, versus the ability of the EP to hear and channel the voice of civil society. The democratic frame was even more salient in the opposition to ACTA as all opponents claimed for freedom and civil rights on the internet, as well as for transparency in the EU negotiations on international treaties. As for the Services Directive, national governments and the EP were the main addressee of contentious claims<sup>34</sup>.

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32 In France, leftist feminist activists, supported notably by the Communist Party, conveyed in the press the message that the Constitutional Treaty, because it consecrates the “right to life” would make abortion illegal, thus threatening the historically hard won women rights. In contrast, Irish pro-life groups campaigned against the ECT on the grounds that the treaty, through the same charter of Fundamental Rights, would force Ireland to make abortion legal.

33 M. Pianta & P. Gerbaudo, op. cit., 2012.

34 The anti-ACTA online petition launched by Avaaz and signed by was directly addressed and officially transmitted to the EP on February 28 2012.

Table 2: Articulation of meaning

Definition Institutional setting Cases	Framing of issues and identities					
	National			Transnational		
	Referenda	Ireland	Eurocrisis	Services Directive	ACTA	
Dominant frames	France Neo-liberal EU Europe un-democratic/ national sovereignty Charter fundamental rights as possible threat to progressive rights	Ireland EU un-democratic national sovereignty (military neutrality) Neo-liberal EU EU too interventionist Charter fundamental rights as possible threat to traditional lifestyle	Call for real democracy Politics and policy dominated by finance Opposition to austerity policy	Defence of Social Europe Call for European parliamentary democracy	Freedom and civil rights Transparency and democracy (in EU) Global Justice	
Protagonists	National and European citizens, workers	National citizens, workers	National/global	European	European/Global	
Antagonists	Government EU (undefined, process of integration)	Government EU (undefined)	Global finance, Governments, Troika	EU Commission	Governments EU Commission	
Addressee of claims	Government Dufour 2006 Seidendorf 2010	Holmes 2008 Seidendorf 2010	Undefined Planta and Gerbaudo 2012, Oikonomakis and Roos 2013, Kaldor & Selchow 2012	European Parliament National Government Parks 2008, Crespy 2010	National Government European Parliament Schneider forthcoming	

### **3.3 Responsiveness by decision makers**

Responsiveness of governing institutions is the third mechanism providing democratic legitimacy in a political system. The ability of governing institutions to be responsive is closely related to the articulation of meaning by opposition actors. In the absence of articulated or coherent demands, decision makers will be more likely to turn towards responsibility rather than responsiveness in the tension identified by Mair. The cases under study all entail an important responsibility dimension related to governments' commitment to the ratification of EU treaties, international treaties, to collective problem solving under pressure by the "markets", and to the continuous market integration through liberalisation. The rejection of EU treaties by referendum has prompted two types of responses. Symbolic responses by governments have left the treaties and the functioning of the EU unchanged. As in France, or in the Netherlands, a parliamentary ratification of a similar treaty after it was turned down in the polls is more likely to de-legitimize government behaviour in EU matters and the EU itself altogether. The second path which can be chosen by governments, like in Ireland, is to opt out from specific provisions included in the treaties (see Table 3).

Turning to the crisis in the Eurozone, the intergovernmental setting has so far prevented any significant response by political institutions. Limited responses have been brought in Spain on the specific matter of mortgage legislation in order to slow down the process of evicting families who can no longer pay for their house. Elsewhere, governments have pursued the enforcement of austerity policies. While minority left-wing political groups have channelled opposition to austerity in the EP, mainstream groups, including the Social Democrats, have all endorsed the new precepts of macro-economic coordination. The intergovernmental setting for decision-making has left such opposition rather insignificant and the PE as a whole out of the decision making process. In the medium run, this situation is likely to foster the rise of anti-establishment, radical right movements, as it is the case in Greece, as it is expected for the coming European election.

The procedures conducive of transnational settings foster responsiveness both at the national and at the European level. In both cases of opposition to the Services directive and ACTA, grass-root and organised civil society mobilisation led key governments to change their position thus altering the balance power within the Council. Simultaneously, a parliamentary opposition slowly emerged in the EP. This process is accompanied by discursive endorsement of critical claims made by opponents. While the decision-making power of the EP is key, the response does not need to be outright rejection of the project. The European assembly can also gain legitimacy while proving able to reconcile opposed points of view and forge compromises, as in the case of the Services directive. The effective functioning of a parliamentary opposition that channels extra-parliamentary forms of opposition makes the parliamentary dimension of the EU architecture effective and provides legitimacy gains to the EU political system, although more important for the EP than for the Commission.

**Table 3: Responsiveness in political institutions**

Definition Institutional setting	Certification of contentious claims by decision makers and/or change in position in decision making procedure				
	National	Eurocrisis	Services Directive	Transnational	
Cases	Referenda			ACTA	
Response by decision-makers	<p><b>France</b></p> <p>"Undistorted competition" replaced by "social market economy" in the Treaty on the European Union</p>	<p><b>Ireland</b></p> <p>Introduction of opt-out/non-affectation clause regarding taxation policy, the right to life, education and the family, and neutrality</p>	<p>Change of mortgage law in Spain (law by Spanish government + judgement by European Court of Justice)</p> <p>Certification of claims by Greens, United Left and, more recently, part of Social Democrats in EP</p>	<p>French and German governments reversed their position (in Council of Ministers)</p> <p>European Council (March 2005) called on the Commission to revise the draft directive</p> <p>EP endorsed criticism of draft directive and forged a compromise between 'liberals' and 'regulators'</p>	<p>Poland, Hungary changed their position</p> <p>German government made its position conditional to EP's decision</p> <p>EU Commission took the case to the European Court of Justice</p>
Short-run effect on decision-making	<p>Similar treaty ratified by Parliament in 2008</p>	<p>Similar treaty ratified by referendum in 2009. However, weakly connected with new Council declarations on Ireland</p>	<p>None so far (enforcement of austerity policy pursued and monitored)</p>	<p>Directive proposal substantially amended</p>	<p>Treaty rejected by EP</p>
Medium and long-run effects	<p>De-legitimation of both French government and EU</p>	<p>Still undefined: potentially deprived from influence in policy areas where it opted out</p>	<p>De-legitimation of national governments and EU institutions, rise of radical movements</p>	<p>Legitimacy of EP enhanced</p> <p>Greater awareness of European issues among national parliaments and trade unions</p>	<p>Legitimacy of EP enhanced</p> <p>Awareness regarding intellectual property rights in future international treaties?</p> <p>Mobilization of weakly politicised young people (notably in Central and eastern Europe)</p>
References	<p>Crespy and Firmin (forthcoming)</p>	<p>Elkink, Quinlan and Sinnott 2011</p>			<p>Crespy and Gajewska 2010</p>

In brief, while contention in transnational settings is most likely to trigger responsiveness, results are more mitigated in national settings where contention can trigger no response from political elites, symbolic or opt-out responses. But in the latter case, the legitimacy effects are rather negative with regard to national or European democracy in the long run.

## Conclusion

Historical experience shows that the expression of political conflict is the engine of democratisation. While the EU has long been considered as a functional, consensus oriented political system where conflict could/should be avoided, this conception has turned to be erroneous. Contention focusing on the project of European integration itself has been exacerbating although in sporadic and different forms. The main argument in this paper is that **the institutional settings in which decisions are made have significant effect on whether conflict can be conducive of enhanced democratic legitimacy for the EU polity as a whole.** The analytical framework outlined conceives such legitimacy gains as the result of three intertwined mechanisms that lead to legitimacy: linkage between citizens and institutions, the articulation of meaning through the framing of political issues, and the trigger of responsiveness among decision makers thus proving for an impact of contention on political outcomes.

**A paired comparison of four case studies supports the argument that national and transnational settings have a differentiated capacity to generate linkage, meaning and responsiveness.** In national settings, linkage happens mainly to anti-establishment parties while elites in the main government parties are either divided or unresponsive to contention. Because the framework for decision is national or intergovernmental, the articulation of meaning is geared towards national frames which are often unrelated or even in contradiction with debates in other EU countries. Because demands are articulated differently in different countries, responsiveness cannot happen at the EU level. When it happens on a national level, it is either symbolic or consists in a withdrawal from integration. In both cases, this does not contribute to enhance the legitimacy of the EU. With decision making procedures which pertain to transnational settings (such as co-decision or consent), linkage happens more easily when actors from the EU institutional realm get involved in contention. Furthermore, contentious coalitions like those contesting the EU Services directive or ACTA tend to coalesce transnationally around common discourses and frames thus to articulate clearer demands towards decision makers. As a result, responsiveness is facilitated. The key point here is the involvement of the EP. In such procedures, **MEPs are both targets of and stakeholders of conflicts. The EP thus provides an entry point for the mediation of contention into the institutional system. By doing so, it**

alleviates anti-establishment tendencies among the most radical contenders, and makes a positive contribution to the democratic legitimation of the EU. This point suggests that more research is needed on opposition patterns in the EU, especially on the connections between contention inside and outside the parliamentary realm.

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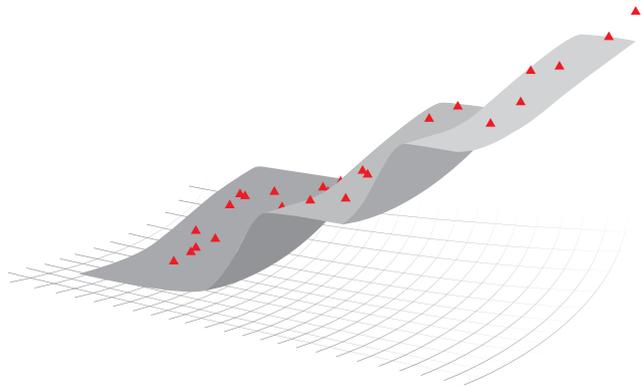
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# **Reinventing Modern European Industrial Policy: Beyond the Current EU Legal Framework**



**Keywords:**

**European Industrial Policy - 'Old' and 'New' Industrial Policy - European Legal Constraints - Regional Development**

**Abstract:**

The purpose of this article is to show that the current European Union (EU) legal framework is unnecessarily restrictive and unduly suppresses economic and developmental initiatives in many stagnating regions across Europe. More innovative industrial policies, instruments and measures should be adopted in a highly decentralized manner across the EU. Between the 'laissez-faire' and 'dirigiste' approaches, there is significant room to maneuver for more pro-active industrial and development policies. New forms of industrial policies could and should be reinvented and implemented across the EU – not to harm or distort competition, but rather to further enhance it. More than one form and framework exist for a Single Market and for the competition policies. Modern industrial policy presupposes high-quality public institutions with highly competent administration. It requires autonomy and accountability of the public administration to counter the pressures of various interest groups. The proposal to revive and articulate modern types of industrial policies across the EU is a call for comprehensive economic and social restructuring. The task of modern industrial policy is to organize and strengthen capabilities of restructuring in the direction of high-productivity activities.

The purpose of this article is to show that the current European Union (EU) legal framework is unnecessarily restrictive and that it unduly suppresses economic and developmental initiatives in many stagnating regions across Europe. **In a growth-friendly context, various initiatives and development strategies based on local knowledge and local needs should stem from diverse European regions and member states. If the EU genuinely intends to overcome the protracting economic, financial and social crisis and engage in economic reconstruction, modern types of industrial policy will have to be reinvented.** This is true not only for the large parts of European regions and member states that suffer from protracting stagnation, lack of growth, high levels of unemployment and long-term loss of competitiveness but also for the advanced and successful European regions that want to remain competitive internationally.

**Instead of remaining hostage to the dogma of free-market neutrality, the authorities at all levels of European polity should envisage the possibility of broadening and deepening access to markets for more people in more ways**

Instead of remaining hostage to the dogma of free-market neutrality, the authorities at all levels of European polity should envisage the possibility of broadening and deepening access to markets for more people in more ways<sup>1</sup>. Spontaneous market initiatives can be combined with the deliberate actions of public authorities. Rodrik<sup>2</sup> pointed out that markets and governments are complements, not substitutes. High-quality public institutions and good governance of the public sector are the necessary conditions for the successful development of the market economy<sup>3</sup>. The term *industrial policy* is used in its broadest sense to refer to any form of deliberate public activity – at the local, regional, national or supra-national level – that contributes to productive capabilities and improved competitiveness. The distinction between the ‘old’ type of industrial policy – predominantly in the form of state intervention in the markets – and the ‘new’ type of industrial policy – in the form of stimulating the creation of firms and promoting innovation and competitiveness (for the distinction between these types,<sup>4</sup>) – will be taken into account in the discussion on the future of European industrial policy.

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2 D. Rodrik, *The globalization paradox: Democracy and the future of the world economy.*, [Kindle edition]., W.W. Norton & Company. Retrieved from Amazon.com 2011

3 Ibidem, pp. 196-208.

4 See: P. Bianchi & S. Labory (eds.), *International handbook on industrial policy.*, Edgar Elgar Publishing 2006, p. xv.

In the period when even British government officials like Vince Cable, the the Secretary of State for Business, Innovations and Skills, state that “pure laissez-faire does not work”<sup>5</sup>, the debate on the possibilities of enhancing the role and scope of modern industrial policy in Europe should finally overcome the traditional ideology. **The debate on the future of modern industrial policy in Europe should become a debate on the productive potential of industrial policy and on the strategic partnership between the public and private sectors.** The future model should resemble the first period of European integration, with much more room for the member states and their regions to maneuver while running and developing their economies. The difference with the traditional industrial policy, however, is that the modern ‘knowledge-based economy’ requires substantially different policies and instruments in order to stimulate high value added, as well as innovative and flexible business practices, in comparison with the ‘old’ style of government interventionism.

The first part of this article will analyze the EU legal framework for industrial policy. The second part will examine the dogma of neutrality of the European Single Market. The third part of the article will discuss the possibilities to open up space for a plurality of industrial and development policies, using examples of successful regional industrial policies in some of the most advanced European regions. These examples are often neglected in discussions on the future of European industrial policy.

The examples of successful European regions will serve as a source of inspiration and encouragement to disseminate their successful practices to the stagnating European regions. The intention of this discussion is not to propose mechanical imitation of these regions, but rather to offer examples of advance regions as a source of inspiration.

Finally, by analyzing the existing EU legal framework for industrial policy, this article aims to examine the most successful practices from advanced European regions in order to determine the ingredients and the risks associated with successful industrial policy, as well as how the European legal framework should be adjusted to the need for inclusive and balanced development from the perspective of stagnating European regions, member states and excluded parts of the European population. This adjustment should be made in such a way that opportunities will be opened up for all of the European citizens and businesses that are waiting in vain to experience the anticipated benefits of the laissez-faire version of a European Single Market.

## **Current EU legal framework for industrial policy**

The current EU framework is primarily based on the concept of negative integration, which is characterized by the member states’ gradual loss of many traditional economic

<sup>5</sup> P. Wintour & H. Mullholand, *Vince Cable: Pure laissez-faire does not work.*, [in:] *The Guardian*, September 11, 2011. <http://www.theguardian.com/politics/2012/sep/11/vince-cable-laissez-faire-work>

powers and instruments. On the other hand, the process of positive integration in the form of harmonization at the European level took a gradual and different path. It has not replicated traditional instruments and powers at the supranational level but rather has focused on harmonization and the adoption of common standard. The debates regarding which areas, competences and instruments should be transferred to the European level have been a source of constant discussion and conflict, most notably during the Convention on the Future of Europe, which attempted to clarify divisions of competences and powers.

The idea behind the Single Market version of European integration and completion is that the liberalized Single Market should provide immense benefits for its participants and actors. Assessments and estimates about the benefits of the Single Market were presented in the well-known Cecchini report “Europe 1992 – The Overall Challenge.” This report calculated an enormous reduction of costs due to the removal of remaining barriers, enormous improvements of efficiency due to improved competition and economy of scale and a substantial boost of employment<sup>6</sup>.

In the context of the Maastricht Treaty, these estimates and anticipated gains presented the basis for the completion of the Single Market, which was a key goal of European leaders and European institutions to which all other priorities, policies and instruments at the national and European levels should be adjusted. The less the governments would try to distort the Single Market, the faster the remaining barriers are being removed the greater would be benefits and efficiency gains emanating from the Single Market.

Other goals, such as the reduction of inter-regional disparities within the EU, the preservation of the social welfare at the level of member states, and the adoption of any form of industrial policy – in the form of either ‘old’ or ‘new’ industrial policy – could be employed only to the extent that doing so would not interfere with the completion of a Single Market. The completion of a Single Market has become a goal in itself. The motto for uncritical supporters of a European Single Market as the regional version of the free market continues to be that the more complete the Single Market becomes, the better things will be for everyone<sup>7</sup>.

In the context of the completion of a Single Market, industrial policy – which was already diluted because of the unclear division of competences and the general shift toward economic orthodoxy on the global and European level – has become constrained. More often than not, industrial policy has involved merely the lip service of European officials with little actual substance.

Article 157 EC (ex Article 130), which is dedicated to Industry, can be understood in the context of the Article 4 EC governing principle of ‘open market economy with free

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6 Cecchini Report, *Europe 1992: The overall challenges.*, Summary of the report: <http://aei.pitt.edu/3813/1988>, pp. 1-4.

7 J. Pelkmans, *The case for ‘more single market.*, CEPS, no. 234, Brussels, February 2011.

competition.’ As explained by Pelkmans<sup>8</sup>, both EU and its member states have committed themselves to the governing principle of internal market governance, which narrowed the scope for industrial policy: “[S]ince member states have explicitly agreed with this set-up, one could interpret the framework as a quasi-institutional denial to fall back on interventionist industrial policy in the future”.

Even this highly constrained reference to industrial policy in Article 157 EC was very difficult to adopt during the Maastricht negotiation. The Article itself has an explicit limitation preventing the adopting of any measures which could lead to a distortion of competition. Article 157 EC has become Article 173 of TFEU after adoption of the Lisbon treaty, whereby the role of Commission in the second paragraph has become marginally more specified. No other changes to this Article 157 EC (ex Article 130 EC) were made since its adoption during the Maastricht negotiation.

**The limitations of the scope of industrial policy in the European legal framework can be explained by the historical background of their institutional development, national preferences according to the ‘varieties of capitalism’ concept, and negotiation strategies behind the adoption of the article on industrial policies.** The historical background of this topic was analyzed by Fioretos<sup>9</sup>, who pointed out that, before the Maastricht treaty, “the EC’s industrial policy had primarily been designed for market liberalization and the abolishment of discriminatory subsidies, and nowhere could one find a statement suggesting that the Community have an activist and interventionist industrial policy”<sup>10</sup>. All of the key actors had in mind their own preferences and interests. Britain, for example, opposed the adoption of industrial policy because of its (at that time) superior performance “by enhancing market mechanism...thus, the primary concern for the British was to extend the economic area regulated by the EC in a fashion that would enhance the market mechanism and provide British firms with an environment they were accustomed to and that would ensure their competitive edge.”<sup>11</sup>. On the other hand, France advocated a more proactive industrial policy based on its *dirigiste* tradition of an interventionist industrial policy; together with Italy, France advocated for greater authority of the European Commission in the area of industrial policy to strengthen the competitiveness of European industry<sup>12</sup>. The attempt to ‘trump competition policy’ and the restrictions on state aid were also supported by the Belgian government<sup>13</sup>.

8 J. Pelkmans, *European industrial policy.*, [in:] P. Bianchi & S. Labory (eds.), *International handbook on industrial policy.*, Edgar Elgar Publishing 2006, p. 60.

9 O. Fioretos, *Sources of multilateral preferences.*, [in:] P. Hall & D. Soskice (eds.), *Varieties of capitalism – The institutional foundations of comparative advantage.*, Oxford University Press 2001, pp. 213-244.

10 Ibidem, p. 227.

11 O. Fioretos, op. cit., 2001, pp. 231-232.

12 Ibidem, p. 227.

13 C. H. Church & D. Phinnemore, *The Penguin guide to the European Treaties – From Rome to Maastricht, Amsterdam, Nice and beyond.*, Penguin Books & 2002, p. 345.

Finally, Germany stood as another key actor between the maximalist French proposal and the minimalist British proposal. Germany was supportive of the insertion of an industrial policy clause committed to horizontal industrial policy and large-scale research projects. This was consistent with the German regulatory tradition in the area of industrial policy and with the German interests: “[T]he German position rests on regulatory principles of the coordinated market economy (CME), and the calculation that a limited EC industrial policy have beneficial effects for German producers in areas (especially high-tech) where the German market economy has been relatively weak”<sup>14</sup>.

The background context of insertion of the article on industrial policy is particularly revealing for several reasons. First, it shows that the key actors in the EU acted on the basis of their preferences and the interests of the industries, as well as on the basis of the industrial policy tradition in the key member states. Second, the aim of the key member states was to secure or even improve the position of their industries on the internal market. Third, neither the balance between competition and proactive industrial policy nor the outcome of the crucial provisions of the Maastricht Treaty and all subsequent treaties is objective and neutral; rather, these are the result of bargaining powers, national preferences and beliefs regarding how the governing principles and rules should shape a European Single Market.

Despite various attempts to substantially redefine the relations among cohesion, research and development, proactive policies and the undistorted markets, the conclusion is that the principle of undistorted competition enjoys primacy<sup>15</sup>. In this highly constrained context, the EU and the member states did develop several instruments and policies in the areas of research, improved skills, innovations, and various schemes to support small and medium size enterprises (SMEs). On the other hand, sectoral and specific industrial policy almost entirely disappeared<sup>16</sup>.

The European legal framework with respect to the role and scope of industrial policy has not changed significantly over the last two decades. During the Convention on the Future of Europe, the working group on economic governance under the chair Klaus Hänsch was established to explore, among other topics, the changes in the area of economic coordination, but it did not present any particular new proposal of enhanced cooperation with respect to industrial policy<sup>17</sup>.

In the last two decades, sporadic attempts have been made to more strongly articulate industrial policy at the European level and the level of the member states. One such attempt was the report of former Dutch Prime Minister Wim Kok and others in 2003,

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14 O. Fioretos, op. cit. 2001, p. 238.

15 C. H. Church & D. Phinnemore, op. cit. 2002 p. 346.

16 J. Pelkmans, op. cit., 2006, p. 73.

17 See: the European Convention, Final Report of the Working Group VI, 2002.

when the EU was confronted with low rates of growth, increased unemployment and the unsuccessful implementation of the Lisbon Treaty. In the report, the governments and the EU were urged to take a more proactive stand in the areas of infrastructure and knowledge. In Kok's foreword to the report, he stated that the member states must take primary responsibility to act and the EU must support them<sup>18</sup>. The report also addressed the need to reskill workers in traditional industries in order to adapt to the needs of the 'knowledge-based economy' throughout the EU. As an example, the report mentioned the successful restructuring of Italian industrial districts with the help of small firm growth and the dissemination of knowledge and innovations among a network of firms. However, even the occasional calls for more aggressive industrial policy across Europe, such as those offered by Kok, were described as "too little too late" by Pelkmans<sup>19</sup>.

### **Persistence of the dogma of neutrality of a European Single**

At the heart of the EU's framework is the belief that the European Single Market version of the free market, free of any distortion, will work most efficiently. They claim that in order to overcome the current protracted economic, financial and social crisis – which is the largest crisis since the beginning of the EU – it is necessary to implement more of a Single Market<sup>20</sup>.

However, proponents of the current version of the European Single Market as the best possible answer to all of the economic, financial and social difficulties in Europe tend to forget several things. First of all, they tend to ignore the fact that the existing European legal framework, which has been in place for the last two decades, is a result of bargaining powers, national interests and preferences rather than a result of the natural, neutral development of the European Single Market. There is no single best possible version of a market economy to which all countries should universally aspire in any given economic, social and legal context.

Second, the benefits from the established European Single Market, as stated in the Cecchini Report, were grossly overestimated.

At the same time, and perhaps even more remarkably, the costs of the established European Single Market were largely ignored. Any legal framework for the market economy creates distributional effects. As noted by Tsoukalis<sup>21</sup>, one of the leading experts on the European integration, a Single Market created 'winners' as well as 'losers': *"Interestingly*

18 W. Kok et al., *Jobs, jobs, jobs – Creating more employment in Europe.*, Report of the Employment Taskforce chaired by W. Kok, Brussels 2003, [http://www.mol.fi/mol/en/99\\_pdf/en/90\\_publications/employment\\_taskforce\\_report2003.pdf](http://www.mol.fi/mol/en/99_pdf/en/90_publications/employment_taskforce_report2003.pdf).

19 J. Pelkmans, op. cit., 2006, p. 66.

20 J. Pelkmans, op. cit. 2011.

21 L. Tsoukalis, *What kind of Europe?*, Oxford University Press, 2006.

*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>22</sup>.*

Third, the last two decades, during which the current EU legal context of a Single European Market has been in place, do not represent the most successful period of European integration. In fact, the current context helped to create an increasing number of stagnating regions. The empirical evidence for this claim can be found in the latest edition of the Eurostat Regional Yearbook: “Out of the 271 NUTS level 2 regions in the EU for which data are available, the unemployment rate increased between 2007 and 2010 in 215 regions, remained unchanged in seven and fell in 49”<sup>23</sup>. This evidence on European regional disparities clearly shows the strong impact of the economic and financial crisis in the EU, which makes the current framework of the European Single Market grossly inadequate to cope with the magnitude of the crisis. Without a comprehensive and proactive EU-wide response to the crisis, the entire EU project is becoming increasingly unsustainable.

Fourth, in the period when the existing EU legal framework was put in place, a major shift in the organization of production, from Fordist mass production to post-Fordist flexible production, occurred in many developed and developing countries around the world. Whereas the goal of Fordist production is to produce large quantities of standardized goods with the lowest possible costs to pursue economy of scale, the goal of post-Fordist flexible production is to produce small quantities of high value added products tailored to the needs of individual customers. This new type of production requires substantial changes in the organization of production, teams and firms, and also has important implications for supporting institutions, as it is based on constant innovations and improvements of products and technologies. Michael Piore and Charles Sabel, the pioneers in the area of flexible specialization, showed in their study that, contrary to conventional wisdom, Fordist mass production is not always the most efficient type of production. It can work efficiently in the context of stable demand; however, in the context of unstable, constantly changing demand, the flexible specialization can be a more efficient means of production and organization of production. The shift from Fordism to post-Fordism requires major organizational changes, changes in production and reskilling of workers, and it presupposes shifts in public policies and supporting institutions<sup>24</sup>. The shift from the ‘old’ to the ‘new’ type of industrial policy presents an important part of the shift

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22 Ibidem, pp. 657-62.

23 Eurostat Regional Yearbook 2012, p. 78.

24 M. Piore & C. Sabel, *The second industrial divide – Possibilities for prosperity*. Basic Books 1984, pp. 28-30.

from traditional Fordist mass production to the modern, post-Fordist type of production. It seems that, during the creation of the framework for a Single Market, the European decision-makers overlooked these important historical shifts in the areas of production, organization of production, competition, and supportive public institutions. Only a small number of advanced European regions or member states can be described as post-Fordist – that is, highly innovative, flexible, dynamic, cohesive and knowledge-based.

Fifth, following the above discussion, the more appropriate debate during the protracted European economic, financial and social crisis should not be whether we need 'more' or 'less' of a Single Market, but rather what kind of a Single Market European member states and their regions, businesses, entrepreneurs, employees and citizens really need. We need a more dynamic, more supportive environment, as well as institutions at various levels of European polity that can translate business ideas and entrepreneurial initiatives into the practical market economy context.

**We can conclude this chapter on the persistent dogma of neutrality of the Single Market by stating that the sooner we leave behind this dogma, the greater will be the chances for revitalization of a large part of the European regions and member states. In order to achieve institutional reconstruction, more diversity, more policy space, and more ideas and initiatives should grow from the bottom-up.** Now that even the most free-market-oriented government in the EU, the UK government (or at least its State Secretary for Business, Innovations and Skills Vince Cable) is contemplating the need for new types of industrial policy, there is no reason for the EU legal framework to remain overly constrained and biased against the new types of industrial policy.

## **Rethinking the modern European industrial policy**

In the process of integration through law, the EU and its member states have departed from the 'old' type of industrial policy to the highly constrained legal context of the weak type of industrial policy under the primacy of a Single Market. It has been widely accepted that the undistorted free market is the best guarantee for the efficiency and productivity of European economies. Two decades after the completion of a Single Market, the discussion should begin on how to revive modern, 'new' type of industrial policy all levels of European polity. Two decades after the adoption of the Maastricht treaty, it is becoming clear that the current particular version of a European Single Market may be beneficial for European retainable industries – that is, established industries effectively protected from new entrants due to high costs and lack of insufficient support for start-ups – but at the high cost of excluding almost everybody else. The idea of the strong articulation of the 'new' type of industrial policy should begin to replace the dogma of neutrality of a European Single Market. There is evidence that many supportive institutions, instruments and policies to

facilitate the restructuring are needed if increasingly large number of stagnating European regions and member states. The requirements to compete successfully in the period of the 'knowledge-based economy' are substantially more difficult than the requirements to compete successfully in the period of Fordist mass production. The former include, for example, a high quality of education provided to all citizens; strong labor market institutions providing training for constant reskilling; financial institutions providing and supporting the long-term development of highly innovative firms, especially small and medium size firms and start-ups; and many other supportive institutions and proactive policies.

The distinctive need to rethink European industrial policy for the twenty-first century began to be addressed by former Dutch Prime Minister Kok but was abandoned due to the virtual period of growth based on cheap credit before the European bubbles finally burst. The peripheral regions are paying an extraordinary price, and increasingly many of the core regions are doing so as well.

Before Kok's report, the importance of industrial policy was mentioned in the European Commission's white paper on "Growth, Competitiveness, Employment"<sup>25</sup> which stated that "*while industrial policy continues to be controversial no one is in any doubt as to the responsibility of governments and of the Community to create an environment as favourable as possible for company competitiveness*". The subsequent development of European integration all but marginalized any development of industrial policies across Europe. However, today's record levels of unemployment, bleak labor market perspectives, low growth rates and large number of stagnating regions and member states clearly remind us that the time is ripe to revive European industrial policy.

**What would the 'new' European industrial policy look like? First of all, it would be important not to repeat the one-size-fits-all technocratic approach without taking into account the immense diversity in terms of economic development and social cohesiveness.** More innovative industrial policies, instruments and measures should be adopted in a highly decentralized way. The role of European institutions should be to maximize the maneuver room for regional and national experimentation in production and the organization of production<sup>26</sup>. Additionally, European institutions can learn from successful examples and disseminate them to other parts of the EU, not to mechanically imitate successful practices from one region to another, but rather to present successful examples as a source of inspiration and encouragement to other stagnating European regions<sup>27</sup>.

**The 'new' European type of industrial policy, therefore, should be decentralized and participatory by invoking ideas and initiatives from local producers, should be**

<sup>25</sup> European Commission Report 1993, p. 14.

<sup>26</sup> R. Unger, *European constitutionalism – Proposals for an agenda of debate.*, Harvard Law School 2001. <http://www.law.harvard.edu/faculty/unger/english/docs/europe1.pdf>, p. 3.

<sup>27</sup> Ibidem.

pluralistic in order to adjust to the different needs and different productive potentials of different European regions and should be experimentalist in order to permanently adjust, correct and improve the strategic partnership between the private and public sectors. The shift toward modern types of industrial policy began with the shift from Fordist mass production to post-Fordist flexible production. On the other hand, European industrial policy, instead of trying to transform its 'old' type of industrial policy to the 'new' type of industrial policy, has mainly tied the hands of European institutions, national governments and regional authorities. The reliance on the Single Market in the last two decades trumped or diluted all other attempts to develop a more pro-active approach toward steering and developing the economy.

What has been mainly overlooked, ignored and legally suppressed in the European context is the transformation toward 'new' industrial policy, which has been pursued by some of the most advanced, innovative, competitive and cohesive regions around the world. The characteristics of the 'new' type of industrial policy were summarized by Best<sup>28</sup> in his analysis of the emergence of post-Fordist regions engaging in what he described as The New Competition: "*The New Competition can be distinguished from the old in four dimensions: organization of the firm, types of coordination across phases in the production chain, organization of the sector, and patterns of industrial policy. The New Competition is about strategic actions within each dimension. The term 'strategic' refers to market-shaping activities in contrast with market-reacting responses*".

The comparative analysis of the emergence of The New Competition as one possible and advanced type of 'new' industrial policy shows that successful regions around the world - including Japan, the US, China and advanced European regions – have developed various new forms of cooperation and competition in the same segments of production.

The new form of industrial policy is both much broader, in terms of scope and instruments, and much less interventionist. Harvard Law Professor Roberto Unger and Tamara Lothian from Columbia University<sup>29</sup>, one of the leading proponents of new, transparent, innovative and imaginative forms of collaboration between the public and private sector, is convinced that the new types of industrial policy should be agnostic about sectors. In a joint piece on the possibilities to overcome the ongoing economic, financial and social crisis, among other proposals, Lothian and Unger<sup>30</sup> advocate the need to reinvent industrial policy means to establish "*a form of strategic coordination between governments and firms that is pluralistic, participatory, and experimental. Its aim is to help make the conditions and instruments of advanced production available to larger parts of the economy and the society*". The focus of such a policy should be on small and medium size enterprises as

28 M. Best, *The new competition – Institutions of industrial restructuring.*, Harvard University Press 1990.

29 T. Lothian & R. Unger, *Crisis, slump, superstition and recovery: A joint-piece.*, 2011, [http://www.law.harvard.edu/faculty/unger/english/pdfs/JOINT\\_PIECE.pdf](http://www.law.harvard.edu/faculty/unger/english/pdfs/JOINT_PIECE.pdf).

30 Ibidem, p. 49

the key source of jobs and output. More specifically,: *“Its method should be the expansion of access to credit, to technology, to advanced knowledge and practice, to facilities for the organization of networks of cooperation that combine the benefits of flexibility of scale. Its characteristic concern should be to propagate successful organizational and technological innovations wherever they may arise”*. On this basis, Lothian and Unger have developed several components of modern industrial policy pursuing socially inclusive and broad-based economic development.

Perhaps the closest to the idea of decentralized cooperation as the new, reinvented form of industrial policy was achieved in some of the advanced European regions and member states. The examples of Emilia Romagna, Piedmont and other Italian regions should be mentioned, as should local public-partnerships in Ireland. Innovative policies and high-quality education in Finland as a basis for entrepreneurial and technological progress offer further examples of successful European industrial policies<sup>31</sup>.

Italian cooperative regions serve as examples of decentralized, flexible cooperation and partnership between the private and public spheres. They created a system that became known as the system of cooperation competition, in which dense networks of small and medium-sized enterprises in industrial districts cooperate and compete at the same time in the same segments of production. While this system may not be entirely compatible with the European rules of competition, in recent decades it has helped these Italian regions to develop one of the most advanced systems of production, innovation, cooperation, and competition in the world. The system is highly inclusive, and its level of social cohesion is at the highest level<sup>32</sup>.

The problem with these examples across the EU is that, despite their potential broader implications, they remain limited to a very small number of advanced European regions. **The true goal of EU economic and social recovery, therefore, is to expand and further innovate instruments and policies. It is this goal that has led to the call for fewer legal constraints at the European level and for more room to maneuver at the regional and national levels across the EU to implement the ‘new’ modern types of industrial policy.** It should be noted that a Single Market and modern types of industrial policy are not necessarily mutually exclusive; the possibility to redefine certain tenets of a European Single Market depends on our common understanding of its content and legal framework. European regions and member states should not be left to the mercy of the invisible hand. They should not primarily depend on the European transfers, which are not allocated – at least not in sufficient amounts. It is not even feasible to have a Transfer Union to sufficiently support the excluded and stagnating European regions and member states. Instead, these

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31 for more detailed analysis of advanced European regions, see: M. Nahtigal, *European regional disparities – The crucial source of European un-sustainability.*, [in: ] *Lex Localis*, 11(33), 2013, pp. 601-614. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2248618](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2248618)

32 Ibidem, p. 612.

regions and member states should be empowered and equipped to restructure and revive their economies and societies on the basis of their potential, initiatives and aspirations.

## Conclusions

Between the laissez-faire and dirigisme approaches, there is a large amount of room to maneuver to develop more pro-active industrial and development policies. New forms of industrial policies can and should be reinvented and implemented across the EU – not to harm or distort competition but rather to further enhance it. More than one form and framework exist for both a Single Market and the competition policies. **On the European level, a legal framework and policies should be adopted that would be able to steer between foreclosing and opening the markets and between negative and positive aspects of competitive policies. A new balance must be achieved, both at the European level and at the level of European regions and member states, to allow for more maneuver room, more space for development and more instruments and policy tools for the European regions and Member States.** Advocates of modern, advanced forms of industrial policies have increasingly put forth convincing arguments as to why industrial policy, especially in its modern form, should not be abandoned. In the last few decades, when industrial policy was mentioned or implemented, it was deemed as obsolete and outdated. During the protracted crisis, however, even the most developed countries in many cases returned to the instruments of 'old,' traditional types and 'new,' modern types of industrial policy. Examples include the restructuring of GM with the abundant help of the US federal government, the large support for 'green' investments in the car industry around the world, the various measures taken by the German federal government in the case of Opel and many other examples. Massive support for the financial institutions in the US and EU should also be mentioned in this context.

Ha-Joon Chang, professor of development economics from Cambridge University, argues for the adoption of a more balanced and subtle approach toward the theory and practice of industrial policy. Industrial policy has been an important instrument throughout economic history, and almost all of the leading industrial nations in the world have implemented it in various ways throughout their economic progress<sup>33</sup>. As can be witnessed from the recent years of crisis, the most advanced countries in the world did not hesitate to return to various measures of industrial policy when they needed it. The existing legal constraints in the European and subsequently national contexts are increasingly difficult to defend theoretically and practically. The need to rebalance and redefine the constrained rules of a Single Market is becoming increasingly visible.

33 Ch. Ha-Joon Chang, *Industrial policy: Can we go beyond an unproductive confrontation?*, Annual World Bank Conference on Development Economics, Seoul 2009., [http://siteresources.worldbank.org/INTABCD/2009/03/20090301\\_501237main.pdf](http://siteresources.worldbank.org/INTABCD/2009/03/20090301_501237main.pdf).

Of course, more space and more scope for modern industrial policy should not be viewed as a simple magic wand. It is only one additional instrument in an effort to revive ailing European industries and regions. A similar approach should be applied in the context of international trade rules.

On the other hand, industrial policy can be also ineffective. There are many examples of failed industrial policy efforts in both developed and developing countries. Modern types of industrial policy have additional safeguards, but there is no ultimate guarantee about its efficiency, which depends on many factors, including transparency and accountability of the policy-makers. For this reason, modern industrial policy has to steer between Scylla and Charibdis; as described by Unger<sup>34</sup>, it has to avoid the “twin evil” by steering between bureaucratic dogmatism and favoritism. There is a distinct risk of abuse of the instruments and tools of industrial policy. Modern industrial policy presupposes high-quality public institutions with highly competent administration. It requires autonomy and accountability of the public administration to counter the pressures of various interest groups.

While there are dangers and risks involved in carrying out modern types of industrial policy, the alternative – doing nothing – almost certainly leads to continuous stagnation. In all likelihood, it may lead to a strong hierarchy on the Single Market – that is, a strong concentration of economic development in only a small number of advanced EU regions and member states. The proposal to revive and articulate modern types of industrial policies across the EU is a call for comprehensive economic and social restructuring. The task of modern industrial policy is to organize and strengthen capabilities of restructuring in the direction of high-productivity activities. Rodrik<sup>35</sup>, one of the leading proponents of modern industrial policy for the twenty-first century, warns that restructuring is not an automatic process but rather requires a collective, deliberative approach: “[I]ndustrial policy is a process of strategic collaboration between the private and public sectors, where the objectives are to identify blockages and obstacles to new investments and to design appropriate policies in response”.

The proposal to broaden the scope and objectives of industrial policies in the existing European legal framework is only one of the first steps toward comprehensive European restructuring, the ultimate goal of which should be to create a more balanced, more inclusive and more pluralistic Europe than we witness within the increasingly restrictive European framework.

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34 R. Unger, op. cit., 2007, pp. 144-145.

35 D. Rodrik, *One economics, many recipes: Globalization, institutions, and economic growth*. [Kindle edition]. Princeton University Press 2007., Retrieved from Amazon.com

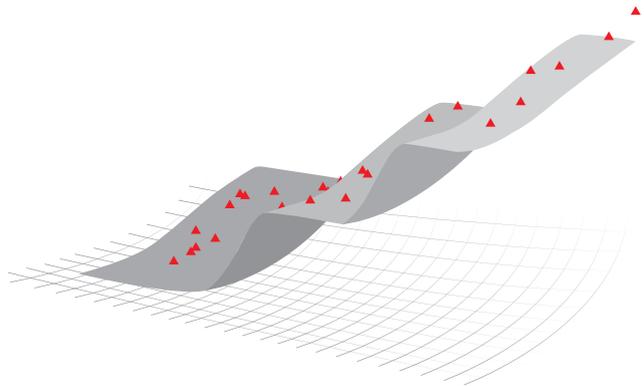
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Pascal ZWICKY

# **Economic Democracy as a Key Element of a Social Europe**



**Keywords:**

**Multiple Crisis – Neoliberal Capitalism – Social Democracy – Economic Democracy – Strategic Reorientation**

**Abstract:**

We are facing a multiple crisis that manifests itself in high unemployment rates and precarization throughout Europe, increasing inequality, an escalating hunger crisis in the global south, a worsening ecological crisis and a crisis of parliamentary democracy. The present article identifies the fossilistic-capitalistic mode of production and way of life of neoliberal and above all financial markets-driven imprinting as the common cause. Against this background, social democracy lacks of appropriate political answers so far. It is argued that a political strategy based on real emancipation and a comprehensive democratization of economy and society is probably the only way out of the multiple crisis. As an overarching framework of orientation economic democracy provides numerous starting points for social democracy. Economic democracy is not only about the tight regulation of financial markets, a progressive development of the welfare state or the expansion of public service, but deals also with questions accountability and democratic control of big corporations, co-determination at the workplace, a more participatory state, or the funding of cooperatives and other common good-oriented enterprises. This simultaneity of classical social democratic policies on the one hand, and the creation of open spaces to allow for the necessary societal search and learning processes on the other, is of utmost importance. As a progressive political project, economic democracy promises prosperity gains in the form of self-determination, security, deceleration and a reduction of alienation, therefore providing new answers to the question of "good life".

## 1. Introduction

In the present article, it is argued that social democracy as a progressive force is lacking in appropriate answers to the current multiple crisis. The problem begins already with the analysis. It still seems to be off-limits even to a large part of social democracy to bring capitalism, as the prevailing but “by no means no-alternative economic and social system”, into question. The consequences of these ideological and intellectual blinkers are fatal. Fatal, if one thinks about world poverty or about the evillest forms of labour exploitation. Fatal, if one thinks about global warming and the destruction of the environment. Fatal, if one thinks about the growing social inequalities and their consequences. But also fatal if one brings to mind the loss of control of democratic politics and the associated loss of confidence in the population vis-à-vis politics. In this article, the case is made for taking off the blinkers and actually getting to the bottom of existing problems. **I diagnose a lack of democracy, a lack of participation in shaping the parameters of human coexistence in modern societies. Based on this, it is proposed to take the concept of economic democracy, which transcends as a vision beyond capitalism, seriously and make it a focus of social-democratic policy.**

**economic issues and associated questions of distribution need to be politicized much stronger again**

Today, **economic issues and associated questions of distribution need to be politicized much stronger again.**

They cannot be left to mainstream economists and so-called experts who are caught within neoclassical thought patterns. Therefore, it is important to raise questions that were not asked for much too long. Social democracy needs a framework of orientation that reaches beyond the idea of a “social market economy”. The political scientist and editor of the “*Neue Gesellschaft/Frankfurter Hefte*”, Thomas Meyer, wrote on occasion of the 150<sup>th</sup> anniversary of the Social Democratic Party of Germany, that social democracy needs a new answer to the challenges of our time: “*The new answer must be ambitious and go beyond the goals that are achievable today and tomorrow, not as mere utopianism of wishing, but as a realistic utopia with concrete reasons of feasibility*”<sup>1</sup>. **Economic democracy as an overarching framework of orientation is such an answer. It combines a utopian vision of an alternative society with pragmatic politics.** I will

1 Th. Meyer, *Der utopische Überschuss der Sozialdemokratie.*, [in: ] *Neue Gesellschaft/Frankfurter Hefte.*, 2013, No. 5, p. 62.

attempt to outline this framework, to develop and position it as a political narrative and to identify several specific starting points for European social democracy.

The neoliberal *status quo* needs to be overcome by means of economic democracy in order to enable mankind to have a worth living and self-determined, a socially and ecologically sustainable future. The political challenge is to initiate a corresponding social change, starting with the ruling structures. What we need is not a revolution, but a consistent, targeted and democratic policy of small steps, which is derived from the social democratic core values of freedom, justice and equality. Economic democracy is a long-term and *processual* project. After decades of neoliberal hegemony it is naive to assume that economic democracy, or more generally: profound changes in our understanding of economy and society, can be reached overnight. Social democracy must be willing to take this debate to the people, to keep it alive and to track the target in the long run. It is not done with a short and faltering swing to the left during an electoral campaign.

Nowadays, reforms in economic democracy mean primarily: the enforcement of the primacy of politics, the regulation of the financial markets which are out of control, and the redistribution of wealth in society. These are classical social-democratic recipes in the crisis. Strategically connected with this, however, the targeted support of alternative economic structures, of initiatives in civil society and local-regional economic cycles by the state is required as well. The point is to clear a space, to take non-capitalist economies out of their frequently precarious existence, thereby facilitating widely supported social learning processes. In all this, the progressive leftists cannot avoid pushing forward to the core of the capitalist economic system as well, the profit-maximising private property. Is a stakeholder economy as “a servant of citizens’ interests”, as provided by the PES in its Fundamental Programme<sup>2</sup>, to become reality, then we need more collective ownership and democratic co-determination – in economy as well. In order to defend and achieve the historical goals of social democracy in a forward-looking manner, the party cannot confine to the existing political institutions and parliamentary work. As Colin Crouch<sup>3</sup> claimed recently, social democracy must become a social movement once again and ally with other progressive forces in civil society.

Chapter 2 addresses the present multiple crisis, and I subsequently focus on the previous crisis management programmes by the Left. Chapter 4 then deals with the concept of economic democracy. First, two philosophical resp. anthropological approaches are undertaken to the idea of man and the idea of society underlying economic democracy. This is followed by an examination of the theoretical principles of the concept(s) of economic democracy and an overview of the models and practice of

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2 PES 2013.

3 C. Crouch, *Jenseits des Neoliberalismus. Ein Plädoyer für soziale Gerechtigkeit.*, Wien: Passagen Verlag 2013.

economic democracy in the present. Chapter 5 focuses on the transition to a future economic democracy. The conclusions seek to make an assessment of the chances of the ideas proposed herein.

## 2. Starting situation: A multiple crisis

Social democracy is facing a multitude of social and thus political challenges today. Even the centre of global capitalism, the Western affluent societies, have been affected for 6 years now by the consequences of a financial and economic crisis triggered on the international financial markets. The rescue of banks and other major corporations resulted in a so-called debt crisis of national states in Europe which, due to the prevailing austerity policy forced through by conservative parties to manage the crisis, has also robbed millions of people of their perspectives of life. Absolute poverty and youth unemployment rates of more than 50 percent are exemplary for this.

Anyone who still has a job is frequently - and, in many areas, increasingly - confronted with precarious working conditions, increased expectations, competitive and wage pressure, increased control and the fear of losing one's job<sup>4</sup>. "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.

Material resp. social inequality has grown to enormous proportions today and continues to increase (not least because of the dominant politics of crisis management, namely Austerity)<sup>5</sup>. In Western affluent societies, the quality of life of the large majority of the population is decreasing due to social inequality<sup>6</sup>. In addition, inequality is curbing growth<sup>7</sup>, it is the "mother of global speculation" and therewith contributory cause of the financial crisis (due to the decrease in profitable investment opportunities in real economy, the overaccumulated capital is placed on the financial markets) and it fosters unsustainable consumerism through accentuated materialistic status competition.

Despite social prosperity as never before, the hunger crisis in the global South continues to escalate, last but not least due to the speculation with food and the production of

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4 M. Binswanger, *Sinnlose Wettbewerbe. Warum wir immer mehr Unsinn produzieren.*, Freiburg: Verlag Herder 2010.; F. Schultheis et al., *Ein halbes Leben. Biographische Zeugnisse aus einer Arbeitswelt im Umbruch.*, Konstanz: UVK, 2010; R. Sennet, *Die Kultur des neuen Kapitalismus.*, Berlin: Berlin Verlag, 2005; L. Boltanski & E. Chiapello, *Der neue Geist des Kapitalismus.*, Konstanz: UVK 2003.

5 Z. Bauman, *Does the Richness of the Few Benefit us All?*, 2013, [in: ] <http://www.social-europe.eu/2013/01/does-the-richness-of-the-few-benefit-us-all/>; Tax Justice Network, *Tax Justice Focus 7, No. 2. The Inequality Edition.*, 2012, [in: ] [http://www.taxjustice.net/cms/upload/pdf/TJF\\_7-2-2.pdf](http://www.taxjustice.net/cms/upload/pdf/TJF_7-2-2.pdf), J. Stiglitz, *The Price of Inequality. How Today's Divided Society Endangers Our Future.*, New York/London: W. W. Norton & Company, 2012.

6 R. Wilkinson & K. Pickett, *Gleichheit ist Glück. Warum gerechte Gesellschaften für alle besser sind.*, Berlin: Tolkmitt Verlag 2010.

7 R. Bazillier, *Equality must be the core of economic policies.*, [in: ] E. Stetter, K. Duffek, & A. Skrzypek (eds.), *For a New Social Deal.*, FEPS Next Left Book Series vol. 6, FEPS – Renner Institut, Brussels 2013, pp. 102-133.

biofuels<sup>8</sup>. Thomas Pogge<sup>9</sup> clearly demonstrates in his work that the world order with its institutions established by the rich countries contributes significantly to millions of people dying due to poverty year after year. The way of life and the actions of the well-to-do are directly linked to extreme global poverty, whether one likes it or not.

At the same time, there is a rapidly worsening ecological crisis, with climate change probably being the best-known and most serious manifestation of this crisis<sup>10</sup>. At the most recent WEF event, Nicholas Stern renewed his forecast on global warming: Everything is even worse than he had assumed<sup>11</sup>. The ecological crisis is, in principle, a crisis of “society’s relationship to nature”<sup>12</sup>. Nature is influenced and affected by the manner in which we produce and live, and even destroyed in part. Nature and mankind are in a dynamic, reciprocal relationship with one another.

Finally, **this issue should also be referred to as a crisis of politics and a crisis of democracy, respectively. The inability and unwillingness of the current political institutions or the leading political staff to solve the enormous global problems is becoming ever more apparent<sup>13</sup>. In particular, politics fails to set clear limits to capitalism.** Since the 1990s, the globalised economy has increasingly escaped political control, giving rise to a concentration of power with internationally operating large-scale enterprises which is no longer democratically legitimised. A study by the ETH Zurich shows that the entire world economy is practically controlled by a group of 147 financial institutions<sup>14</sup>. Such a concentration of power in the hand of a few companies (and “ultra high net worth individuals”) is incompatible with the idea of real democracy especially because economic power always goes hand in hand with political power. At the same time, more and more people from lower social classes are taking their leave from political participation because they are absorbed in a daily struggle for their existence and their dignity and because they have lost their faith in politics. Western-style parliamentary democracy is in a fundamental legitimacy, identity

8 U. Hoering, *Die neue Landnahme. Der Ausverkauf des globalen Südens.*, [in: ] *Blätter für deutsche und internationale Politik*, No. 9, 2009, pp. 103-112; J. Ziegler, *Wir lassen sie verhungern. Die Massenvernichtung in der Dritten Welt.*, München: Bertelsmann Verlag 2012.

9 Th. Pogge, *Weltarmut und Menschenrechte. Kosmopolitische Verantwortung und Reformen.*, Berlin/New York: Walter de Gruyter 2011.

10 B. McKibben, *Es wird warm.*, [in: ] *Das Magazin.*, 2012, No. 32, pp. 16-25.

11 A. Watt, *Nicholas Stern self-critical on climate change predictions – not 2 degrees of warming but 4.*, 2013, <http://www.social-europe.eu/2013/01/nicholas-stern-self-critical-on-climate-change-predictions-not-2-degrees-of-warming-but-4/>

12 U. Brand & M. Wissen, *Die Regulation der ökologischen Krise. Theorie und Empirie der Transformation gesellschaftlicher Naturverhältnisse.*, [in: ] *Österreichische Zeitschrift für Soziologie.*, 36, No. 2, 2011, pp. 12-34.

13 U. Beck, *Das deutsche Europa.*, Berlin: Suhrkamp 2012; R. Menasse, *Der Europäische Landbote. Die Wut der Bürger und der Friede Europas.*, Wien: Paul Zsolnay 2012 for the «EU crisis».

14 S. Vitali et al., *The network of global corporate control.* Zürich: Chair of Systems Design, ETH Zürich. 2011, <http://www.plosone.org/article/info%3Adoi%2F10.1371%2Fjournal.pone.0025995>

and impact crisis – meaning not least that the management of the crisis itself is in crisis<sup>15</sup>.

These challenges are discussed as crises in public at different levels of intensity. In most cases, however, crisis analysis takes place isolated, that is, hardly any questions are asked as to the common causes of the various problems. In contrast, authors such as Altwater, Brand or Bader et al.<sup>16</sup> identify this common cause in the fossilistic-capitalistic mode of production and way of life of neoliberal and above all financial markets-driven imprinting. Taking this into account, they refer to a multiple crisis. Politics, not only conservative parties and governments but social democracy as well, has thus far hardly succeeded in mastering the difficult task of overcoming the multiple crisis - precisely because it blocks out this common cause.

With reference to Fukuyama's (in)famous "*End of history*", Bielskis<sup>17</sup> emphasises that the fall of the Berlin wall was seen one-sidedly and uncritically as the victory of "Western capitalism" over "Soviet communism".

*Because of this, a large part of the ideological framework that lay behind the Cold War prevailed. As a result, the chance to imagine a truly free Europe, a Europe that lives beyond 'the iron law' of market capitalism, with the possibility of challenging the neoconservative American-led ideology of 'no democracy without capitalism', was unfortunately missed at the very dawn of post-Cold War Europe<sup>18</sup>.*

When it comes to suggesting alternatives, this weakens the Left until today. Collective answers to social challenges such as they manifest themselves in the multiple crisis still run the risk of reflexively being branded "communist" and thereby banned from public debate. These reflexes take effect even within social democracy. The capitalist-neoliberal hegemony is protected not least by the Left's self-censorship.

Today, we face a downright paradoxical situation. On the one hand, there is a huge flood of information in the digital age. On the other hand, the public debate about politics and democracy, and about how we want to organize essential areas of our society such as economy, takes place within very narrow limits (this confirms the thesis that digitalization

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15 I. Blühdorn, *Simulative Demokratie. Neue Politik nach der postdemokratischen Wende.*, Berlin: Suhrkamp 2013; A. Demirović, *Multiple Krise, autoritäre Demokratie und radikaldemokratische Erneuerung.*, [in:] PROKLA, 2013/43, No. 171, pp. 193-215.; C. Crouch *Postdemokratie.*, Frankfurt a.M, 2008.

16 E. Altwater, *Der grosse Krach. Oder die Jahrhundertkrise von Wirtschaft und Finanzen, von Politik und Natur.*, Münster: Verlag Westfälisches Dampfboot 2010; U. Brand, *Die Multiple Krise. Dynamik und Zusammenhang der Krisendimensionen, Anforderungen an politische Institutionen und Chancen progressiver Politik.*, 2009, [in:] [http://www.boell.de/downloads/internationalepolitik/multiple\\_krisen\\_u\\_brand\\_1.pdf](http://www.boell.de/downloads/internationalepolitik/multiple_krisen_u_brand_1.pdf) ; or U. Bader et al., *Die Regulation der ökologischen Krise. Theorie und Empirie der Transformation gesellschaftlicher Naturverhältnisse.*, [in:] *Österreichische Zeitschrift für Soziologie.*, 2001, 36, No. 2, pp. 12-34.

17 A. Bielskis, *The Challenges for the Left in the 21<sup>st</sup> Century: Lessons from Marxism.*, [in:] E. Stetter, K. Duffek, & A. Skrzypek (eds.), *For a New Social Deal.*, FEPS Next Left Book Series vol. 6, FEPS – Renner Institut, Brussels 2013, pp. 134-159.

18 Ibidem, p. 136.

brought in many respects only a supposed diversity of information). How is this to explain? The French sociologist Luc Boltanski argues that the prevailing reality appears such dominant that alternative ways and instruments of societal development become very hard to think and implement. Despite the fact, that many people are critical toward the neoliberal status quo. **The TINA-principle remains strong and even prevents a broad public debate about more fundamental social change. Therefore, our society loses not least in dynamics, creativity and innovation.**

Against the backdrop of the crisis/crises described above, it is, on the one hand, obvious and of course appropriate that social democracy is looking for quick solutions to help people overcome their specific, current problems. On the other hand, however, the solution sought may not consist of returning blindly to the status quo ante. Thus, the capitalist growth model from before the crisis is, for example, a major cause of today's problems – and not their solution. A return to the golden years of social democracy after the Second World War is not only a somewhat naive illusion but also, rationally speaking, not a desirable option for the future. These years were not just golden. Not with a view to global inequalities and injustices, not regarding real democratic participation and not for nature which was and is still suffering under the fossilistic-capitalistic mode of production.

The European left faces a dilemma. On one side, the left advocates for good reasons for European integration and international solutions. On the other side, one should not be offhand about the belief that the still – more or less – functioning institutions of “democratic capitalism” in national-state frameworks are the last resort to resist the dominant form of neoliberal Europeanization and globalization<sup>19</sup>. Further, it is striking that even in left-intellectual debates class-specific conflicts in a broader sense that clearly came to light during the last years, were frequently neglected. An easy way out of this dilemma does not exist. But it seems absolutely necessary to me, to focus much more on the conflicts inherent in neoliberal capitalism, instead of returning to nationalist rhetoric and politics.

In order to do so, I argue that there is no “*End of history*”. A socially and environmentally sustainable economic and social order is not only possible, but it is already lived in a variety of approaches in the here and now. With the concept of economic democracy a way between real existing socialism and real existing capitalism is discussed and promoted. In contrast to the neoliberal inspired “Third Way” that parts of social democracy took as from the 1990s, economic democracy is a potential political way out not only of

19 M. Brie, *Vorwärts in die Vergangenheit? Wolfgangs Streecks verfehltte Wiederentdeckung der marxistischen Kapitalismuskritik.*, [in: ] *Blätter für deutsche und internationale Politik* 58, No. 7, 2013, pp. 59-70.; C. Crouch, op. cit., 2013; J. Habermas, *Demokratie oder Kapitalismus? Vom Elend der nationalstaatlichen Fragmentierung in einer kapitalistisch integrierten Weltgesellschaft.*, [in: ] *Blätter für deutsche und internationale Politik*, 58, No. 5, 2013, pp. 59-70., W. Streeck, *The Crises of Democratic Capitalism.*, [in: ] *New Left Review*, 71, pp. 5-29. 2011/ Online: <http://newleftreview.org/11/71/wolfgang-streeck-the-crises-of-democratic-capitalism>; W. Streeck, *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus.*, Berlin: Suhrkamp Verlag 2013; W. Streeck, *Vom DM-Nationalismus zum Euro-Patriotismus? Eine Replik auf Jürgen Habermas.*, [in: ] *Blätter für deutsche und internationale Politik*, 58, 2013, No. 9, pp. 75-92.

the European crisis but of the multiple crisis as well. Before discussing the concept of economic democracy in more detail in chapter 4, however, the current crisis management programs of the established left actors should be outlined below.

### 3. The Left's current answers to the crisis

The simmering multiple crisis forces political protagonists around the world to make far-reaching and momentous decisions. I am not going to comment on the both ineffective and inhuman austerity policies enforced by bourgeois-conservatives in response to the ideologically framed "debt crisis"<sup>20</sup>. Instead, **I would like to focus on the crisis management strategies by social democratic parties and trade unions. Three different concepts or strategies can be distinguished:**

- 1) **Redistribution through fiscal policy:** The redistribution of social prosperity after 30 years of neoliberal redistribution from the bottom to the top is of key importance<sup>21</sup>. It is not just a question of the urgently necessary reduction of social inequality and the associated disarming of speculation. Above all, room for manoeuvre for alternatives to the status quo is to be created, e.g. via long-term and non-profit-driven investments in the socio-ecological modification of the economy<sup>22</sup>. Redistribution will be a major component of any system of economic democracy if, on the one hand, the configuration of the redistribution mechanisms and redistribution ratios is done in a manner suitable for a democracy and, on the other hand, the investment of redistributed funds can be decided on as democratically as possible.
- 2) **Predistribution:** In contrast to redistribution via taxes, the predistribution concept aims at not allowing the disparities inevitably created through market developments and competition to become too large to begin with. According to Jacob S. Hacker<sup>23</sup>, who coined this term, the objective of predistribution 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"*. I propose to distinguish between three trends.
  - a) In its first form, predistribution focuses especially on equal opportunity which is to be achieved by means of an appropriate educational (e.g. the advancement of children from uneducated families), family (e.g. progressive regulations on maternity leave

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20 M. Blyth, op. cit.

21 H. Baumann & B. Ringger, *Richtig steuern. Wie mit Steuern jährlich 25 Milliarden Franken an die Bevölkerung rückverteilt werden können.*, Zürich: edition 8, 2011.

22 T. Jackson 2012, *Wohlstand ohne Wachstum. Leben und Wirtschaften in einer endlichen Welt.*, München: oekom, pp. 144-148, 180-181.

23 J. S. Hacker, *The institutional foundations of middle-class democracy.*, [in: ] [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), 2011, p. 35.

or adequate childcare facilities), social policies (dependable social security for all)<sup>24</sup>. An emphasis is placed on empowerment in terms of strengthening human capital in order to make people “fit” for the job market. Such a policy, which is oriented towards the goal of equal opportunity under the prevailing conditions, is able to solve certain specific and current problems in the reality of a person’s life. At the same time, however, it falls short because it does not provide any answers to more fundamental questions of distributive justice. Although it increases the opportunities for social advancement for a broader group of people, it leaves untouched society’s unfair class structure which is based on exploitation.

- b) The second trend focuses on market regulation, for example in the form of minimum wages and other statutory minimum standards for production conditions, gender ratios resp. affirmative action, more stringent rules for financial markets or wage spreads (see 1:12-initiative in Switzerland). The intervention in the capitalist market to the benefit of the general public already goes beyond equal opportunity policies and is likewise a core element of social-democratic policy. Market regulation is of course relevant in a mindset of economic democracy as well. However, the fact is that the successes of such regulations (this means the specific implementation) are significantly smaller to this day compared to the policy described under a).
- c) Finally, the third trend that has thus far hardly been absorbed in politics refers to the concept of a “property-owning democracy” (James Meade, John Rawls) in which real economic power is to be bestowed on employees<sup>25</sup>. The monetary participation of employees and of the population in corporate success cannot simply be the only issue here. The “ownership society” (Bush) resp. “popular capitalism” (Thatcher, Cameron) are merely a perversion or a skilful orchestration of the idea. Logically thought of and applied, predistribution would mean that the power of big business is challenged. Predistribution would then be a step towards the extensive democratisation of economy and society (see chapter 4).

**3) Growth:** For many left protagonists growth remains the magic word. The trade unions in Germany, for example, relied on “crisis corporatism” (i.e. concessions in connection with wages, working hours and pay scale standards) in the 2008/9-crisis. In doing so, they ultimately accept a role that is (too) subordinate to the economy’s capitalistic logic of competition and growth. Although they were able to avoid large layoffs there are several long term problems associated with this policy, not least in view of the genuine interests of the unions themselves<sup>26</sup>. What is often forgotten in the process though is that the

24 K. Ussher, *What is Pre-distribution?*, 2012, [http://www.policy-network.net/pno\\_detail.aspx?ID=4272&title=What+is+pre-distribution%3F](http://www.policy-network.net/pno_detail.aspx?ID=4272&title=What+is+pre-distribution%3F)

25 Th. Williams M. O’Neill, *Property-Owning Democracy and the Demands of Justice*. <http://democracy.livingreviews.org/index.php/lrd/article/viewArticle/lrd-2009-5/15>

26 H. Bierbaum, *Eingebunden. Jenseits des Krisenkorporatismus.*, [in:] *Luxemburg – Gesellschaftsanalyse und*

GDP-oriented growth from before the crisis significantly contributed to today's situation. The surplus generated, which was skimmed off according to the principle of power<sup>27</sup> has been distributed more and more unevenly starting in the 1970s/80s since the neoliberal turnaround (deregulation, liberalisation, privatisation) and, as a result, social inequality has been increasing dramatically. In concrete terms, the development of wages around the world is lagging further and further behind productivity gains since that time. In particular, the consequences of the current growth imperative for nature and the environment should be considered as well. The limits to growth are reason enough not to rely on pump priming according to the recipes of John Maynard Keynes from the 1930s and "green capitalism" resp. "green growth"<sup>28</sup>. In our expansive culture, the consumption of material or energies increases with their availability, and this also holds true if material or energy is used more efficiently ("rebound effect"). Growth at all costs is no longer an option today – neither in the global North nor in the global South<sup>29</sup>. What is needed, though, are new development strategies focused primarily on social and environmental progress. Growth can be part of the solution only if it is democratically controlled, ecological, long-term and fairly distributed, hence especially also wage growth<sup>30</sup>.

In light of the multiple crisis, the effectively pursued policies by the established left actors is to be classified as largely insufficient. Overall, a technocratically problem-solving discourse (*'how can the system be managed as smartly as possible?'*) is dominating, and the vision of an alternative economic and societal system is hardly addressed and pushed. Several of the measures mentioned above, such as the introduction of a financial transaction tax or higher taxation on the super-rich are extremely important in any case and an imperative part of economic democracy. But social democracy hardly dares to advance to the core of the social balance of power, private ownership in the means of production. Therefore, the objective of a Social Europe – and even criticisms of profit maximization, growth and competition logic – not only lack of argumentative rigor, but ultimately of political leverage. In addition, the focus is placed too one-sided and hasty on the well-known and broadly legitimized political and economic instruments and institutions such as parliamentary procedures, market-based incentive systems or traditional trade union

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*linke Praxis.*, 1/2013, pp. 4-11.

27 G. Lenski, *Power and Privilege: A Theory of Social Stratification.*, New York: McGraw-Hill 1966.

28 E. Altvater, *Der grosse Krach. Oder die Jahrhundertkrise von Wirtschaft und Finanzen, von Politik und Natur.*, Münster: Verlag Westfälisches Dampfboot 2010.

29 Ch. Plovani & M. Li, *Climate Change and the Limits to the Growth-Oriented Model of Development: The Case of China and India.*, [in:] *Review of Radical Political Economics*, 45, No. 4, 2013, pp. 449-455.

30 Friedrich Ebert Stiftung, *Soziales Wachstum. Leitbild einer fortschrittlichen Wirtschaftspolitik* 2011; T. Jackson, *Wohlstand ohne Wachstum. Leben und Wirtschaften in einer endlichen Welt.*, München: oekom 2012; E. Stockhammer, *New Perspectives On Economic Growth: The Potentials Of Wage-Led Growth.*, 2013, [http://www.social-europe.eu/2013/04/new-perspectives-on-economic-growth-the-potentials-of-wage-led-growth/?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed%3A+social-europe%2FwmyH+%28Social+Europe+Journal%29](http://www.social-europe.eu/2013/04/new-perspectives-on-economic-growth-the-potentials-of-wage-led-growth/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+social-europe%2FwmyH+%28Social+Europe+Journal%29)

structures. As a result, the necessarily profound transformation of the ruling institutions and the social structures is prevented.

Hereafter, I will discuss the concept of economic democracy that is a counter-hegemonic perspective that points beyond the capitalist status quo.

## 4. What is economic democracy?

In what follows, I will try to develop the broad understanding of economic democracy represented here that sees economic democracy as an essential part of a comprehensive democratization of social (power) relations. The chapter then briefly discusses the historic-political evolution of economic democracy as well as the central elements and areas of tension of a more democratic economic system. Section 4.3 adds an overview of specific political starting points for social democracy.

### 4.1. Philosophical approaches

The demands for reforms in economic democracy and the goal of democratic socialism, respectively, are based on certain anthropological and philosophical foundations. It is therefore also a question of which values a certain economic and social system is based on and which objectives "economy", as a key element of human life, is to achieve. Although I cannot appropriately deal with these complex and fascinating issues in this article, I would nonetheless like to make some appropriate suggestions and, in doing so, would like to limit myself especially to Karl Marx and Robert A. Dahl.

Marx's image of humanity and of society as well as his notion of a "good life" are interesting in particular because he interconnects two ideas which compete directly in the present mainstream discourse. *"On the one hand, he is concerned with the free development of the individual personality by self-determining actions as well as the individual enjoyment of life. On the other hand, however, this notion does not mean the maximum and uninhibited exploitation of individual freedoms. It has just as little to do with maximum personal fulfillment and the satisfaction of needs. Instead, the social embedding of the individual occurs because, in Marx's view, a true human being also has the ability of self-restraint and self-control, consideration and cooperation"*<sup>31</sup>. For Marx, the truly free human being is inevitably a social being. The philosopher Peter Ehlen, who is critical of Marx, writes with reference to Marx's concept of freedom: *"Freedom in the proper sense of the word is only real in and due to a society which is more than the accidental interaction of many individuals: The dialectic unit of individual and society is the condition and implementation of true freedom"*<sup>32</sup>.

31 Th. Petersen, *Karl Marx' Vorstellungen vom »guten Leben«.*, 2003, [in: ] <http://www.glasnost.de/autoren/peter/leben.html> 2003a

32 P. Ehlen, *Die Kategorie „Freiheit“ im Marxschen Denken.*, [in: ] *Studies of Soviet Thought* 37, No. 4, 1989, p. 326.

It is significant that Marx's image of humanity is not based on the notion of the self interest-maximising homo oeconomicus but instead that of a "homo socialis". Based on a wide range of experiments with children, Michael Tomasello<sup>33</sup> demonstrates how human beings display a fundamental willingness to cooperate and support one another which is relatively independent of direct social and environmental influences:

*"To an unprecedented extent, Homo sapiens has adapted to acting and thinking cooperatively in groups; in fact, the most impressive cognitive achievements of human beings – from complex technologies through linguistic and mathematical symbols up to complicated social institutions – are not products of individuals acting alone but instead jointly"*<sup>34</sup>.

**Economic democracy as an emancipatory project builds on this image of humanity and society in which self-determination and self-fulfilment on the one hand, cooperation and solidarity on the other hand are in a reciprocal or dialectic relationship with each other. Economic democracy takes human freedom seriously, therefore systematically linking it with equality and self-determination.**

A second approach to economic democracy can be found in the writings of the liberal political philosopher Robert A. Dahl. According to him, a "good" economic system should pursue five objectives: democracy, justice, efficiency (cost/income ratio), strengthening human potentials and ethics and, finally, economic freedom within the meaning of the Categorical Imperative<sup>35</sup>. The aspect that the quality of an economic system which, after all, always represents a social system as well, cannot simply be measured by economic success in a narrow, neoclassical understanding, seems especially interesting here. One of the main concerns is also how man, as a social and moral being, can fulfil his potentials. Dahl refers to Stuart Mill's understanding of good (political) government. According to him, the goal of "good government" is "to promote the virtue and intelligence of the people themselves"<sup>36</sup>. Based on this, Dahl proposes to apply this goal to the evaluation of economic institutions as well. We consider this to be a clear commonality with Marx's reasoning.

Dahl explains that no right to private ownership in corporations can be derived from the individual right to private ownership<sup>37</sup> which may not be limited by democratic decisions. According to him, the right to self-regulation by the persons concerned must be granted precedence<sup>38</sup>. In order to achieve the objectives of a "good" economic system, Dahl

33 M. Tomasello, *Warum wir kooperieren.*, Berlin: Suhrkamp Verlag 2012.

34 M. Tomasello, op. cit., 2012, p. 13.

35 R. A. Dahl, *A Preface to Economic Democracy.*, Oxford: Blackwell 1985, pp. 84-91.

36 quoted from R. Dahl, op. cit., 1985, p. 87.

37 Marx speaks of individual ownership that he distinguishes from – capitalist – private ownership.

38 R. A. Dahl, op. cit., 1985, p. 73.

relies heavily on the decentralisation of power, explicitly referring to the concentration of power and leadership both in real existing socialism as well as in real existing capitalism. "In brief, we would search for an economic order that would decentralize many significant decisions among relatively autonomous economic enterprises, which would operate within limits set by a system of markets, and such democratically imposed laws, rules, and regulations as we may believe are necessary to achieve our goals"<sup>39</sup>. Dahl ideally envisions these enterprises as self-governing-enterprises. In other words, power within enterprises should not be purely hierarchical but democratic. Dahl advocates a system of enterprises which are collectively owned and governed democratically by the employees who should decide both on wages as well as on the appropriation of revenues and profit. "If democracy is justified in governing the state, then it must *also* be justified in governing economic enterprises; and to say that it is *not* justified in governing economic enterprises is to imply that it is not justified in governing the state"<sup>40</sup>. Dahl expects a strengthening of one's moral responsibility in self-governing enterprises because the consequences of one's action/decision can be experienced much better in smaller structures than in multinational corporations.

In view of a globalised capitalist economic system which limits the room for maneuver of individuals in many ways, other contemporary philosophers see economic democracy as an absolute necessity. They underscore that economy and the private ownership of the means of production as absolutely crucial social areas have always been neglected by the democratic movement in the tradition of enlightenment. Marti indicates that, under these circumstances, democracy is incomplete and has therefore remained an "unfulfilled promise" to this day. He writes:

*"It is evident that democracy primarily plunged into a crisis because more and more people are excluded from the possibility to participate in shaping their living and working conditions. Anyone who shares this diagnosis will take into consideration when looking for democratisation strategies which extend the sphere of individual freedom that the 'democratisation of democracy' cannot be realised without democratising economy, that comprehensive democratic participation not only requires that the power of the state is controlled but likewise that any form of private, social and economic power is controlled".*

Alex Demirović<sup>41</sup> refers to these considerations and argues that the parliamentary or political democracy as we know it today has lost most of its progressive and emancipatory potential. "While democracy once was understood as an institutionalized revolution by

39 R. A. Dahl, op. cit., 1985, p. 90.

40 Ibidem, p. 111 and p. 33.

41 A. Demirović, *Multiple Krise, autoritäre Demokratie und radikaldemokratische Erneuerung*, [in:] PROKLA 43, No. 171, 2013, pp. 193-215.

which dominating institutions renew itself continuously in regulated procedures and reconcile progress and order, nowadays, democracy is a normalization dispositive in which alternatives were hardly given a place.”<sup>42</sup>

From this analysis, two different conclusions can be drawn: one would be to abandon ideal of democracy of the Enlightenment or at least to adapt it to the perceived constraints of a complex world shaped by global capitalism (“post-democracy”).<sup>43</sup> The second conclusion is the diametrical opposite: It diagnoses a lack of democracy as the cause of the crisis of democracy and beyond that the multiple crisis (see Chapter 2) and proposes therefore a systematic democratization of all spheres of life, in particular economy.<sup>44</sup> In this sense, economic democracy can be understood as “radical democracy”:

*“Radical democracy goes [...] beyond the liberal separation of politics and economy which has so far still allowed that, against the freedom of democratic self-determination, the societal laws of nature of economy and the market, in whose names the society is usurped and appropriated by the few who pretend that only they could master these laws of nature and manage the many, maintained. Radical democracy also wants more than just the implementation of forms of representative democracy in the economy. Instead, radical democracy wants to make the boundaries, which are built by powerful interests between economy and politics again and again, a subject of collective self-determination.”<sup>45</sup>*

The strength of such an understanding lies especially in the conflict theoretical and process-oriented perspective. **(Economic) democracy is not a static concept. Rather, the scope of democratic self-determination can and must be regularly negotiated, defended and enforced. Thus, the primacy of (democratic) politics is emphasized in a progressive way, and is opposed to the neoliberal ideology which denies opportunities for emancipatory collective action.**

## 4.2 Fundamentals of economic democracy

After the First World War the discussion about economic democracy gained prominence for the first time<sup>46</sup>. The Austro-Marxist Otto Bauer and Fritz Naphtali in Germany were,

<sup>42</sup> Ibidem, p. 207/own translation.

<sup>43</sup> See: I. Blühdorn, *Simulative Demokratie. Neue Politik nach der postdemokratischen Wende*, Suhrkamp, Berlin 2013.

<sup>44</sup> O. Negt, *Keine Zukunft der Demokratie ohne Wirtschaftsdemokratie*, [in:] *Mehr Wirtschaftsdemokratie wegen!*, H. Meine, M. Schumann & H-J. Urban (eds.), VSA, Hamburg 2011, pp. 7-13.

<sup>45</sup> A. Demirović, *Multiple Krise, autoritäre Demokratie und radikaldemokratische Erneuerung*, [in:] PROKLA 43, No. 171, 2013, pp. 213-214/own translation.

<sup>46</sup> for a comparison of economic democracy with the concept of industrial democracy see; W. Müller-Jentsch, *Industrial Democracy: Historical Development and Current Challenges.*, [in:] *Management Revue*, 19, No. 4, 2008, pp. 260-273.

inter alia, influential figures at that time. The latter presented a seminal work entitled «Economic Democracy. Its Essence, Method and Objective». Rudolf H. Kuda, editor of a reprint of this work wrote in 1977, «that the basic concept of economic democracy has remained as relevant as before»<sup>47</sup>. This is true once again almost forty years later. The contradiction between the social nature of production and the individual power of control over commanding the means of production is unbroken. In an actualised economic democracy, commanding the means of production is not decided on by individual private owners but instead by economic collectives, which are bound by the participation of all persons affected<sup>48</sup>. Bauer emphasized the understanding of economic democracy as a form of socialization/association of economic institutions and organizations in order to distinguish it from state-dominated communization. In addition to workers, consumers and state-representatives with the common-interest in mind should be equally involved in the strategic management of large industrial companies<sup>49</sup>. After the Second World War, in particular in Germany and Austria as well as in Scandinavia a syndicalist-corporatist understanding of economic democracy in the form of strong unions, worker participation (industrial councils) and government institutions and regulations came to the fore. The inter-company perspectives of consumers and the public interest however, were subordinated to the liberal logic of competition, especially in Germany. During the 1970's Sweden gain experience in ambitious projects of a democratization of economy. A Solidarity wage policy was implemented which should have been supplemented with a wage-earner fund. According to the original plan, this fund was to be financed by a certain share of the profits of companies with over 50 employees. Control over the company and its investment was expected to gradually pass to the employees or unions<sup>50</sup>. With the neoliberal turn in the 1970/80s social democracy and the trade unions put economic democracy in second place once again. However, starting with the crisis in 2008 the concept gains, at least to some extent, new attention.

Since the 1980s though «solidarity economy» (sometimes also referred to as participative economy or Social and Solidary Economy), which I would differ as kind of a second pillar of economic democracy<sup>51</sup>, increasingly attracted attention not only in Latin America but

47 R. F. Kuda, *Zur Einführung.*, [in: ] F. Naphtali, *Wirtschaftsdemokratie. Ihr Wesen, Weg und Ziel.*, Köln/Frankfurt Europäische Verlagsanstalt, p. 7.

48 F. Naphtali, *Wirtschaftsdemokratie. Ihr Wesen, Weg und Ziel.*, Köln/Frankfurt aM: Europäische Verlagsanstalt 1977, p. 31.

49 A. Zimmermann, *Keine Sozialdemokratie ohne Wirtschaftsdemokratie. Zur Geschichte und Aktualität einer Debatte.*, [in: ] *Widerspruch*, No. 49, 2005, pp. 141-153.

50 R. Meidner, *Why Did the Swedish Model Fail?*, [in: ] *Socialist Register* 29, 1993, pp. 211-228; R. Meidner & A. Hedborg, *Modell Schweden. Erfahrungen einer Wohlfahrtsgesellschaft.*, Frankfurt, New York: Campus Verlag 1984.

51 E. Altvater, *Solidarisches Wirtschaften: prekär oder emanzipativ?*, [in: ] E. Altvater, & N. Sekler (eds.): *Solidarische Ökonomie.*, Hamburg: VSA Verlag 2006, pp. 9-21; or J. – L. Laville, *L'Economie solidaire.*, Paris: CNRS Editions 2011.

also in various European countries. Solidarity economy counts above all on impulses in civil society and frequently builds on cooperative initiatives and experiences. In this sense, it could also be referred to as libertarian-socialist. How will I try to show, modern and successful projects and movements of economic democracy must strive to combine the strengths of both “classical economic democracy” and solidarity economy. First, however, I will return to the basic assumptions and the various dimensions of economic democracy.

The German political scientist and sociologist Fritz Vilmar refers to economic democracy as the “target concept of alternative economic policy” and suggests the following definition: *“Economic democracy is the epitome of all economic structures and procedures by which democratic decisions, which are legitimised by the participation of the economically affected persons and/or of the democratic state, take the place of autocratic decisions”*<sup>52</sup>.

In the tradition of Naphtali, Vilmar and the long-term chairman of the Industrial Union of Metalworkers [IG Metall], Otto Brenner, it knows three levels: On the macrolevel, the focus is on democratic framework development planning and investment control which is to ensure full employment, social justice and ecological sustainability; on the mesolevel, the democratic control of economic and entrepreneurial power, respectively, is provided for; on the microlevel, the participation of employees in the entrepreneurial decision-making processes on all levels. With reference to Brenner, Vilmar illustrates the concept of economic democracy in the form of a table as shown below<sup>53</sup>:

The challenge of economic democracy especially also consists of coordinating the most diverse areas and levels of democratic codetermination as effectively and efficiently as possible: *“Economic democracy not only entails codetermination in companies or enterprises; instead, the concept interlocks enterprises, industries, regions and macroeconomic control. In that way, the contradictions between microeconomic and macroeconomic logics are to be treated productively”*<sup>54</sup>. To make a success of the extremely demanding task of the socio-ecological conversion of the economy, democratic forums such as e.g. regional economic, social and environmental councils are needed. When we deal with the coordination of various logics and the question of the common good, the relationship between economic democracy and political democracy comes into view.

**A progressive economic democracy will not replace political democracy but defend and supplement it.** Krätke<sup>55</sup> speaks about two pillars of democratic organisation in a society which are to support one another: one parliamentary pillar for all citizens

52 F. Vilmar, *Wirtschaftsdemokratie - Zielbegriff einer alternativen Wirtschaftspolitik. Kritische Bilanz und Aktualität nach 40 Jahren.*, 2000, <http://www.memo.uni-bremen.de/docs/m3206.pdf>, p. 4.

53 H. J. Bontrup, *Die Wirtschaft braucht Demokratie.*, [in:] H. J. Bontrup, Heinz et al. (eds.), *Wirtschaftsdemokratie. Alternative zum Shareholder-Kapitalismus.*, Hamburg: VSA 2006, pp. 10-48.

54 D. Hirschel & Th. Schulten, *Wirtschaftsdemokratie contra Krisenkapitalismus. Über den notwendigen Kurswechsel der Gewerkschaften.*, [in:] *Blätter für deutsche und internationale Politik.*, No. 11, 2010, p. 77.

55 M. R. Krätke, *Boom – Blase – Crash. Fünf Jahre nach Lehman und vor Transatlantien.*, [in:] *Blätter für deutsche und internationale Politik.*, No. 9, 2008, pp. 53-60.

**Table 1: Theory of economic democracy: Integration of subconcepts**

Macrolevel	Goal: A socially and ecologically sustainable economy of the common good	<ul style="list-style-type: none"> <li>- National economic accounts at the national and supranational level</li> <li>- Socio-ecological framework development planning</li> <li>- Focus planning as regards working time</li> <li>- Overall control</li> <li>- Social and ecological fiscal and investment policy</li> <li>- Further development of the anti-trust law</li> </ul>
Mesolevel	Goal: Democratic control of entrepreneurial or economic power	<ul style="list-style-type: none"> <li>- Democratising corporate governance</li> <li>- Further development of the public sector or expansion of collective ownership</li> <li>- Socialization of large companies</li> <li>- Promotion of cooperatives and employee-owned enterprises</li> <li>- Collective bargaining policy/legislation for optimum share in revenues and assets</li> </ul>
Microlevel	Goal: Workers' participation on all levels incl. participatory organisation of the work process	<ul style="list-style-type: none"> <li>- Participation of employee organisation and staff council in staff, social and labour organisation issues</li> <li>- Participation at the workplace</li> <li>- Humanisation of work</li> <li>- Collective agreements or works agreements on work task expansions, in particular semi-autonomous groups</li> <li>- ergonomic standards</li> <li>- codetermined part-time work, etc.</li> </ul>

Source: Vilmar 1999, own adaptations

alike, and one council-based pillar that acts as a democratic organisation of the system or social work. Krätke is convinced “that the matter becomes complicated”. According to him, a comprehensive economic democracy, and even more so a system of council-based democracy, not only promises more freedom, self-determination and justice; for the common man, it also means more, not less, political activity<sup>56</sup>. However, it also needs to be noted that the quantity of direct political participation depends on how exactly such an economic and social order is democratically (!) designed. It is possible and conceivable to lay more weight on new forms of representative democracy than on direct democratic elements. Economic democracy does not mean that all people have to deal every day with the political design of their lifeworld. Yet, as shown above, it is crucial that the coordinates of social coexistence become a subject of collective self-determination.

Finally, the relation between state resp. societal planning and markets is of utmost importance. In most concepts of economic democracy, the market remains an integral component. As a central argument for this, Krätke states that no planning process, no matter how democratic, should be allowed and able to dictate to each and every individual what his legitimate needs ought to be. Planned economy may limit but not abolish individual freedom of choice. Whether markets would fit into a system of economic democracy

<sup>56</sup> Ibidem, pp. 10-11.

would ultimately depend on to what extent they could be democratically controlled<sup>57</sup>. For Fritz Vilmar, economic democracy is by no means a counter-concept to market economy, instead it cancels out the achievements of market economy:

*“Economic democracy, that is to say: shaping economy to be primarily oriented towards the common good instead of profit, comprises a transformation concept of the state as a social state which does not believe that it can achieve the abolishment of the structural capitalist instability, dysfunctionalities, inhumanities and oligarchies by means of some ‘total’ revolutionary interventions (total communisation, total planning) but instead by means of a process of limited, differentiated transformation according to the principle of ‘mixed economy’ – the preservation (even restoration!) of functioning market-based planning spaces – but the supplementation, modification, replacement and common good-oriented management of market-based system elements by means of [...] strategies and system elements of national economic framework development planning and investment control including well-planned labour market policy, the democratic control of entrepreneurial power (especially of multinational corporations) and worker participation at the decision-making levels of companies and enterprises”<sup>58</sup>.*

**Economic democracy is a mixture of planning and market where democratic (!) planning in the interest of the general public, in contrast to the neoliberal status quo, is assigned significantly greater importance while the “free” market is assigned less importance. Concepts of economic democracy assume the reality of mixed economy** (see chapter 5). Today’s macroeconomy, which is dominated by capitalism, is characterised by plural forms of ownership and a diverse regulatory environment, and even a progressive economic democracy concept pragmatically combines various forms of ownership and control according to economic and social criteria of efficiency<sup>59</sup>.

Subsequently one final remark: With its emphasis on heterogeneity and mixed-economic reality and the commitment to common-good-oriented, democratically designed and accountable markets the orientation framework of economic democracy is especially relevant for one of the currently biggest problems of the European Union (EU): namely the strong ideological focus on the European Single Market. Economic democracy means a more decentralized economy. In the case of the EU this would mean differently designed markets for different needs resp. different market regulations at different levels (local, regional, national and supra-national)<sup>60</sup>. Regional differences (Disparities) should not any longer be primarily perceived as a problem, as it is the case in the European debate

57 Ibidem, pp. 12-13.

58 F. Vilmar, op. cit., 1999, p. 11.

59 D. Hirschel Th. Schulten, op. cit., 2010, pp. 77-80.

60 M. Nahtigal, *European Regional Disparities: The Crucial Source of European Un-Sustainability.*, 2013, Available at SSRN: <http://ssrn.com/abstract=2248618>.

today. The variety should be understood, not least in a pan-European interest, as an opportunity to discover much-needed alternative, sustainable and self-determined forms of development, and to promote them accordingly.

### 4.3 Ideas and Initiatives in economic democracy today

**Economic democracy is a pluralistic project.** There are countless initiatives in economic democracy all over the world which can also be competing with each other. As it is clarified again in the following overview, the political project of economic democracy is far from being a purely theoretical and utopian matter. Various elements of a more democratic economic and social order, and therefore political starting points for specific support, already exist today (whereas often in niches).

As it is explained in the previous section, economic democracy includes more democratic planning than today. However, planning is important in neoliberal capitalism as well – albeit planning is largely left to managers in corporate headquarters and is therefore separated from democratic control and participation. One can speak of a privatisation of societal planning for the benefit of a few. If one grasps corporations rightly as social institutions and not private affair, the challenge is to democratize corporate planning and to include not only labor but preferably all relevant stakeholders, for example by new models of council democracy. A far-reaching constraint of the profoundly undemocratic plenitude of power of global corporations which is one of the crucial impediments to a social and ecological sustainable development is of extreme importance today<sup>61</sup>. The notion of some sort of **socialization of enterprises starting from a certain size**, as it is proposed in the model of the “Humane Economic Democracy”<sup>62,63</sup>, with the already mentioned wage-earner funds in Sweden in the 1970’s or recently in the concept of the “Economy for the Common Good”<sup>64</sup>, seems to me to be eminently relevant and forward-looking (of course there needs to be a public debate about the specific design of such a democratisation). Politically, it is important to stress that:

- (1) socialization affects only larger companies, and
- (2) that this process can be executed gradually and without expropriation by skimming future profits.

61 C. Crouch, op. cit., 2011; Ph. Löpfe & W. Vontopel, *Reiche Multis, arme Bürger. Die unsoziale Kehrseite der masslosen Unternehmensgewinne.*, Zürich: Orell Füssli 2012.; R. D. Wolff, *Capitalism Hits The Fan. The Global Economic Meltdown and What to Do About It.*, Northampton: Olive Branch Press 2013.

62 O. Šik, *Humane Wirtschaftsdemokratie.*, Hamburg: Albert Knaus Verlag 1979.

63 Employee-owned companies are – besides a macroeconomic distribution planning and market regulation according to the plan – one of the three pillars of the theoretically well-founded and still extremely insightful model of “humane economic democracy”. See: Ibidem, pp.196-453.

64 Ch. Felber, *Die Gemeinwohl-Ökonomie. Aktualisierte und erweiterte Neuauflage: Eine demokratische Alternative wächst.*, Wien: Deuthike 2012.

One of the biggest challenges nowadays is to find just and sustainable solutions for the problem of overaccumulation of capital. On a macro-economic level this is about the redistribution of wealth, debt relief and about the question how a democratic society can gain control over the international financial markets. Altwater, Demirović or Krätke<sup>65</sup> point out that controlling the credit system is at least as crucial to a democratic economic system as the self-governance of firms. The main concern is to guide investments not in order to maximise profits but according to society's needs into socially and ecologically sustainable as well as democratic economic and social structures. Krätke considers democratic control of the state's monopoly on money, on lending and on the creation of credit, thus on the (public) banking system, to be necessary. How exactly democratic control of the financial markets and the credit system can look must be developed in a societal discourse. Debates to that effect are currently ongoing, specific proposals (from financial transaction tax and a ban on certain forms of speculation through public rating agencies and clearinghouses up to bank unions and the nationalisation of banks) are made and sometimes implemented. As recommended by five of the world's most respected economists, democratic control over financial markets would also be exercised if a state licensing agency checks before the launch of a new "financial product" whether it actually brings social benefits and if its risks, as opposed to credit default swaps and the like, are easy to handle<sup>66</sup>. **Ultimately, the decisive question is whether the political protagonists, the EU and the national states, are truly prepared and willing to take up the fight against international financial capital.**

One of the major upcoming tasks will be to leverage an alternative investment logic that is guided by the actual needs of society as well as by social and ecological sustainability. Democratically controlled investments are needed, with longer maturities and lower rates of return, for example in order to support the socio-ecological reorganisation of the economy. Investment funds such as employee funds<sup>67</sup> or even public funds financed through taxes such as the ones – half-heartedly only – demanded by the Industrial Union of Metalworkers during the 08/09 crisis, would be an appropriate tool to achieve this<sup>68</sup>. Pension funds, which as institutional investors have billions of investment capital

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65 E. Altwater, *Solidarisches Wirtschaften: prekär oder emanzipativ?*, [in:] E. Altwater, & N. Sekler (eds.): *Solidarische Ökonomie.*, Hamburg: VSA Verlag 2006, pp. 9-21; A. Demirović, *Demokratie in der Wirtschaft. Positionen, Probleme, Perspektiven.*, Münster: Westfälisches Dampfboot 2007.; M. R. Krätke, op. cit., 2008.

66 H. Flassbeck et al, *Handelt jetzt ! Das globale Manifest zur Rettung der Wirtschaft.*, Frankfurt/Main: Westend 2013, p. 199.

67 The "Québec Federation of Labour (QFL) Solidarity Fund", which has existed since 1983, makes direct investments in small and medium-size enterprises based on economic but especially also based on social criteria. See: E.O. Wright, *Envisioning Real Utopias.*, London/New York: Verso 2010, pp. 225-230.

68 H. Bierbaum, *Eingebunden. Jenseits des Krisenkorporatismus.*, [in:] *Luxemburg – Gesellschaftsanalyse und linke Praxis.*, 1/2013, p. 9.; A. Zimmermann, *Keine Sozialdemokratie ohne Wirtschaftsdemokratie. Zur Geschichte und Aktualität einer Debatte.*, [in:] *Widerspruch*, No. 49, 2005, pp.147-149.

at their disposal in the financial markets, they should be considered first and foremost<sup>69</sup>. Employees are equally represented in the foundation councils of many pension funds and thereby have a substantial economic power potential at their disposal. Pension funds can gain influence on the companies' strategic decisions through their share in the capital stock. The Swiss Social Democratic Party demands in its party manifesto, similar to as provided for in the original Meidner Plan in Sweden, that members of the foundation board have specific training, and statutory obligations so that the capital concerned is invested in socially and ecologically sustainable enterprises only. In addition, according to the Swiss Social Democratic Party, it should also be possible to entrust the capital held by social security institutions to an "industry fund which ensures the socio-ecological reorganisation of the economy and its democratisation and which can be used to finance public service enterprises and public infrastructure tasks"<sup>70</sup>.

Under current conditions, the commitment to more economic democracy also means in particular to consistently resist privatisation and not only to defend but even to expand the idea of public service. The sell-out of the state is being pushed for decades, even by social-democratic politicians – and recently again reinforced in the context of austerity. In doing so, public property resp. key public infrastructures were withdrawn from democratic control, last but not least for ideological reasons. Therewith the power of transnational corporations was and is further strengthened. As Colin Crouch<sup>71</sup> makes clear in his recent book, the EU, so almost tragically just the one institution that could take democratic influence beyond the nation state, must be seen as the driving force of a neoliberal market orientation (including privatization and out-sourcing) nowadays. This trend has to be reversed!

Then subsequently, it is another important goal to selectively democratise the existing democratic institutions, thereby increasing civic involvement in economic policy decisions as well. **Economic democracy and political democracy belong together and have to be developed together.** The federal and direct democratic system in Switzerland, in particular the comparatively extensive right of initiative and referendum, can be seen in certain areas as a model to be developed further. Another, frequently examined example of (direct) democratic innovation is the participatory flexible budget management in Porto Alegre where the population can directly participate in the budgeting process within the framework of an annual assembly<sup>72</sup>. Fung and Wright<sup>73</sup> refer to such models and models

69 A. Demirović, *Demokratie, Wirtschaftsdemokratie und Mitbestimmung.*, [in: ] H. et al. (eds.), *Wirtschaftsdemokratie. Alternative zum Shareholder-Kapitalismus.*, Hamburg: VSA 2006, pp. 87-89.

70 Social Democratic Party of Switzerland 2010, *Schweiz/Partei/Parteiprogramme/Parteiprogramm-2010*

71 C. Crouch, op. cit., 2013.

72 G. Smith, *Democratic Innovations. Designing institutions for citizen participation.*, Cambridge: University Press 2009, pp. 30-71.; E. O. Wright, *Envisioning Real Utopias.*, London/New York: Verso 2010, pp. 155-167.

73 A. Fung & E. O. Wright, *Deepening Democracy. Institutional Innovation in Empowered Participatory Governance.*, London/New York: Verso 2003.

which are similar in nature, such as neighbourhood councils in Chicago or institutionalized civic discussions of large-scale public and private (!) projects before the parliamentary process in Tuscany<sup>74</sup>, as «Empowered Participatory Governance»(EPG). «They are participatory because they rely upon the commitment and capacities of ordinary people to make sensible decisions through reasoned deliberation and empowered because they attempt to tie action to discussion»<sup>75</sup>. In contrast, models such as the “Chantier de l'économie sociale” in Québec, which was set up as an integral part of the city's socio-economic structure to strengthen the civil society-oriented social economy, are more oriented towards corporatism and representation<sup>76</sup>.

Wage policy is another important issue. The rationale to set wages democratically other than through the market and the associated power relations, seems to me to be important as well. While the type of work task becomes the decisive factor in the “Swedish model” of solidarity wage policy, one can also imagine setting wages for reasons of fairness such that they reflect the importance of the respective work for the common good. It would then no longer be possible for a hedge fund manager to earn many times the amount of what a teacher earns. A minimum wage or the idea of a maximum wage spread are more pragmatic regulations in this context. The latter is especially important when considering the many negative consequences of social inequality throughout society<sup>77</sup>. In Switzerland, a popular initiative that demanded a maximum wage spread of 1:12 within a company was defeated on 24<sup>th</sup> of November 2013. The Spanish Socialist Workers' Party (PSOE) integrated the claim in its economic program recently.

In the context of economic democracy, there is also the issue of what roles consumers (can) play. The culture of consumerism should be dismantled by reforms in economic democracy and attractive alternatives to the consumer lifestyle should be offered. But even if changes are implemented successfully, we will remain consumers, at least in part. Therefore, on the one hand the foundations for the “correct” purchase decisions must be laid as well, especially during the first phase of the transformation process in economic democracy. To this end, comprehensive regulations are needed on transparency and accountability and the active involvement of the state in the across-the-board standardisation of labels, conducting certifications and setting up fair and sustainable production facilities<sup>78</sup>. The knowledge concerning the *How* and *Where* of production can thus, in the best case, become a starting point not only of a consumer's individual

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74 J. Steiner, *Reflektierte Meinungsbildung.*, [in: ] *Neue Zürcher Zeitung*, 26<sup>th</sup> September 2013, p. 20.

75 A. Fung & E. O. Wright, op. cit., 2003, p. 5.

76 E. O. Wright, op. cit., 2010, pp. 204-208.

77 R. Wilkinson & K. Pickett, *Gleichheit ist Glück. Warum gerechte Gesellschaften für alle besser sind.*, Berlin: Tolkmitt Verlag 2010.

78 T. Jackson, *Wohlstand ohne Wachstum. Leben und Wirtschaften in einer endlichen Welt.*, München: oekom, 2012, pp. 185-186.

purchasing decision but also of the collective, mobilisation in civil society for a fairer and sustainable economic management. On the other hand, consumers need to be involved in the democratic governance of (big) companies and public investment funds.

Requirements of economic democracy are also increasingly being discussed in connection with the internet. The debate about “commons” and intellectual property rights is very interesting in this regard.<sup>79</sup> In this respect, Wikipedia is most likely the best-known example of the non-capitalist potential of the new information and communication technologies (ICT’s)<sup>80</sup>. At a theoretical level, starting points which are interesting from the perspective of economic democracy can be found especially in the debate about commons, such as they are held in particular regarding intellectual property rights on the internet<sup>81</sup>. However, Internet enthusiasts often share a naive, technology-centred view of real existing internet resp. the politico-economic power relations (oligopolistic corporations together with reactionary state power) which dominate the current development<sup>82</sup>. For McChesney, the Internet is “central to the movement to build a more democratic society and extend self-government to the economy. Digital technologies make the new economy and self-management of decentralized units far more realistic”<sup>83</sup>.

**Worldwide, there are countless examples of civil society resistance to injustices of global capitalism and abuse of power. In connection with the financial and economic crisis in 2008 and the prevailing austerity-policy, this resistance takes place not only in the periphery, but also in the center, in Europe and the United States:** Examples are the Occupy movement in different countries<sup>84</sup>, the Geração à Rasca-movement in Portugal or the 15-M-movement in Spain. Furthermore, one can increasingly observe social struggles in the former Yugoslavia that are not related to nationalist and ethnic conflicts, but can be seen as resistance against neoliberal policies of national and European origin<sup>85</sup>. For many of these movements, social democracy is not part of the solution, but – unfortunately quite often with good reason – perceived as part of the problem. A progressive social democracy must be self-critical and actively try to reach out to the protest movements, and to find a common ground for common action. In

79 S. Helferich/Heinrich-Böll-Stiftung (eds.), *Commons. Für eine neue Politik jenseits von Markt und Staat*, Transcript, Bielefeld 2012; F. Stalder, *Digitale Solidarität. Perspektiven der Netzpolitik*, <https://netzpolitik.org/2012/digitale-solidaritat-perspektiven-der-netzpolitik/>

80 E. O. Wright, op. cit., 2010, pp. 194-203)

81 S. Helferich, *Commons. Für eine neue Politik jenseits von Markt und Staat.*, Bielefeld: Transcript. Heinrich-Böll-Stiftung.; F. Stalder, *Digitale Solidarität. Perspektiven der Netzpolitik.*, 2012, <https://netzpolitik.org/2012/digitale-solidaritat-perspektiven-der-netzpolitik/>

82 R. W. McChesney, *Digital Disconnect. How Capitalism is Turning the Internet Against Democracy.*, New York, London: The New Press 2013.

83 Ibidem, p. 231-232)

84 see: for the U.S.: D. Graeber, *The Democracy Project. A History, a Crisis, a Movement.*, New York: Spiegel & Grau 2013.

85 M. G. Kraft, *Soziale Kämpfe in Ex-Jugoslawien.*, Wien: mandelbaum, 2013.

this regard, the concept of economic democracy with its central demands for more self-determination, real democratic participation and justice seems to be promising.

**An important element of a contemporary economic democracy are then cooperatives.** According to figures by the International Cooperative Alliance (ICA), about one billion people in almost 100 different countries are organised in the form of cooperatives.<sup>86</sup> In Germany alone, there are well over seven-and-a-half thousand cooperatives with almost 21 million members. Therefore, they are correctly referred to as an elementary part of the economic and social structure in Germany<sup>87</sup>. And even in Switzerland, cooperatives have a long and still living tradition<sup>88</sup>. The cooperative organisational principle that, at least in producers' cooperatives, relies on autonomy and thus self-determination, is used all over the world in various sectors and in enterprises of different size<sup>89</sup>. Well-known and successful examples are the *taz* (Berlin) and *WOZ* (Zurich) newspapers, numerous cooperatives in Reggio Emilia or the Spanish mega-cooperative Mondragón. In the U.S., there are several practice-oriented initiatives aimed at a socially and ecologically sustainable economy while relying in particular on democratic corporate forms such as cooperatives.<sup>90</sup>

The already several times mentioned producers' cooperatives resp. democratically structured enterprises in collective ownership are of particular importance. In contrast to relatively anonymous investment funds in collective ownership, collective property of the "own" company reduces alienation, it is more directly experiential and thus more productive and fulfilling for the individual<sup>91</sup>. Wolff<sup>92</sup>, who uses the term "Workers Self-Directed Enterprises (WSDE)", writes: „WSDEs represent the goal of a transition beyond capitalism at the micro-level, inside the enterprises produce the goods and services upon which modern civilization depends." But producers' cooperatives as essential actors of social economy provide such a perspective only if they design their decision-making-structures really democratically and if their strategy is not geared to profit maximization. It is not enough to cut employee in profits, e.g. through shareholdings. Only the combination with a participatory management style makes a real difference and helps, as many studies show, not least to increase the company performance<sup>93</sup>.

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86 See: <http://ica.coop/en/whats-co-op/co-operative-facts-figures>

87 FES, *Genossenschaften und ihre Potenziale für eine sozial gerechte und nachhaltige Wirtschaftsweise* 2012.

88 R. Roca, *Genossenschaften als Kulturgut.*, 2012, [in: ] <http://www.nzz.ch/meinung/debatte/genossenschaften-als-kulturgut-1.17585903>.

89 B. Dyttrich & P. Wuhler, *Wirtschaft zum Glück. Solidarisch arbeiten heute, weltweit.*, Zürich: Rotpunktverlag 2012; K. Gellenbeck (ed.), *Gewinn für alle! Genossenschaften als Wirtschaftsmodell der Zukunft.*, Frankfurt am Main: Westend Verlag 2012.

90 See [democracyatwork.info](http://democracyatwork.info) ; [neweconomy.net](http://neweconomy.net) ; [bealocalist.org](http://bealocalist.org)

91 R. A. Dahl, op. cit., 1985, p. 140; O. Šik, op. cit., 1979, p. 398.

92 R. D. Wolff, *Capitalism Hits The Fan. The Global Economic Meltdown and What to Do About It.*, Northampton: Olive Branch Press 2013.

93 R. Wilkinson & K. Pickett, op. cit., 2010, pp. 283-294.

However, if cooperative ideals are taken seriously and in the light of the social challenges described above, cooperatives as an expression and as protagonists of a “moral economy” offer advantages of vital importance:

- They are democratic, that is, they work according to the principle of one woman/man, one vote. The democratic practise in cooperatives promotes the penetration of society with the democratic ideal as a whole<sup>94</sup>.
- Autonomous producers' cooperatives in particular not only increase the work motivation but also the chances for their employees to lead a life that is as self-determined as possible.
- They are not after the maximisation of profits, thereby curbing GDP-oriented growth.
- They usually pursue higher ethical standards and evaluate social and ecological objectives more vigorously than companies which are primarily profit-oriented. Thereby, cooperatives contribute to a more just and healthier society.
- They are an important element of a pre-distribution strategy in that they have a cushioning effect on the inequalities which inevitably arise in a market economy (capitalistic or not). On the one hand, they keep income differentials low, on the other hand, there is hardly less accumulation of private wealth because corporate profits are primarily reinvested instead of flowing off to investors.
- They rely more on cooperation than on competition and rivalry and are therefore more innovative and more successful than top-down-led companies, especially in service- and knowledge-oriented economic sectors (the sectors with future growth potential!)<sup>95</sup>.
- They are usually comparatively very close to customers and members and are therefore better embedded in the community.
- Cooperatives are predestined to strengthen local and regional (economic) relations with the support of technology (smart networks, intelligent machines). In this way, the (obsolescent) model of a global supply chain, with its multinational corporations and high street banks, which is still prevalent today, can be overcome and replaced by a decentralised, socially just and ecologically sustainable economy<sup>96</sup>.

Nevertheless, it is clear that cooperatives must necessarily withstand contradictions under the prevailing conditions if they actually see themselves as an expression of an alternative understanding of economy and society. If cooperatives are to fundamentally and sustainably contribute to overcoming the neoliberal status quo without having to exist

94 A. Fung, *Associations and Democracy: Between Theories, Hopes, and Realities.*, [in: ] *Annual Reviews of Sociology*, 29, 2003, pp. 515-539.

95 O. Fiechter, *Die Wirtschaft sind wir! Die Entstehung einer neuen Gesellschaftsordnung im Zeitalter der vernetzten Märkte.*, Bern: Stämpfli 2012.

96 Ph. Löpfe & W. Vontobel, *Reiche Multis, arme Bürger. Die unsoziale Kehrseite der masslosen Unternehmensgewinne.*, Zürich: Orell Füssli 2012, p. 13.

as exotics in the third sector and/or under precarious conditions, state support is needed in the form of financial incentives and legal provisions that are kindly disposed towards employee ownership. Initiatives in which work and production are organised democratically and solidarily should be specifically promoted by government funds and regulations: For instance, to the effect that the formation of producers' cooperatives by employees is facilitated and supported by interest-free loans from public authorities; by making it possible especially for small- and medium-sized businesses to be more easily transferred to employee ownership in case of succession problems or bankruptcy likewise; by enforcing new laws that provide for the socialization of enterprises above a certain size; by the (largely) exempting them from business taxation; or by making land available to building or housing cooperatives well below market price. Thus, the state is challenged in particular in that it will have to create a good framework conditions for cooperative self-help.

## 5. What to do – and what strategy?

The complexity of a comprehensive understanding of democracy which permeates the whole society including economy was hinted at in section 4.2. But political protagonists must not allow themselves to be scared off by the numerous open issues associated with a corresponding alternative economic and social model. In political practice, the point is not to implement a complex model as-is and in a single day. Instead, progressive political forces have the responsibility to gradually evolve a society, starting with the ruling structures, towards a system of economic democracy which sets the direction as a utopia. First, this means that, on the one hand, to control the excesses of neoliberal capitalism within the framework of the existing institutions and, on the other hand, to facilitate (civil) society learning processes in the context of a socially and ecologically sustainable mode of economy through focused political and state support, and to learn from them.

The American sociologist Erik Olin Wright offers the conceptual and theoretical foundations for such a strategy. In his more recent work, he develops an extremely interesting proposal as to how the ruling system can be overcome in the long term by the interplay of specific and targeted political measures in various sectors of society and the cooperation between various protagonists<sup>97</sup>.

Wright is adopting an explanatory approach based on power resp. conflict theory. With regard to the economic system, he distinguishes between three forms of power:

- *Economic power* as control over economic resources
- *State power* as control over territorial regulation and implementation of regulations
- *Social power* which is founded on the capacity to mobilise people for common, collective actions.

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<sup>97</sup> E. O. Wright, op. cit., 2010; E. O. Wright, op. cit., 2013.

Based on this, he differentiates between three ideal types of forms of an economic structure or an economic system:

- *Capitalism* as an economic structure in which economic activity is controlled by the exercise of economic power.
- *Statism* as an economic structure in which economic activity is controlled by the exercise of state power. State officials control investments and production by means of statist-administrative mechanisms (from a historical viewpoint, this structure is primarily associated with authoritarian state socialism, e.g. in the Soviet Union).
- *Socialism* as an economic structure in which economic activity is controlled by the exercise of social power. Socialism according to Wright definitely does not mean state socialism but instead a democratic economy which is strongly shaped by civil society ideas.

A perspective based on conflict theory which analyses society as a dynamic network of power and dominance relationships also opens up options for a non-dogmatic political practice. Power constitutes a social relationship in which countervailing power is always possible. Real-world economic systems are hybrids, depending on their extent and interaction, they differ from economic, state and social power. There is neither pure capitalism nor pure socialism in the sense of Wright. Thus, the status quo – to be overcome – is an economic system composed of capitalist, statist/state and socialist modes in which the capitalist mode (in its neoliberal form) is dominant. Progressive forces must therefore aim at widening the “socialist mode”, which is pluralistic within itself, and at strengthening it in the interest of a counter-hegemonial project, ultimately allowing it to become hegemonial itself.

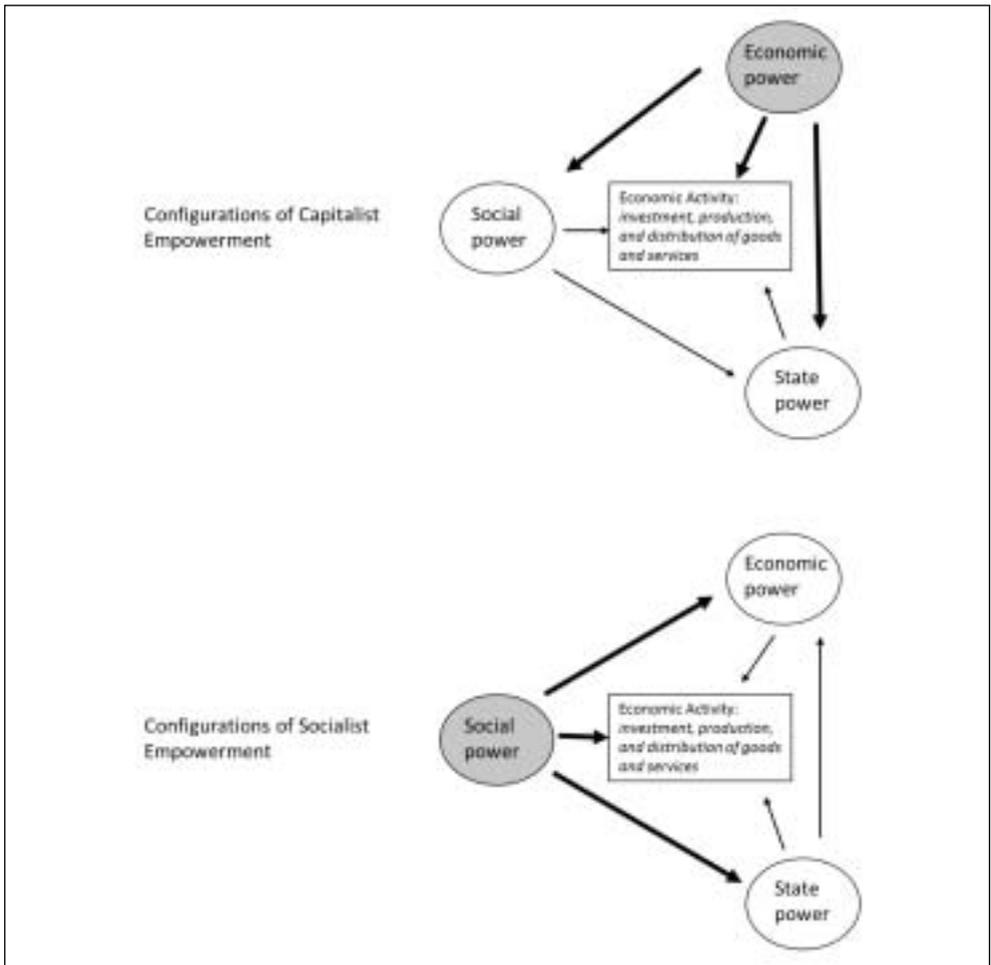
Wright attempts to illustrate the different variations and configurations of economic, state and social power as they relate to economic activities within a society in the form of graphs. The typical configurations of a capitalist and a socialist system are shown below:

Wright further differentiates between seven paths of a progressive policy which seeks to change the capitalist-neoliberal status quo in the direction of a hybrid structure which is, however, dominated by the socialist mode<sup>98</sup>. What these differing paths have in common is the notion to democratise power over economic existence by subordinating economic and state power to social power. According to Wright, this is the first and most important step in order to achieve the progressive Left’s other core values such as equality, social justice or sustainability. Taken by themselves, individual reforms may not alter the power relations in a society “but if it is possible to increase these configurations, the cumulative effect could be a qualitative transformation in which socialism becomes the dominant form of relations within a complex economic hybrid, subordinating both capitalism and statism within democratized power relations”<sup>99</sup>.

98 E.O. Wright, op. cit., 2013, pp. 15-19.

99 Ibidem, p. 19.

Figure 1: Configurations of



Source: Wright 2013: 14

- Finally, three strategies to transform or overcome the status quo can be differentiated<sup>100</sup>:
- *Eruptive transformations* which seek direct confrontation between various interests and which aim at the radical and sudden break with existing institutions and structures (revolution).
  - *Interstitial transformations* where alternatives of a civil society are established and lived in niches within the structures which are dominated by capitalism.
  - *Symbiotic transformations* which strive for a better life within capitalism (welfare state etc.; traditional social-democratic politics) but which end up contributing to stabilising the capitalist structures.

<sup>100</sup> Ibidem, pp. 19-21.

For Wright, the most promising strategy consists of the **targeted combination of interstitial and symbiotic transformations which arguably must in some cases employ elements of eruptive transformation as well** (strikes, demonstrations, civil disobedience, etc.). While the lived transformations (interstitial transformations) can prove the feasibility and usefulness of alternatives and can strengthen the awareness of these issues in the population, the state can (“voluntarily” or simply forced to do so through collective mobilisation) contribute to expanding and intensifying the effective power of such alternatives or of socialist elements through purposive promotion within the framework of symbiotic transformations.

The framework of analysis and action proposed by Wright is a declared belief in institutional pluralism and heterogeneity. This seems to me to be central to social-democratic parties as well. Hence, overcoming capitalism resp. neoliberal status quo does not simply mean that everything changes overnight. Instead, it establishes the perspective of long-term change for progressive politics which takes reality as a starting point and which must be moulded politically. Although this change pragmatically starts with the ruling structures, trying to modify them processual on different levels with the overriding goal of achieving empowerment for those affected, it is guided by the vision of a democratic, equal, just and sustainable society which extends beyond the status quo.

## 6. Conclusions

As the previous considerations have shown, the concept of economic democracy offers the possibility of an incremental and multi-level overcoming of the neoliberal status quo and a way out of the multiple crisis. However, the issues of mobilization and campaigning ability of the concept were hardly addressed so far. Though, without political mobilization the claim for a democratization of society remains by and large ineffective – no matter how compelling the claim can be derived intellectual. As already indicated, the traditional concept of economic democracy is dominated by a politico-economic perspective and is often rather abstract. In contrast, **a broad and emancipatory understanding of economic democracy as part of a comprehensive democratization of society yet allows for emphasizing socio-cultural aspects and to get more directly to the level of human needs** (see section 4.1).

Transformation processes begin with the fact that people get aware of the shortcomings and dysfunctions of the status quo. Today, at least a latent unease with the dominant lifeworld reality is widespread. The multiple crisis is having an effect, with whom one is confronted in different roles, e.g. as a worker or citizen or a consumer. It is the task of social democracy to grasp this unease, to enlighten people about the cause(s), to reveal coherences and finally to provide alternatives. I would like to elaborate on this thought.

Luc Boltanski and Eve Chiapello postulate in their work on the “*New Spirit of Capitalism*”<sup>101</sup> that capitalism has very skilfully adopted the demands for autonomy and creativity made during the 1968 movement in the course of the neoliberally imprinted transformation of the working environment and capitalised on it for its “libertarian” type of profit maximization. “Thus, capitalism has continued to evolve by incorporating novel emancipation efforts which were directed against the tayloristic organisation of labour and the bureaucratic performance control, into a new and strongly network-based reproduction pattern.”<sup>102</sup> By now, the promises of this new, flexible capitalism can be expected to have been replaced in a large percentage of the persons affected by the insight that new, accelerated and often even more bureaucratic conditions of dependence, exploitation and alienation have taken the place of the old ones.<sup>103</sup> All in all, one can say that the economic policies of the past 30 years brought the majority of people in the wealthy countries to more instability, insecurity and competition, and “rewarded” them with growing consumption.<sup>104</sup>

**If the project of a democratization of the economy and society is to succeed, it must provide new answers to the question of “good life” and embed these answers in a positive story. It is undisputed that the issue of distribution is fundamental for social democracy. Nevertheless, it is not enough for progressive left to demand in the sense of distributive justice a bigger piece of the pie.** As experience shows, such politics is not only amplifying the neoliberal growth and competition logic but it misses above all to question the meaning and the social and ecological sustainability of a game of permanent increasing.<sup>105</sup> Against the backdrop of the multiple crises we desperately need new rules and new values. A democratic economy that is embedded in society promises prosperity gains that are not possible within the present capitalist framework – or only for a small privileged group. Such prosperity gains in the form of self-determined stability and security, deceleration and a reduction of alienation serve to compensate for changes resp. necessary partial declines in the material realm. Economic democracy as an emancipatory project takes the liberty of the people seriously and brings it therefore systematically in conjunction with true equality of opportunity and self-determination. It increases the chances of a largely self-determined life in which the socio-emotional needs for belonging and social recognition can be satisfied far better than today. Thus, economic

101 L. Boltanski and E. Chiapello, *Der neue Geist des Kapitalismus*, UVK, Konstanz 2003.

102 A. Demirović, *Demokratie in der Wirtschaft. Positionen, Probleme, Perspektiven*, Westfälisches Dampfboot, Münster 2007, pp. 186-187/own translation.

103 See: M. Binswanger, *Sinnlose Wettbewerbe. Warum wir immer mehr Unsinn produzieren*, Verlag Herder, Freiburg 2010; H. Rosa, *Beschleunigung und Entfremdung. Entwurf einer kritischen Theorie spätmoderner Zeitlichkeit*, Suhrkamp, Berlin 2013.

104 See: H. Flassbeck et al., *Handelt jetzt! Das globale Manifest zur Rettung der Wirtschaft*, Westend, Frankfurt a.M. 2013, p. 67.

105 See: H. Rosa, *Der unheilvolle Pakt*, [in:] *Gegenblende* 18 – November/Dezember 2012, <http://www.gegenblende.de/18-2012/++co++4e7c6fe2-38a8-11e2-aecc-52540066f352>

democracy is a liberal project in the true sense of the word, whereby Social democracy can succeed not least among young and female voters.

**A progressive Left should understand economic democracy as an overarching framework of orientation that needs to be translated into specific and politically attractive propositions. It is not about a theoretical tinkering with utopia, but about an understanding of the common-good-oriented democratization of economy and society as a response to our global challenges and therefore to advance it both in civil society and in institutional politics.** This simultaneity of classical social democratic policies on the one hand, and the creation of open spaces to allow for the necessary social search and learning processes on the other, is of utmost importance. Economic democracy must be a broad political project to have a chance of success. It is not only about wage work and a democracy of the labor force. Especially the important area of “care economy”, where a large part of work is done without pay, has to be included systematically into consideration as well.<sup>106</sup>

It is in this context where new scientific research that explores the opportunities and challenges of a humane and democratic economy is urgently needed.<sup>107</sup> In order to underpin political claims, scientific findings are crucial. The targeted promotion of alternative types of economy and economic models, as they exist in the sector of social economy for example, must not be regarded as illegal aid any more. We are not talking about the narrow-minded argument of distortion of competition but instead about driving forward socially and ecologically sustainable economic systems and ways of life. **We are in search of an intelligent policy design. If this is to succeed, politicians must explicitly be willing to deal with failures that inevitably arise in such a process, to defend them publicly and to use them productively. “Failing better” must be possible.**

**A democratization of the economy and the society cannot be achieved solely within parliamentary democracy and the existing political institutions. Social democracy needs to push forward economic democracy as a part of a movement that extends beyond the traditional core of the party and includes other political parties, movements, organizations and progressive enterprises.** The concept of economic democracy is a chance for social democracy to derive its policy again more systematically from the fundamental social-democratic values, and not from alleged systemic constraints and economic imperatives. This would allow a more open view of current and future challenges and clear the way for new answers, where necessary.

In a society that has been influenced for years by the neoliberal hegemony, democratic reforms and an enlargement of democratic principles are an extremely difficult tightrope

106 See: H. Baumann et al. (eds.), *Care statt Crash. Sorgeökonomie und die Überwindung des Kapitalismus*, edition 8, Zürich 2013.

107 See: K. Barthel, *Humanisierung der Arbeit braucht Forschung*, Friedrich-Ebert-Stiftung 2013, <http://library.fes.de/pdf-files/wiso/10059.pdf>

walk. On the one hand, they must be sufficiently “radical” in order to achieve any effect at all. As there is and must not be a conflict-free society, there is no conflict-free transition to a future economic democracy, which is socially and ecologically sustainable. This also means that, in addition to regulatory questions, in particular involving the markets, the question of ownership must be asked as well. On the other hand, the proposed changes must not be so “radical” as to meet with fundamental rejection by the people who, in their roles as citizens, employees or consumers, have to be the agents of democratic change. It is important that the necessary transformation process begins in the here and now and that it allows all different kind of people to have their concrete personal experiences with alternatives.<sup>108</sup> What we need is creative pluralism instead of dogmatism. In this way economic democracy as a “concrete utopia” (Ernst Bloch) becomes a key element of a social Europe.

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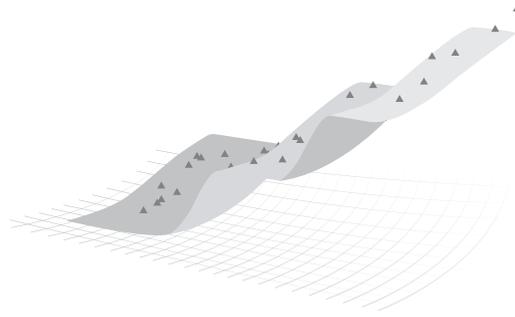
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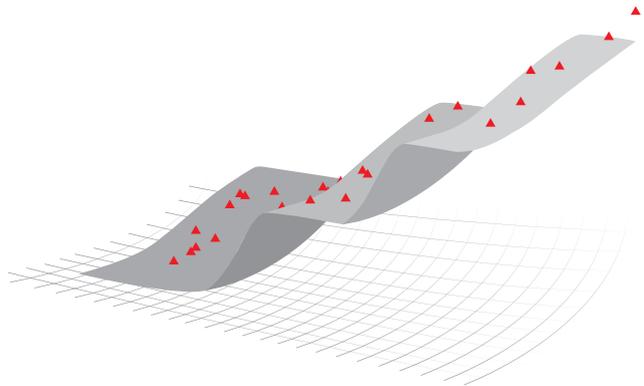
**Europeanising Social  
Democracy – a Need For an  
Organizational Renewal**

**SIVE**



Robert LADRECH

# **European Elections 2014: A Critical Election for Social Democracy and the European Union**



**Keywords:**

**Critical elections - European Parliament - European Commission –  
Politicisation - Social Democratic Parties**

**Abstract:**

Could the elections to the European Parliament in 2014 be considered 'critical' for the legitimacy and continued development of the institution? By considering the confluence of several trends over the course of the 2014 campaign and evaluating possible results, this paper argues that this set of elections may produce a significant impact on the legitimacy of the European Parliament due to voter turnout and the success of radical parties on either side of the political spectrum; on the legitimacy of the European Commission due to the new selection process for Commission president which will be much more associated with the EP election results; and finally for the efforts at social democratic parties to co-ordinate their response to the economic crisis. Taken together, these developments may have what can be considered as a 'critical' impact for EU politics.

Since the advent of direct elections to the European Parliament in 1979, many hopes have rested upon this novel effort at transnational political representation. Although not exhaustive, the following three aspirations have certainly marked the political as well as scholarly focus on these elections: first, the formation of transnational party federations by the three main political families at the time – Christian democrat, social democrat, and liberal – anticipated the eventual development of a European party system, with parties replicating their national function of linking citizens' interests with government (although in a fashion recognising the multi-level nature of EU governance; second, the direct nature of electing MEPs would enhance the legitimacy of the European Parliament itself, thereby shifting EU decision-making toward a more democratic directions (i.e. resolving the democratic deficit); finally, by engaging citizens in some aspect of the EU – though admittedly in five year intervals – the hope expressed by many politicians at the time was that greater legitimacy for the European integration project might be more firmly grounded. The history of elections to the European Parliament over the subsequent thirty years has demonstrated that, if the hopes were not necessarily misplaced, then an appreciation of the barriers and resistance to change was perhaps too naïve or underdeveloped, especially the obduracy of national elites operating in the Council of Ministers as well as in the gatekeeping role in the national political systems<sup>1</sup>. The persistent decline in voter turnout – and low turnout from the new post-communist

**The elections to the European Parliament in 2014 are critical in several respects, not the least of which is the challenge for social democracy to reinvigorate its mission as well as electoral attraction.**

member states – has made the European Parliament's legitimacy, which has benefitted from treaty changes over the same thirty years, weak. In this sense, every EP election is critical for those hoping to reverse the trend in lowering turnout and to enhance the credibility of the EP and EU itself. **This article argues that in many ways, certain trends and development converge to make the 2014 elections to the European Parliament a particularly critical election for both the institution itself, the Commission and indeed for the legitimacy of the EU in general and the prospects for European social democracy in particular.**

**The elections to the European Parliament in 2014 are critical in several respects, not the least of which is the challenge for social democracy to reinvigorate its mission**

1 R. Ladrech, *An Obdurately National Party Politics.*, [in: ] J. Hayward & R. Wurzel (eds.), *European Disunion: Between Sovereignty and Solidarity.*, Palgrave 2012, pp. 48-62

**as well as electoral attraction.** In general, these elections, coming as they do as the first comprehensive judgement by voters since the financial crisis took hold and the administered solution of austerity has become the policy norm<sup>2</sup>, have consequences not only for European level politics, but also for national parties and politics. Indeed, one element of the ‘critical’ nature of these elections is the more explicit intertwining of European and national party politics. The aim of this paper is to elucidate these interconnections, paying particular attention to the impact on the fortunes of European social democratic parties.

### **Why are these elections ‘critical’?**

There are a number of intersecting factors that combine to make these elections especially critical and influential, for the European Parliament, the European Union more generally and the integration process more specifically, and finally for social democratic parties and the effort to ‘europeanize’ social democracy.

#### **The European Parliament:**

Many commentators and analysts view the strength of anti-EU parties as potentially producing a much more fragmented EP after the elections, that is, the potential for the emergence of a far right, anti-EU parliamentary party group. There are several reasons for this. First, recent public opinion surveys across the EU have reported a growing percentage for those with a negative view of the EU. Second, projections on the electoral scores of anti-EU parties, especially in large member states (and consequently with large number of EP seats), expect gains over the 2009 EP elections. These potential gains are due to several factors. One, the popularity of these parties represents a protest vote against current economic policies of the EU as well as those practiced by national government – and in southern European states the connection between EU and national austerity policy is clear; the recent projections of 24% for the French FN in the European elections are one example of this protest vote. Second, and again in a large member state, the German parliament has adjusted the electoral threshold for party entry into the European Parliament from 5% to 3%, thereby raising the possibility of many more smaller parties in Germany, for example the Alternative for Germany or even the Republikaner, gaining some seats in the EP. Coupled with an expected strong showing in the Britain by UKIP, we have the three largest member states potentially sending more Eurosceptic parties to sit in the EP, thereby fragmenting the party group scene. Realistically, the pivotal party needed to create a large anti-EU party group consisting of far-right parties is Britain’s UKIP, and this is not a likely prospect. Still, the potential for such a group without UKIP but collaborating on legislative votes is not unreasonable to imagine.

2 A. Schäfer & W. Streeck, *Politics in the Age of Austerity.*, Polity Press 2013.

Fragmentation of the party group make-up of the EP is but one outcome; the ability of the EP to function as a responsible partner in the inter-institutional decision-making process may be impaired by the reduced ability to deliver qualified majorities between the PES and EPP. Eurosceptic parties are not all from the right-wing of the political spectrum, and gains by the Front de Gauche in France and die Linke in Germany, may make centrist positions in the EP difficult. Thus the prospect of more numerous MEPs on the far left and far right in the EP may alter the decades-old pro-integration imperative of the European Parliament as well as to diminish the influence of the EP on important EU policy positions.

One has to also bear in mind that there could be fragmentation *within* party groups in the EP after the elections. Although party group cohesion has been noted to be growing over the past Parliaments<sup>3</sup>, a more politicised EP may cause tensions between the left and right wings within the PES as well as the EPP, and a more directly or explicitly partisan-supported Commission president could inadvertently provoke this dynamic.

Finally, **this election for the European Parliament represents a new departure in the institutional development of the EP, the Commission, and by extension, the EU itself. The 2014 election will also provide the platform for campaigns by candidates for the post of president of the European Commission, supported in common by transnational party federations (or euro-parties).** The party group emerging with the largest share of seats ought to, in theory, have its candidate as first choice to be appointed president of the Commission. Presumably this candidate will be from either the S & D or EPP group, and as has become customary, will present him or herself, together with a proposed college of Commissioners, to the EP for vetting. An EP emerging with strengthened far left and far right Eurosceptic parties will make this process – intended to enhance the democratic legitimacy of both the Commission and Parliament - problematic. The ability of left and right-wing Eurosceptic parties to co-ordinate their actions in such a public process is yet to be discerned, though contacts between right-wing parties has increased of late<sup>4</sup>, most visibly with the so-called ‘summit’ of Marine Le Pen of France (Front National) and Geert Wilders of the Netherlands (Party of Freedom) in November 2013.

### **The European Union:**

The support by the European Commission for a common candidate for Commission president can be traced back to the Prodi Commission and the warnings of a legitimacy crisis of the EU. The contemporary concern is based not only on the public opinion reaction to the perceived link between the EU and the implementation of austerity policies at the

3 S. Hix, A. Noury & G. Roland, *Democratic Politics in the European Parliament.*, Cambridge 2007.

4 A. Chaffin, *Europe: united by hostility.*, *Financial Times*, 15 October 2013.

national level, but also rising public disaffection with the EU in general, and even more alarmingly, in member states long considered to be generally pro-EU. This partly explains the Commission's recommendation that political parties nominate a candidate for Commission president (European Commission 12 March 2013). An important expectation of having individual party-backed candidates campaign is a higher voter turnout, which would lend some legitimacy to both the newly elected Parliament as well as the Commission president-elect. The stakes are therefore high in that a lower turnout – following the trend of the past elections – coupled with a clear increase in anti-EU and far-right party representation in the Parliament, would be a serious blow to hopes of enhanced political legitimacy.

In the two cases just discussed, the European Parliament and the European Commission (and by extension the EU itself), two very possible outcomes of the 2014 elections may impact the short and medium term institutional practices and the legitimacy of the European integration process. First, a more fragmented party group system in the European Parliament may affect its position in negotiations with the Council. In light of the institutional advances for the Parliament as a result of the Lisbon Treaty, a relatively more constrained Parliament means less bargaining power for more progressive elements in legislation, for example the trans-Atlantic trade negotiations between the European Union and the United States. Second, a continuation of the lowering voter turnout for the elections, coupled with a larger share of seats in the EP by anti-EU parties, puts into doubt at least for the short to medium term any advances in the European integration process; this includes various ideas of a more deeply integrated 'core' of member states.

In terms of an impact on the wider institutional architecture, the inter-institutional balance between the Council, Commission and EP may also be subject to new dynamics, as the standing of the president of the Council may be challenged by the new, more democratic legitimacy of the Commission president. **Again, this means that the process of Commission candidate selection by party families, in addition to the actual electoral results of the 2014 elections, is potentially very significant.**

Despite the misgivings expressed so far, there are potential benefits that can arise from the election campaign due to competing Commission president candidates, benefits that may also accrue to social democratic parties (see below). In the hoped for goal of connecting with voters, having a single candidate per party family/euro-party can personalise campaigns, better articulate a campaign discourse through enhanced media coverage, and crucially, demonstrate actual competition between policy agendas. For these benefits to be realised on the part of the social democratic candidate, there must be a level of co-ordination between the candidate's campaign team and that of the national parties. It is at this interface between a European candidate and the national campaigns that the role of the PES should be focused.

## **Social democratic parties and the PES:**

For EU social democratic parties, the European elections also have a greater significance than in the past. I am not suggesting that the second-order nature of these elections, especially in Western Europe, will be completely changed; rather I am suggesting that additional elements will have been introduced in these elections making the outcomes more influential, for both the national party systems and the EU itself<sup>5</sup>. One of the oft-mentioned characteristics of European elections in their national contexts is that they are not about 'Europe'; rather, they are mostly 'mid-term' elections judging the performance of the incumbent national government, thus the general finding that opposition and fringe parties do well in European elections<sup>6</sup>. However, this view of the nature of past EP elections does not take into account the actions of the mainstream parties themselves, including social democratic parties. The approach to EP elections in the past by social democratic parties, with some exceptions, has included 'soft' Eurosceptic rhetoric ('Brussels is making us do this'), very little campaign resources which might raise the profile of the party, an absence of explicit, media involvement by the party leader/leadership, and domestic rather than European content in party discourse. We can add particular episodes when national affiliation has outweighed transnational partisan relations, as in the case of the support for Jose Manuel Barroso in 2009 for Commission presidency by the then Socialist government in Portugal.

Although the exact circumstances vary from member state to member state, 'Europe' has now become an issue in national politics, and not simply at the extremes of the national party systems. The central reason for this 'europeanization' of national politics is of course the nature of the economic/financial crisis and the connection between the EU and the policies put into place at the national level. This set of circumstances is not confined to only those member states that secured bail-outs, but domestic political sentiment has been aroused as well in Germany (the rise of Alternative for Germany - AfD), and the position of the Finnish and Dutch governments over the criteria for financial assistance (the so-called creditor-debtor relationship). Bearing in mind the electoral scores of social democratic parties since the beginning of the financial crisis, the 2014 European elections have the potential to be much more than a second order election that can be relatively safely ignored by national social democratic party leaders. Although only three member states have a national election in 2014, the proximity of European to national elections may have some repercussions on the national electoral contests. In Sweden, national elections are scheduled to take place in September, a little over three months after the European. How the SAP handles such EU-related

5 P. de Wilde et al., *2 Contesting Europe*, ECPR Press 2013.

6 M. Marsh *European Parliament elections and losses by government parties.*, [in: ] W. van der Brug & C. van der Eijk (eds.), *European Elections & Domestic Politics.*, University of Notre Dame Press 2007, pp. 51-72.

policy questions such as immigration, EU-US trade relations, and financial assistance in the Eurozone in the European campaign can impact the national contest, especially in light of the breakthrough success of the Swedish Democrats. In Belgium, national and European elections take place the same day; consequently, there is potential for European-wide issues to spill-over into voters considerations of domestic policy, and for Belgian social democrats, this is of particular significance in Flanders where the party is relatively weak and separatist sentiments, sometimes fanned by anti-EU discourse of some parties, can have consequences for Belgium itself. Finally, national elections must take place in Hungary by late spring (the last national elections took place in April 2010). The stakes are particularly high, if not grave, in Hungary due to the legislative and constitutional actions of the present right-wing government. Therefore the democratic opposition may find European pressure arising from its mobilisation for the EP elections as intertwined with the national direction of the country.

For the rest of Europe, **the introduction of 'Europe' into national contests can be seen not only in Germany, but also Italy (the Five Star Movement), as well as in the rhetoric of 're-nationalising' certain policies from the EU to national governments (e.g. the Dutch government proposition of fifty policies that could be re-nationalised). Therefore how social democratic parties 'handle' the EU question due to its increased salience in a national context presents another 'critical' dimension to the European elections.**

Nevertheless, the 2014 elections need not be construed as only a threat to the electoral basis of national social democratic parties. I argue that they may also be an opportunity for social democracy as part of a renewal process. Interestingly, the Commission president candidate campaigns and a social democratic response to the crisis can be combined with a potential effect greater than a national party campaign as practiced in the past, for several reasons. First, because of the salience of 'Europe' in the domestic context, ignoring the issue simply plays into the hands of the far left and far right which could lead to later support for them in a national election. Therefore social democratic parties have no choice but to articulate a position on European political-economic policy. Second, the elements which can make the Commission president candidate's campaigns more visible – the personalisation of a campaign – means that complex policy issues can be made more 'palatable', in particular on the issue of the debate on austerity. While the S & D group has taken a position on austerity, namely a more mixed approach that encourages investment, growth initiatives and cross-national financial burden-sharing, this message does not permeate the national political systems. Indeed, the dominance of neo-liberal policies continues despite the empirical evidence of their negative results<sup>7</sup>. Individual social democratic parties have also taken this position, e.g. the German SPD, but an individual national proposal does not carry credibility. Here is where the benefit of having

7 V. A. Schmidt & M. Thatcher, *Resilient Liberalism in Europe's Political Economy.*, Cambridge 2013.

a Commission president candidate adds to the national efforts: he/she can articulate proposals *on behalf of national member parties*, in interviews as well as any debates that might be broadcast with other Commission president candidates. Lastly, there is the potential for a longer lasting, structural result from these elections, that is, from the perspective of europeanising social democracy. A campaign that puts forward competing policy agendas – and that attracts public attention – demonstrates a dimension often lacking to national publics concerning EU level politics, i.e. that there are in fact competing political agendas, or there exists a left vs. right at the European level (a dimension generally not perceived at all in national public opinion, where ‘the EU’ is a monolithic entity exporting ‘une pensée unique’). The 2014 elections therefore have the potential to politicise and integrate EU politics into the national context.

However, speaking realistically, the campaign of the common candidate is bound to be mixed in terms of support by PES member parties, and this is a factor that also affects the degree to which ‘Europe’ is politicised in social democratic campaigns. At the time of writing (November 2014), not all PES member parties had officially supported the candidacy of Martin Schulz as the common candidate. Some of the reason owes to national party rules, which means formal consideration is made at a later-scheduled party conference or party executive committee meeting. As for the campaign itself, even parties that do formally support the PES candidate may, for national political reasons, not invite him to campaign alongside the member party. Therefore, it is more reasonable to expect some ‘active’ support, where Schulz campaigns in a particular member state, and ‘passive’ support, where little attention will be made in a national campaign to the common candidate, and where he will not be ‘on the ground’ in the national campaign. Still, there may indeed be, in some election campaigns, limited change in the strategy that parties have adopted until now towards European elections. Some social democratic parties may take advantage of the Schulz campaign – which is a separate campaign from any national member party – for self-interested reasons, i.e. self-preservation. One may expect that those parties in southern Europe hit by the crisis and the ‘troika-medicine’ of austerity may find the Schulz campaign emphasis on an ‘alternative Europe’ fits well in their own need to re-define their support for Europe which itself may have had negative connotations due to the mandated budget austerity. Anti-EU sentiment may already be siphoned off to the radical left and far right in these countries, but an absence of a positive engagement with the EU issues would further undermine their domestic support. Thus a complementary campaign theme for a domestic campaign can be boosted by the European-level campaign of the Commission candidate. Additional country cases would depend on the exact circumstances of their internal party competitive situation, but an emphasis on an ‘alternative Europe’ does strengthen the policy compatibility in countries where there is a sizable party to the left of a social democratic party, thus potential coalition dynamics can also be put into play by a distinctive social democratic European campaign.

## Conclusion

A recent article in the *Financial Times* suggested that national politicians remain 'timid' in the face of anti-EU propaganda, thus increasing the chances for substantial gains by such parties in the 2014 elections<sup>8</sup>. The argument of this paper is based on the assumption that the 2014 European elections present as much of an opportunity for social democratic parties – and by extension the S&D group and the EP itself – as they and the economic crisis present a threat. The personalised campaigns for Commission president present a political opportunity to challenge the austerity orthodoxy by focusing on the discourse of an individual, rather than the vagaries of individual national campaigns, which can highlight the determination for a political re-orientation of EU policy. It is also vitally important that crucial national parties publically support a PES action plan for the Commission and Parliament, thereby adding credible national support; for example, an economic policy proposal articulated by a Commission president candidate that is explicitly supported by the French PS, German SPD and Swedish SAP (and more) promotes an understanding of co-ordinated social democratic action combining national and European level policy levers. The European elections in 2014 need not be an exercise in political damage limitation; they can signal a positive chance for europeanizing social democracy.

This paper has also brought attention to the more general consequences of the election, and not only for social democratic parties. The inter-institutional balance between the Council, Commission and EP may alter; more euro-sceptic parties may enter the EP and/or increase the number of their seats; and a more explicitly partisan-supported Commission president contains unknown consequences for intra-EP political dynamics, both inter-group as well as intra-group. On the more general point concerning a more fragmented EP due to an increase in euro-sceptic parties, we should distinguish between those that may benefit in the election due to a reaction against austerity into two camps, the radical left and the far right. The political party landscape of the radical left is much different than the far or radical right (March 2011). Apart from exceptions such as Austria (the case of the FPÖ in government in the early 2000s) and to a lesser extent Denmark (the centre-right government supported by the Danish People's Party), the parties of the far right have not made attractive coalition partners at the national level in member states. This is less the case with radical left parties; indeed recent relations between the SPD and die Linke (following a SPD party conference during November 2013) suggest another national case in which potential coalition between parties on the left may represent a possible alternative to either centre-right or grand coalition prospects. Translating this national scenario to the European level, inside the

8 A. Chaffin, *Europe: united by hostility.*, *Financial Times*, 15 October 2013.

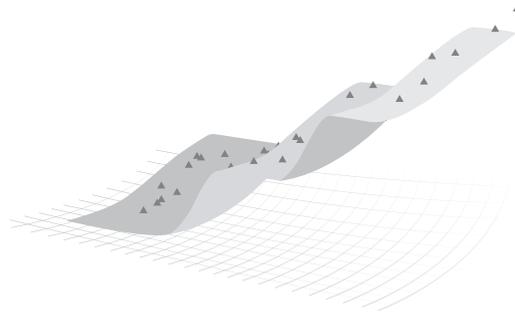
European Parliament, there may be benefits to be realised for a more constructive and co-ordinated relationship between parties in the S & D, Green, and GUE on an alternative to conservative austerity policy<sup>9</sup>.

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<sup>9</sup> see: G. Charalambous, *European Integration and the Communist Dilemma: Communist Party Responses to Europe in Greece, Cyprus and Italy.*, Ashgate 2013; and M. Holmes & K. Roder (eds.), *The Left and the European Constitution: From Laeken to Lisbon.*, Manchester University Press 2012 - for discussion of Europe and the left.

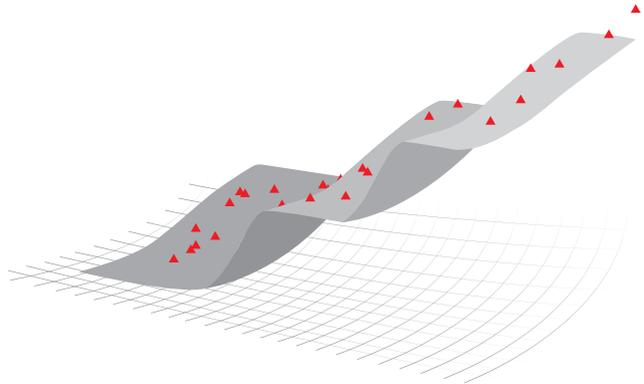


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Gerassimos MOSCHONAS

## **The Greek Debt Crisis and PASOK: Lessons for European Social Democracy\***



\* Some of the arguments formulated here have been presented in an early, very rudimentary form in a non-academic paper (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 Papandreu 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 political system of Greece and the systems of Spain and Portugal in the same time period) with widespread recourse to instruments of repression.

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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.

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 right), a party at least more powerful than, for example, the Popular Alliance in Spain,

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.

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 with the PSOE) of the European social-democratic family<sup>10</sup>. PASOK, amid great**

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” (Kouvelakis 2011: 19).

10 G. Moschonas, *Historical Decline or Change of Scale? The Electoral Dynamics of European Social Democratic Parties, 1950-2009.*, [in: ] J. Cronin, G. Ross & J. Shoch (eds.), *What's Left of the Left, Democrats and*

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).

*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, F. Escalona & M. Vieira (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 1980s*, 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

13 G. Moschonas, *A New Left in Greece, PASOK's Fall and SYRIZA's Rise*, *Dissent*, Fall 2013, p. 34.

14 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.

into the euro - there was 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

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.

market was rapidly losing competitiveness<sup>16</sup>. In particular, contrary to all the teachings of Keynes, 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.

<sup>16</sup> C. Lapavitsas, *Eurozone Crisis: Beggar Thyself and the Neighbour*, RMF occasional report, March 2010; Chr. Lyrintzis, *The Changing Party System: Stable Democracy, Contested Modernization.*, [in:] *West European Politics*, vol. 28, no. 2, 2005, p. 251.

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

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 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

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.

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 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 Papandreou 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,

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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).

profiteering and the bankruptcy of the economy”<sup>21</sup>. The 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

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21 Chr. Lyrantzis, *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.

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.

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 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

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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.

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.

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
- 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

<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.

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 (Andreas Papandreou 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 Papandreou 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

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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 Ibidem, pp. 10-11.

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.

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 Papandreu (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

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.

exacerbated the – in any case already existing – governance 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

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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.

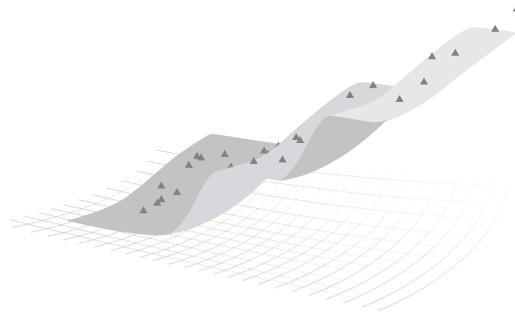
36 C. Kostis, *The Spoiled Children of History. The Formation of the Modern Greek State, 18th - 21st century*, Athens: Polis (in Greek), 2013.

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 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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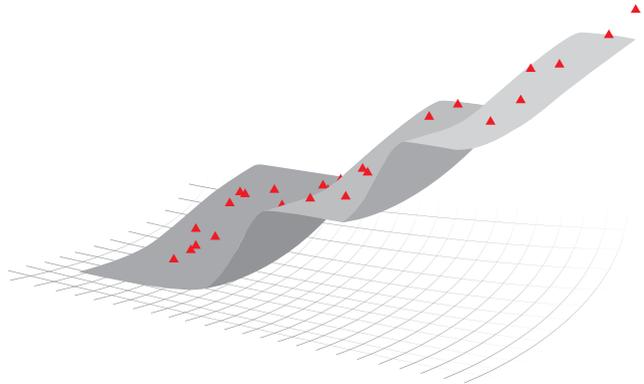


**FOR  
A CONNECTING  
PROGRESSIVE  
AGENDA**



Erol KÜLAHCI

# **Europarties and Politicisation of Socio-Economic Europe: The Party of European Socialists and the Road to the 2014 European Elections\***



\* This paper was submitted on 25 May 2014. At the time of submitting, a detailed analysis of the result was clearly out of the scope of this paper.

**Keywords:**

**Europarties – Politicisation - Functional Issues - Constitutive Issues –  
Social Democracy**

**Abstract:**

The Europeanisation of social-democrat parties via the Party of European Socialists (PES) is a necessary but insufficient condition to politicise social-economic Europe. Accordingly, the paper will address the following question: are social democrats, via the PES, europeanised enough in the context of the 2014 Euro-elections and what additional conditions are necessary to politicise socio-economic Europe? Considering the PES as a key agent of domestic member parties' Europeanisation, the author expects that the PES will face successive challenges in politicising socio-economic Europe during the 2014 European elections.

## Introduction

The Europeanisation of domestic parties via Europarties in the multi-level European governance has been followed with progressive and increasing attention by many scholars. The complexity of domestic and external systems, where social democratic parties operate, and the multiplicity of actors involved in this process of *Europeanisation*, make it timely and useful to refer to the problematic of the politicisation of socio-economic Europe during the 2014 electoral campaigns. Indeed, the *"2008 global financial crisis has radically worsened the domestic socio-economic situation by inducing significant austerity policies. Shifts in the wider world economy and pressures of the global economy on the EU and its member states, including party systems and political parties, has not yet produced all the dramatic socio-economic and socio-political effects"*<sup>1</sup>.

The argument of this paper is that **Europeanisation of social democratic parties via the Party of European Socialists (PES) is a necessary, but yet in itself insufficient condition to politicise socio-economic Europe**. Accordingly, the paper addresses the following question: are social-democrats, via the PES, europeanised in the context of the 2014 Euro-elections and what additional conditions are necessary to politicise socio-economic Europe?

Before attempting to answer, it is useful to point out that this paper will not be involved in a major analysis of the group of the Progressive Alliance of Socialists and Democrats (S&D Group) and its activities in the European Parliament (EP). Although this is definitely an important actor, it falls outside the scope of this paper. However, the paper will focus on PES<sup>2</sup> and clarify the two central concepts of 'Europeanisation' of domestic parties via Europarties and the 'politicisation' of socio-economic Europe. The paper assumes that the PES constitutes potentially a key agent for europeanising the principal domestic social-democrats at European level. However, politicisation of socio-economic Europe – as conceived by Prof. Dr. Stefano Bartolini - will hardly emerge (if at all) during the 2014 European elections.

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1 E. Külahci, *Conclusion: Country Comparison.*, [in: ] E. Külahci, *op. cit.*, 2014, p. 194.

2 A. Skrzypek, *'Europe. Our Common Future' Celebrating 20 years of the Party of European Socialists.*, Brussels, FEPS, Online: <http://www.feps-europe.eu/assets/66f82f5c-a3b5-47b2-9c07-fc6755b933b1/europe-our-common-future-celebrating-20-years-of-pes.pdf>, 2013.

## Conceptual framework

This paper is articulated around two key concepts: Europeanisation and politicisation of socio-economic issues. These concepts will now be clarified.

### Europeanisation

For several decades, the Europeanisation of party politics has been a subject of increasing academic debate, theorisation and empirical research. This interest is attributable to the intricacies of the topic and the diversity of the dimensions of party politics<sup>3</sup>. Indeed, academics have singled out different analytical aspects, including:

- ideology and the manifestos as well as programmatic change<sup>4</sup>,
- the patterns of party competition<sup>5</sup>,
- the electoral campaigns<sup>6</sup>,
- the policies of the party in government<sup>7</sup>,
- the relationship between citizens and the elected politicians<sup>8</sup>,
- the relations beyond the national party system<sup>9</sup>
- the adaptation in terms of power and organisation<sup>10</sup>,
- the Europeanisation of party systems<sup>11</sup>

3 P. Delwit, *Les partis socialistes et l'intégration européenne: France, Grande-Bretagne, Belgique.*, Brussels, Editions de l'Université de Bruxelles 1995; R. Ladrech, *Europeanization and political parties: towards a framework for analysis.*, [in: ] *Party Politics*, 2002, vol. 8, no. 4, pp. 389 - 403.

4 R. Ladrech, op.cit., 2002.

5 P. Daniels, *From hostility to constructive engagement: the Europeanisation of the Labour Party.*, [in: ] *West European Politics*, 1998, vol. 21, no. 1, pp. 72–96; R. Ladrech, op. cit. 2002.

6 P. Delwit, *Le processus d'eupérisation et la crise du socialisme méditerranéen.*, [in: ] M. Telo (ed.), *De la Nation à l'Europe: Paradoxes et Dilemmes de la Social-Démocratie.*, Brussels 1993, Bruylant, pp. 261–99.

7 Ibidem; A. Cole, *National and partisan contexts of Europeanization: the case of the French Socialists.*, [in: ] *Journal of Common Market Studies*, vol. 39, 2001, no. 1, pp. 15 – 36 2001.

8 S. Bartolini, *The strange case of the European parties.*, [in: ] E. Külahci (ed.), *Europeanisation and Party Politics. How the EU affects domestic actors, patterns and systems.*, Colchester, ECPR Press 2012, pp. 157-170.

9 S. Hix & Ch. Lord, *Political Parties in the European Union.*, London, Macmillan 1997; R. Ladrech, *Social Democracy and the Challenge of European Union.*, London, Lynne Rienner Publishers 2000; P. Delwit, E. Külahci & C. de Walle (eds.), *The Europarties: organisation and influence.*, Brussels, Brussels University, Online: [http://www.sciencespo.site.ulb.ac.be/dossiers\\_livres/theeuropartiesorganisation/fichiers/en\\_bookefpp.pdf](http://www.sciencespo.site.ulb.ac.be/dossiers_livres/theeuropartiesorganisation/fichiers/en_bookefpp.pdf) 2004; D. Bailey, *Obfuscation through integration: Legitimizing 'New' Social Democracy in the European Union.*, [in: ] *JCMS*, 2005, 43/1, pp.13-35.; S. Lightfoot, *Europeanising Social Democracy: the rise of the Party of European Socialists?*, Oxford, Routledge 2005.

10 T. Poguntke et al. (eds.) *The Europeanization of National Political Parties: Power and organizational adaptation*, London and New York, Routledge 2007.

11 P. Mair, *The limited impact of Europe on national party systems.*, [in: ] *West European Politics*, 2000, vol. 23, no. 4, 2000, pp. 27–9; S. Bartolini, *The strange case of the European parties.*, [in: ] E. Külahci (ed.), *Europeanisation and Party Politics. How the EU affects domestic actors, patterns and systems.*, Colchester 2014, ECPR Press, pp. 157-170.

Moreover, Europeanisation is characterised by a two-way process. On one hand, the literature focuses on the impact of EU decisions on domestic political parties, Europarties and Euro-parliamentary groups. On the other hand, political scientists have examined the impact of domestic parties, Europarties and Euro-parliamentary groups on European integration<sup>12</sup>.

Accordingly, this paper focuses mainly on the bottom-up dimension of Europeanisation. The analytical framework draws on Ladrech's definition of Europeanisation, which is understood as a process in which, '*European integration influences the operating arenas, or environments, of national political parties, and the Europeanization of parties is consequently a dependent variable*'. In consequence, *Europeanization may result in new perspectives on transnational cooperation with parties from other EU member states to the extent that new organizational and programmatic activities are promoted*'<sup>13</sup>.

Although the paper assumes that the PES constitutes potentially a key agent for europeanising the principal domestic social-democrats at European level, analysis showed little progresses regarding the Europeanisation of the 2009 election campaign both of the PES and its member parties<sup>14</sup>. It might be significantly different in 2014.

To remind, this paper proposes a conceptual framework articulating the Europeanisation concept with the politicisation one. In doing so, one of the aims is to analyse the PES and the politicisation of socio-economic Europe in the context of the 2014 European Parliament elections.

## Politicisation

While Mair assumes that Europe reinforces the domestic trend of depoliticisation<sup>15</sup>, recent comparative studies have showed the extent to which this might happen - or not<sup>16</sup>. Moreover, Hooghe and Marks<sup>17</sup> consider that the politicisation of an issue occurs whenever the issue 'enters mass politics' and this depends on whether party leaders 'see electoral advantage in doing so'. This paper will refer mainly to Stefano Bartolini's contribution regarding the politicisation issue in explicit relation with Europarties. On the one hand, he considers the link between the saliency of policy issues and structuring

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12 P. Delwit, *Les partis socialistes et l'intégration européenne: France, Grande-Bretagne, Belgique.*, Brussels, Editions de l'Université de Bruxelles 199.

13 R. Ladrech, *Social Democracy and the Challenge of European Union.*, London, Lynne Rienner Publishers 2000.

14 I. Hertner, *Are European Election Campaigns Europeanized? The Case of the Party of European Socialists in 2009.*, [in: ] *Government and Opposition*, 46/3, 2011, pp. 321- 44.

15 P. Mair, *op. cit.* 2000.

16 E. Kūlahci, *Conclusion: Country Comparison.*, [in: ] E. Kūlahci, *op. cit.*, 2014, pp.157-170.

17 L. Hooghe & G. Marks, *A postfunctionalist theory of European Integration: from permissive consensus to constraining dissensus.*, [in: ] *British Journal of Political Science*, 39, 2009, pp. 18 – 9.

public attitudes. On the other hand, he imagines a set of potential scenarios regarding the politicisation in the multi-level Europe.

## Issues regarding the saliency of structuring public attitudes

Bartolini has pointed out that the *'debate on structuring public attitudes concerning the European Union has evolved around three closely - connected issues'*<sup>18</sup>. This paper will synthesise these three issues. To begin with the first issue, academics doubt about the saliency of issues next to voters during European elections which are second-order elections<sup>19</sup>. These elections present three characteristics:

- turnout is expected to be lower than domestic elections (in countries where voting is not compulsory),
- voters use usually these elections to warn their government,
- small parties and/or single issue parties use these elections to enter the party system<sup>20</sup>.

Focussing on voters' warning, Bartolini refers to the work of Franklin, Van der Eijk and Marsh<sup>21</sup>. Accordingly, two factors incite voters to protest during second-order European elections:

- the popular feelings about the leaders, the parties and the government, as well as
- the institutional context of the voter choice

In particular, these three co-authors observe that *"the level of information and competence about the EU and the treaties is insufficient to justify the claim of their direct significance. Voters react to the EU question mostly on the basis of domestic issues and then on the perceived unity of their parties on such matters. This thesis is mainly supported by a strong correlation between negative support for government and anti-EU votes"*. Nevertheless, Bartolini is also of the opinion that *"this finding can be read to provide a different outcome: those who are worried by further steps in integration deem the incumbent government responsible for supporting them"*<sup>22</sup>. In the context of the 2014 European elections, there is an important implication for social democratic parties, which depend on their institutional status (opposition or government).

18 S. Bartolini, op. cit., 2014, p. 163.

19 K. H. Reif & H. Schmitt, *Nine second-order national elections: a conceptual framework for the analysis of European election results.*, [in:] *European Journal of Political Research*, 1980, vol. 8, N°1.

20 D. Bell, *The European Integration Cleavage in the Party System: the French Case.*, [in:] E. Külahci, op. cit., 2014, pp.17-34.

21 M. Franklin et al., *Referendum Outcomes and Trust in Government: Public Support for Europe in the Wake of Maastricht*, [in:] *West European Politics*, vol. 18, 1995, pp. 101–17 .

22 S. Bartolini, op. cit., 2014, pp. 163-4.

**Question 1: which of the social-democrat parties will be in opposition and which one will be in government when the 2014 European Parliament elections will take place?**

Next, I will point out Bartolini's synthesis regarding the tuneness of Europarties and party elites with voters. He mainly refers to the findings of Schmitt and Thomassen<sup>23</sup>. On one hand, there is a high fit between voters and party leaders on broad ideological dimensions (pro/anti integration, left-right) although the voters are less supportive of integration than are their political parties. On the other hand, there is a high misfit between mass and elite on individual issues (common currency, border control ...). Moreover, voters' positions are rather ignored on these individual issues: they are sceptical or opposed to integration since they feel insecure about the policy output. *'In this view, political representation in the EU might be deficient as regards specific EU policies, but it functions well as far as the grand directions of public opinion are concerned'*. Complementarily, Bartolini suggests that a *'legitimate interpretation is that voters have more precise opinions about specific policies (common currency, enlargement, liberalisation/privatisation), while they tend to give generic answers to general questions concerning integration'*<sup>24</sup>. Accordingly, Bartolini imagines an important scenario for Europarties. *'If Europarties sufficiently differentiate their positions, voters are offered the choice of moving to the party that best satisfies their preference (with the exception to satisfy such preferences)'*<sup>25</sup>. Consequently, there is an important normative implication for Europarties in the context of the 2014 European elections.

**Question 2: Are the Europarties willing and thus ready to sufficiently differentiate their positions so that voters could choose among various policy options?**

Finally, Bartolini points out the dimensions along which public structuring is taking place. He raises questions related to the dimensionality that prevails in the EP and with the voters, the correlation between these dimensions (left-right, pro-anti integration) and the implications of dimensionality on European integration.

First, he stresses that academics have observed that voters and political parties consider important to add the 'anti versus pro-integration' dimension to the dominant left-right dimension<sup>26</sup>.

23 H. Schmitt & J. Thomassen, *Dynamic representation: the case of European integration.*, [in: ] *European Union Politics*, vol. 1, 2000, pp. 318–39.

24 E. Külahci, op.cit., 2014, p. 164.

25 S. Bartolini, op.cit., p. 164.

26 S. Hix, *Dimensions and alignments in European Union politics: cognitive constraints and partisan responses.*, [in: ] *European Journal of Political Research*, 1999, vol. 35, pp. 69 - 10.; G. Marks & C. J. Wilson, *The past in the present: a cleavage theory of party response to European Integration.*, [in: ] *British Journal of Political Science*, 2000, 30/3. 2000.

Secondly, these two dimensions became less intertwined. On the one hand, important social-democrat parties reconciled with the integration while right wing parties opposed increasingly to the supranational process. In other words, 'anti versus pro integration' dimension became more independent from left-right dimension<sup>27</sup>. On the other hand, roll call data and survey interviews within the EP show the primacy of the left-right alignment in relation to the national vs. supranational dimension<sup>28</sup>.

Then, Bartolini distinguishes isomorphic issues to national ones (market regulation, welfare and social policy, environment, etc.) from constitutive issues of EU politics (membership, competences, institutional design). Parliamentary groups' cohesion is strong on isomorphic issues to national ones. However, the cohesion between and within parliamentary groups does not support the constitutive issues of EU politics. Consequently, national cleavages would animate the party system and constitute an important source of EU disintegration. For instance and not so long ago, EP groups spent significant energy on constitutive issues of EU politics, namely the project of EU constitutional convention<sup>29</sup>. With the rejection of the Constitution by France and Netherlands via referendums, the EU was in crisis<sup>30</sup>. An additional case: the current Ukraine crisis presents the potential to animate national cleavages in terms of domestic interests (economic, energy and geopolitics).

Alternatively, Bartolini considers *"the fact that European elections are fought on national, normal, and common policy issues rather than on European issues is positive in this perspective"*. Accordingly, he very interestingly concludes that *"European parties have a chance to influence and mould public opinion if they organise competition on issues similar to national ones, collude among themselves to keep the issue of European integration off the EP political agenda, and limit the occasions for European voters to express themselves on such issues. The question is whether it will be possible to organise a European party system mainly based on the national isomorphic left-right alignment, while the most crucial issues agitating the EU concern problems of community definition, competence attribution, and decision rules"*<sup>31</sup>. Accordingly, his analysis converges with the one of Hix and Lord, who consider that *"party families are only able to develop common policy frameworks on socioeconomic issues, such as EMU and environmental and social policies, that are easily transferable into domestic party alignments"*<sup>32</sup>. Consequently, there

27 H. Schmitt & J. Thomassen, *Dynamic representation: the case of European integration.*, [in: ] *European Union Politics*, vol. 1, 2000, pp. 318–39.

28 J. Thomassen et al., *Political competition in the European Parliament: evidence from Roll Call and Survey Analyses.*, [in: ] G. Marks & M. Steenbergen (eds.), *op. cit.* 2004.

29 S. Van Hecke, *Polity-Building in the Constitutional Convention: Transnational Party Groups in European Union Institutional Reform.*, [in: ] *JCMS*, 2012, 50/5, pp. 837-52.

30 A. Krouwel & N. Startin, *Euroscepticism Re-galvanized: The Consequences of the 2005 French and Dutch Rejection of the EU Constitution.*, [in: ] *JCMS*, 2013, 51/1, pp.65-84.

31 S. Bartolini, *op. cit.*, 2012, p. 165.

32 S. Hix & Ch. Lord, *op. cit.* 1997, pp. 73-4.

is an additional important question for Europarties in the context of the 2014 European elections:

**Question 3: Are the Europarties willing and ready to organise competition on national isomorphic left-right alignment and to quarantine constitutive issues of EU politics?**

**Politicisation – a set of potential scenarios**

Considering electoral representation, Bartolini has cross tabulated “the nature of the issues concerning integration (functional issues isomorphic to the national ones versus EU constitutive issues) and the arenas where they can be politicised (national and European)”. Accordingly, he has described a set of scenarios on table 1<sup>33</sup>.

**Table 1: Type of predominant issues, arenas and type of party system (Bartolini, 2014)**

	National Arena	Type of party system structuring	EU Arena
National isomorphic functional issues *	Domestic politicisation of functional issues	ISOMORPHIC STRUCTURING	EU politicisation of functional issues
		SPLIT PARTY SYSTEM	
EU constitutive issues**	Domestic politicisation of constitutive issues	EUROPEAN MASS POLITICS	EU politicisation of constitutive issues

\* Issues related to market regulation, welfare and social policy, environment, ...

\*\* Issues related to membership, competences, institutional design, ...

Bartolini distinguishes four scenarios for a European party system: isomorphic structuring, split party system 1, split party system 2, and European mass politics.

Considering the current situation of European integration and Europarties, he is of the opinion that the first scenario (isomorphic structuring) looks without disadvantages while the other three scenarios (split party system 1, split party system 2 and European mass politics) present progressive and increasing disadvantages.

Accordingly, he makes the point that “we should carefully and slowly foster their (Europarties) organisational strengths and their capacity to deal effectively with those socio-economic issues on which their domestic strands are compatible with the European ones”.

33 S. Bartolini, op. cit., 2014, pp. 165-8.

## The 2014 European elections and the social democratic quest for politicising Europe

In the road towards the politicisation of socio-economic Europe during the 2014 European elections campaign, the social democratic transnational cooperation will face various and successive challenges.

### European Parliament elections as 28 simultaneous second-order elections

To begin with, the PES as a vote-seeking party (as well as other Europarties) will be challenged by the second-order character of the European elections. It will impact on the fortune of social democratic parties.

While a detailed analysis of the current and forthcoming situation is clearly out of the scope of this chapter as future evolution could only be guessed at this stage, there are important implications for social-democrat parties and the PES in the context of the 2014 European elections.

Among them, social democratic parties are embedded in two types of institutional situation. *Which of the social-democrat parties will be in opposition and which one will be in government when the 2014 European Parliament elections will take place?*

First, social democratic parties in opposition might be tempted to benefit from voters warning against domestic government in nine member states: Cyprus, Estonia, Hungary, Latvia, Poland, Portugal, Spain, Sweden and United Kingdom.

Country	Domestic party/ies	MEPs 2009-14
Cyprus	EDEK and DIKO (S&D)	2
Estonia	Sotsiaaldemokraatlik Erakond	1
Hungary	MSZDP and MSZP	0 & 4
Latvia	LSDSP (PSE), SDPS (PSE) & Alternative (S&D)	0 & 0 & 1
Poland	SLD & UP & nom member of SLD-UP	5 & 1 & 1
Portugal	PS	7
Spain	PSOE	23
Sweden	SAP	6
United Kingdom	Labour Party	13

Secondly, social democratic parties in power might prepare to get warnings from voters. It might happen in nineteen member states: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Romania, Slovak Republic and Slovenia.

Country	Domestic party/ies	MEPs 2009-14
Austria	SPÖ	5
Belgium	PS and sp.a	3 & 2
Bulgaria	BSP	4
Croatia	SDP	5
Czech Republic	CSSD	7
Denmark	Socialdemokraterne	5
Finland	Suomen Sosialidemokraattinen Puolue	2
France	Parti socialiste	13
Germany	SPD	23
Greece	PASOK	8
Ireland	Labour Party	2
Italy	Democratic Party (S&D) and PSI (PES)	22 & 0
Lithuania	LSDP	3
Luxembourg	POSL	1
Malta	PL	4
Netherlands	PvdA	3
Romania	PSD	11
Slovak Republic	SMER	5
Slovenia	SD	2

In addition to the institutional model (government/opposition) in a second order context, additional domestic factors might be influential from one country case to another one. For instances:

- Belgium will experience domestic elections taking place at the same time as European elections. While the NVA wants the competition taking place mainly along the confederal/federal domestic axis, other mainstream Flemish and Francophone political parties prefer competing on the left-right axis,
- The German constitution's recent court judgement is likely to reinforce small parties and/or single issue parties using European elections to enter the party system. In other words, it is expected reinforcing an important dimension of the second order character of European elections. Indeed, it decided that the threshold is now of 3% for German parties to win 2014 EP seats giving hope for at least six small parties (the Retirees and Pensioners Party (Bündnis 21/RRP), the Pirate Party (Piraten), the Human Environment Animal Welfare (MUT) party, the populist Free Voters (FV) party, the

radical right Republican (REP) party and the National Democratic Party (NDP)] as well as parties that may perform around 5% such as the Alternative for Germany (AfD) and the liberal FDP.

### **Europarties, the PES and isomorphic Issues to national ones**

In this section, the paper will deal with two successive and interrelated questions deriving from Bartolini's interpretation. Indeed, the PES and the Europarties are at the cross-road of strategic choices regarding the politicisation of socio-economic Europe. First, the paper will consider the differentiation of Europarties position and the organisation of competition on isomorphic issues. Secondly, it will explore if quarantining constitutive issues of EU politics might be feasible considering the expected radical Eurosceptic push.

### **Differentiation of positions between Europarties and organisation of competition on isomorphic issues to national ones**

Following the literature, one could expect that Europarties have the potential to differentiate their positions during the 2014 EP elections<sup>34</sup>. In particular, the domestic parties of the PES are coherent on the left-right axis but divided on the sovereignty-integration axis. Supposedly, there is however a stronger influence of the integration dimension compared to the sovereignty dimension<sup>35</sup>.

Against this risk, **the Prague PES Congress decided to run the 2014 EP elections by nominating a common candidate for the president of the European Commission embodying a common programmatic strategy. In addition, prominent figures of European social-democracy propose to federate domestic labour, socialists and social democratic parties on socio-economic issues.** At the 2013 UK Labour Party conference in Brighton, Hannes Swoboda, President of the S&D Group, declares that:

*"We face some major battles in Europe which we must fight together, instead of country by country. Workers' rights, tax evasion and avoidance, a socially just Europe – these are the areas where we need European-level results, to give people real and fair opportunities in life"*<sup>36</sup>.

34 S. Hix & Ch. Lord, op. cit., 1997.

35 Ibidem, p. 18.

36 H. Swoboda, *Swoboda at Labour Party conference: "Europe needs a strong Labour voice for socially just change"*, Newsroom of the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament, 24<sup>th</sup> September 2013. Online: <http://www.socialistsanddemocrats.eu/newsroom/swoboda-labour-party-conference-europe-needs-strong-labour-voice-socially-just-change>

Analysts paid attention to some of these fields such as tax harmonisation<sup>37</sup> and unemployment<sup>38</sup>. Other socio-economic fields might deserve additional attention such as environment<sup>39</sup> or education and research<sup>40</sup>.

The narrative challenge remains in a time of pessimism and crisis. Stetter, Duffek and Skrzypek points out that “*event though the social democratic reactions have been strong rhetorically, they still have left a certain doubt, if there is an alternative progressive narrative that could be put in place instead*”<sup>41</sup>

Moreover, the PES is also confronted to the choice of alliance/competition in the European party system on isomorphic issues. In the mid of the 1980s, Daniel-Louis Seiler evaluated Europarties' Euromanifestos. Following Stein Rokkan's interpretation, he distinguished three possible cleavages: socio-economic cleavage, rural-urban cleavage and centre-periphery cleavage. He imagined also scenarios of alliance between Europarties.

Alliance dynamics may take place within institutions (Commission, Parliament, Council) and between EU institutions (Intergovernmental conferences, Treaty, definition of broad strategies). Researchers analysed alliances during intergovernmental conferences (IGC) and European Council. Hix observed alliances between Europarties during the 1990-2 IGC (1996). Within the European Council, Hix and Lord pointed out the alliance between conservators, ALDE and EPP, reinforcing thus socio-economic *laissez-faire* policies<sup>42</sup>. To balance this trend and the isolation of forces within PES, Amato and D'Alena proposed to

**Following the selection of their candidates, Europarties seem ready to debate between each others.**

create a 'house' for reformists bringing together various political forces such as socialists, Christian-democrats, liberals and greens (2002).

**Following the selection of their candidates, Europarties seem ready to debate between each others.** Indeed, the European Broadcasting Union (EBU) announced that one televised debate would hold prior to the European election between all the candidates for the EU's commission presidency<sup>43</sup>. Compared to the US experience, questions

37 E. Külahci, *Europarties: agenda-setter or agenda-follower? Social democracy and the disincentives for tax harmonization.*, [in: ] *Journal of Common Market Studies*, vol. 48, no. 5, 2010, pp. 1283–306.

38 K. – M. Johansson, *Tracing the employment title in the Amsterdam treaty: uncovering transnational coalitions.*, [in: ] *Journal of European Public Policy*, Vol. 6, No. 1, 1999, pp. 85–101.; R. Ladrech, op. cit. 2000; E. Külahci, op. cit. 2004; S. Lightfoot, *Europeanising Social Democracy: the rise of the Party of European Socialists?*, Oxford, Routledge 2005.

39 S. Lightfoot, op. cit., 2005.

40 E. Külahci, *Partis supranationaux aux élections européennes de 2009. Où vont l'enseignement supérieur et la recherche?*, [in: ] *Les Cahiers européens de la Sorbonne Nouvelle*, no.7, 2011, pp. 143–156.

41 E. Stetter, K. Duffek & A. Skrzypek, Editors' Foreword., [in: ] E. Stetter, K. Duffek, A. Skrzypek, *For a New Social Deal*, FEPS Next Left Books vol. 6, FEPS and Renner Institut 2013, pp. 7 – 8.

42 S. Hix & Ch. Lord, op. Cit., 1997, p. 195.

43 EurActiv, *Televised 'showdown' between EU election candidates on hold.*, (published 6/3/2014, updated

remain such as 'what language to hold the debate in, how to translate it and which flagship journalists could moderate such a debate'. With the TV debate, it is also expected to raise voter turnout<sup>44</sup>.

## **The expected raise of radical Eurosceptics in 2014 and its implications for allying/competing on socio-economic issues**

For the next 2014 elections, it is expected to see Eurosceptics, including radical right and left parties, gaining more EP seats. Cas Mudde has estimated the gain to 117 seats, which is 15% of the EP seats<sup>45</sup>. More optimists, Nigel Farage estimated the Eurosceptics performance between 20 and 25% of the seats<sup>46</sup>.

In that scenario, the cleavage between nationalists and supranationalists seems still secondary in comparison to the left-right cleavage that looks prominent.

As far as they are concerned, some radical right parties have the ambition to federate each other across Europe. Next to Geert Wilders (*Partij voor de Vrijheid* - PVV), Ms Le Pen (*Front National* - FN) declared that the "time of patriotic movements being divided is over" (BBC, 2013). Currently, they are both non-attached members at the EP.

However, they are very much interested to create an EP political group (2014-9) to have access to funding and to increase speaking time. At least, they will need 25 MEPs from 7 member states to be eligible for an EP group creation. Accordingly, they initiated informal talks with radical right parties such as the Flemish *Vlaams Belang* (VB), the True Finns Party, the Sweden Democrats, the Austrian Freedom Party FPÖ and the Italian Northern League. Some of these domestic parties (Northern League, True Finns) belong already to the *Europe of Freedom and Democracy* Group -EFD. This will constitute an extra challenge to attract them in a new political group. Apparently, Le Pen and Wilders seems to exclude other radical parties such as the Greek Golden Dawn party, the British National Party, the German National Democrat Party and the Hungarian Jobbik Party. They wish not to be perceived as 'racist'<sup>47</sup>.

Moreover, the United Kingdom Independence Party (UKIP - member of the EFD group) and the Alternative for Germany (AfD) seem not to be interested in joining them<sup>48</sup>.

11/3/2014.

44 EurActiv, *Officials seek greater EU election turnout with televised 'presidential debate'*, published 26/2/2014, updated 27/2/2014a.

45 C. Mude, *A European shutdown? The 2014 European elections and the great recession.*, *The Washington Post*, 4 November 2013. Online: <http://www.washingtonpost.com/blogs/monkey-cage/wp/2013/11/04/a-european-shutdown-the-2014-european-elections-and-the-great-recession/>

46 N. Farage, *Nigel Farage: we can't change a thing in Europe*, [in: ] *The Guardian*, 27/2/2014.

47 M. Trancart & D. O'Leary, *Le Pen's rise: shockwaves in France and Europe?*, *Europe Decides*, 13/11/2013., Online: <http://europedecides.eu/2013/11/le-pens-rise-shockwaves-in-france-and-europe/>

48 Ibidem.

However, social democratic parties and other mainstream parties might also fear themselves. A brief political and economical history might remind the risk. In the context of the 1970s crisis, the social-democrat family was disunited for the 1979 European elections. The economic crisis reinvigorated the territorial instinct of socialist, social democratic and labour parties. Straight to the point, Gerassimos Moschonas pointed out that:

*'socialists, handicapped by the arrival of new rather Eurosceptic members (British, Danish, Irish), by the swing to the left of others (French) and by a national decline of almost all (decline linked to the outbreak of the economic crisis and to the "territorial instinct" that the latter produced, not only were not able to lead the construction process of the European Community, but gave of themselves, especially during the 1970's, an image of a political body, deeply divided and with uncertain "Europeanist" commitment'<sup>49</sup>.*

Would the same cause provoke the same effects? In other words, would the 2008 global crisis reinforce too much the territorial instinct of social democratic parties in the PES? Almost thirty five years after the first 1979 European elections, it is too early to conclude if history will repeat during the PES 2014. Nevertheless, the risk is important as the current crisis looks more severe than ever before since the 1929 crisis. The context is characterised by the financial crash of autumn 2008 and its enduring socio-economic consequences as well as the less visible nuclear energy crisis with the Fukushima disaster 11<sup>th</sup> March 2011. Combined with the Ukrainian crisis, the external environment of social democrats has changed and this could reinforce the 'territorial instinct' of social democrats at domestic and sub-national levels (or its renationalisation) implying more nationally sensitive mainstream campaign and EP political groups and Europarties.

### **A 'common' PES candidate for the presidency of the European Commission ?**

Thirdly, candidates of each Europarty might personify the programmatic offer of Europarties with respect to the left-right cleavage and, eventually, to the nationalist-supranationalist cleavage. In addition, it would be interesting to follow-up the added-value of these candidates on the empirical ground in relation to the EP elections as 28 simultaneous second-order elections. In the meantime, it is worth exploring the PES 'common' candidate in relation to the balance of power: the extent of domestic social democratic support for M. Schulz, the relative weight of the S&D group in the 2014-9 EP and the prospect of alliances with other groups as well as intergovernmental politics.

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49 G. Moschonas, op. Cit., 2004, p. 113.

## Extent of explicit domestic social democratic supports for Martin Schulz

At the occasion of the 2014 European elections and in the context of the 2008 crisis, the majority of social-democrat parties explicitly support Martin Schulz. The nomination period was open until 31 October 2013. Martin Schulz was nominated by the SPD and he was supported by 20 parties (the majority of parties). Thus, the PES ratified his nomination.

Country	Domestic party/ies	Explicit support for M.Schulz
Austria	SPÖ	Y
Belgium	PS and sp.a	Y (PS)
Bulgaria	BSP	Y
Croatia	SDP	N
Czech Republic	CSSD	Y
Cyprus	EDEK	Y
Denmark	Socialdemokraterne	N
Estonia	Sotsiaaldemokraatlik Erakond	N
EU	S&D Group	Y
Finland	Suomen Sosialidemokraattinen Puolue	N
France	Parti socialiste	Y
Germany	SPD	Y
Greece	PASOK	Y
Hungary	MSZDP and MSZP	Y (MSZP)
Ireland	Labour Party	Y
Italy	Democratic Party (S&D) and PSI (PES)	YY
Latvia	LSDSP SDPS (observer party)	N
Lithuania	LSDP	N
Luxembourg	POSL	Y
Malta	PL	Y
Netherlands	PvdA	N
Poland	SLD-UP coalition	Y (SLD)
Portugal	PS	Y
Romania	PSD	Y
Slovak Republic	SMER	Y
Slovenia	SD	Y
Spain	PSOE	Y
Sweden	SAP	N
United Kingdom	Labour Party	N

However and then, twelve PES members look to have not explicitly supporting him: Baltic domestic member parties, Croation SDP, Danish Socialdemokraterne, Finish SSP, Dutch PvdA, Flemish sp.a, Hungarian MSZDP, Swedish SAP and British Labour Party<sup>50</sup>.

Some domestic member parties might be reluctant in explicitly supporting him because of domestic party politics and, accordingly, might distance themselves from holding him up. For instance, the British Labour Party seems to confirm such a position as apparently, *'Labour has neither endorsed nor nominated a candidate for the next president of the European Commission'*<sup>51</sup>.

Nevertheless, Martin Schulz received the support of the 91% delegates during the Rome Congress (1/3/2014) as PES candidate for Commission President.

### **Attractiveness of European elections and Europarties' candidates for the top seat at the Commission**

Other Europarties have also chosen their candidate for Commission President. First, the Greek Alexis Tsiparas (party president of Syriza) is the favourite candidate of the Party of European Left – PEL (Madrid Congress, 15/12/2013). Moreover, the politicisation of socio-economic Europe is potentially there. The European Left declares needing “the broadest possible social and political alliances” against austerity<sup>52</sup> while the PES wants to *'bring back job creation, a productive economy, a sense of community and respect for people'* for the next five years 2014-9<sup>53</sup>. However, the 2014-20 multi-annual political and financial program has been already set – leaving little autonomy to groundbreaking policies. Moreover, it has been showed that job creation is extremely difficult although social-democrats were present in three key member states (France, Germany and UK) in the beginning of twenty first century<sup>54</sup>.

Secondly and remarkably, the Green European Party allowed European citizens to choose among four green candidates. Indeed, the green primary process points out that *“every EU resident who is 16 or older can vote on the website (...) for up to two contenders. The contender with the highest number of votes will be elected. The second winner will be the person with the next highest number of votes who is from another*

50 PES, *PES Common Candidate Process Official State of Play.*, Brussels, 6/11/2013. Online: <http://www.pes.eu/fr/news/pes-common-candidate-process-official-state-play>

51 N. Watt, *PM moves to block Social Democrat's run for European commission head.*, *The Guardian*, 4/11/2013. On line: [http://www.theguardian.com/world/2013/nov/04/david-cameron-social-democrat-commission?utm\\_source=British+Influence+supporters&utm\\_campaign=c44ccd0256-EuropeWatch+2013-07-04&utm\\_medium=email&utm\\_term=0\\_c24f34caff-c44ccd0256-315153037](http://www.theguardian.com/world/2013/nov/04/david-cameron-social-democrat-commission?utm_source=British+Influence+supporters&utm_campaign=c44ccd0256-EuropeWatch+2013-07-04&utm_medium=email&utm_term=0_c24f34caff-c44ccd0256-315153037)

52 A. Tsiparas, *Speech of Tsipras in the IV Congress of the Party of the European Left.*, 4<sup>th</sup> EL Congress, Madrid, 13-15 December 2013.

53 PES, op. cit., 2014

54 E. Külahci, op. cit., 2004.

*national Green party*". Every EU resident had the choice between José Bové, Monica Frassoni, Rebecca Harms and Ska Keller (European Green Party, 2014). During the Green Primary, a few EU residents have chosen Bové (11726 votes) and Ska Keller (11791 votes).

Thirdly, the ALDE's member parties had the choice between the Belgian MEP and ex-Prime Minister Guy Verhofstadt, who seems to favour EU constitutive issues, and the Finish Commissioner Oli Rehn, who looks rather interested by left right issues<sup>55</sup>. On 1<sup>st</sup> February 2014, the ALDE Congress has chosen Verhofstadt- whose party *open vld* favours campaigning next Belgian domestic election on left-right axis.

Last but not least and at the EPP level, various candidates looked interested such as the Commissioners Vivian Redding and Michel Barnier as well as current Prime ministers of Ireland (Enda Kenny) and Poland (Donald Tusk) and ex-Prime ministers (Jean-Claude Juncker, Valdis Dombrovskis) and current IMF president Christine Lagarde (euobserver.com, 2014). Following the withdraw of the Latvian Dombrovskis and his support to his Luxembourgian homologue, Jean-Claude Juncker, opposed to Michel Barnier, won the support of the EPP Congress on 7<sup>th</sup> March 2014.

It has also to be pointed out that the Alliance of European Conservatives and Reformists (AECR) is not interested in nominating a candidate because it considers this process as a "euro-federalist" idea. Nevertheless, it is interested in getting a voice during the TV debate organised by EBU<sup>56</sup>.

## **S&D as the first or second political group in the EP 2014-9**

It is expected that the classical coalition between EPP-PES remains predominant at the EP<sup>57</sup>. In this configuration, does the S&D Group have a chance to become ('again') the first political group at the EP instead of the EPP Group? The S&D Group looks weak considering the previous 2009 electoral results which took place just after the 2008 crisis (EPP: 274 seats; S&D: 194 seats).

Nevertheless, think-tank 'close' to the S&D group credits it with a narrow victory of 213 seats over 209 seats for EPP<sup>58</sup>. More nuanced, Pollwatch credits S&D Group with 60% of chance of becoming the first EP group with estimation to win between 190-230

55 EurActiv, *Rehn in pole position to lead EU liberals in 2014 election campaign.*, 18/12/2013

56 EurActiv, *Officials seek greater EU election turnout with televised 'presidential debate'*, (published 26/2/2014, updated 27/2/2014).

57 P. Delwit, M. De Waele & P. Magnette, *A quoi sert le Parlement européen? Stratégies et pouvoirs d'une assemblée transnationale.*, Brussels, Editions Complexe 1999.

58 Y. Bertoncini & V. Kreilinger, *What Political Balance of Power in the Next European Parliament.*, Notre Europe, Policy Paper, November 2013, p.16.

MEPs while EPP might get 40% of chance to conserve its poll position between 180 and 225 MEPs<sup>59</sup>.

Might an alliance emerge around the PES candidate? Mathematically and considering the current seats distribution between groups in EP 2009-14, an alliance between the S&D Group; the Confederal Group of the European United Left - Nordic Green Left - GUE/NGL (35 seats); the Group of the Greens/European Free Alliance - GREEN-EFA (58 seats) as well as the Group of the Alliance of Liberals and Democrats for Europe – ALDE (85 seats) don't currently provide enough seats to have the simple majority at the EP. Indeed, this alliance would totalise 372 seats (out of 766 seats) which is not enough (48,5% of the EP seats). In 2014 and apparently, the GUE/NGL might be the third EP group following a surge in voting intentions<sup>60</sup>.

Politically, some Europarties looks ready to ally such as the Greens which do not exclude supporting the candidate of another political family since they consider as very low the chance of their candidate to become the next President of the Commission.

## Intergovernmental interpretation vs. supranational assembly

In addition, intergovernmental forces will also contribute decisively in determining the next president of the European Commission. Nevertheless, the 28 *'EU leaders will be obliged to take account of the results of the European parliamentary elections. MEPs could block a candidate'*<sup>61</sup>.

More concretely and today, some member states do not explicitly back M.Schulz. Indeed, *"his appointment could complicate Cameron's plans to renegotiate the terms of Britain's EU membership by the end of 2017"*. This might indicate a potential alliance between EPP and ECR groups for supporting J.-C. Juncker.

Recently, the centre-right German Chancellor Angela Merkel *'has poured cold water on hopes that the European Commission President candidate of the most popular political party after next year's EU election will automatically get the post'*<sup>62</sup>. However, one might wonder if the grand coalition CDU-CSU-SPD in Germany might play in favour of the PES candidate?

59 K. Cunningham et al., *Who Will Win the EP Elections? Socialists ahead of EPP in a more polarized parliament.*, *Votewatch*, 20/2/2014.

60 EurActiv, op. cit., 2014.

61 N. Watt, *PM moves to block Social Democrat's run for European commission head.*, *The Guardian*, 4/11/2013. On line: [http://www.theguardian.com/world/2013/nov/04/david-cameron-social-democrat-commission?utm\\_source=British+Influence+supporters&utm\\_campaign=c44ccd0256-EuropeWatch+2013-07-04&utm\\_medium=email&utm\\_term=0\\_c24f34caff-c44ccd0256-315153037](http://www.theguardian.com/world/2013/nov/04/david-cameron-social-democrat-commission?utm_source=British+Influence+supporters&utm_campaign=c44ccd0256-EuropeWatch+2013-07-04&utm_medium=email&utm_term=0_c24f34caff-c44ccd0256-315153037)

62 H. Mahony, *Merkel: EU vote not decisive on commission President.*, *eu.observer.com*, 25 October 2013. Online: <http://euobserver.com/political/121906>

Nevertheless, the EP insists in legitimising the next President of the European Commission and is expected to insist that the Council choose among the Europarties' candidates.

## Conclusion

This paper investigated whether and to what extent the social-democrats, via the PES, (would) europeanise enough in the context of the 2014 Euro-elections and what external conditions are necessary to politicise socio-economic Europe?

**The PES constitutes potentially a key agent for europeanising the principal domestic social democrats at European level. Nevertheless, politicisation of socio-economic Europe – as conceived by Bartolini - is expected to emerge (eventually) a bit during the 2014 European elections.**

This does not only depend on PES. While a detailed analysis of the current situation is clearly out of the scope of this chapter as future developments can only be guessed at this stage, we offer a brief pre-conclusion. To begin with and extending the conclusion of Reif and Schmitt<sup>63</sup> to EU28, the EP elections are considered to be as 28 simultaneous second-order elections which are characterised by low turnout (except the four countries where voting is compulsory: Belgium, Cyprus, Greece and Luxemburg), by voters warning their government and by small/single issue parties try entering the party system. Accordingly, the nature of these elections will limit considerably the politicisation of socio-economic Europe. In a context of general socio-economic crisis, the domestic members of the PES are in two institutional situations. First, the EP elections may be challenging for social-democrat parties in government in 18 member states. Secondly, PES' parties-in-opposition may benefit from the next EP elections in 10 member states. The institutional variable does not work in favour of the S&D ambition to become the first group during the 2014-9 EP.

Neither the PES nor the Europarties seem willing and thus ready to sufficiently differentiate their positions, so that voters could choose among various policy options proposed by Europarties – unless TV debate organised by EBU proves effective. Hix and Lord pointed out that domestic parties in government '*block institutional reform that may facilitate real partisan alignments at the European level*' such as the direct election of the Commission President. This seems no longer to be completely confirmed in 2014. While other party families have restrained (regionalist, conservative and radical right), the position of important political families has changed. Domestic parties of important political families (social democracy, liberal, Christian democrat, 'radical' left and green) are playing

63 K. H. Reif & H. Schmidt, *Nine second-order national elections: a conceptual framework for the analysis of European election results.*, [in:] *European Journal of Political Research*, vol. 8, 1980, N°1.

the game for the 2014 European elections. Indeed, Europarties have selected high profile candidates among their members (ALDE, EPP, Greens, PES and PEL). This also indicates the important political attractiveness of elites by European politics, policies and elections for the seats at the Commission and at the European Parliament. Despite the second order nature of European elections, such competition might be significant next to voters during the 2014 EP elections – if such a competition is occurring and significant. For now, PES and other Europarties look not yet ready to organise competition between each other on national isomorphic left-right alignment (cohesion, currency, economy, environment, education, research, scientific and technological innovation as well as social innovation, tax, unemployment, asylum and migration as well as multiculturalism) and to quarantine constitutive issues of EU politics during the 2014 EU elections. Nevertheless and following the three TV debates, candidates of Europarties (christian-democrat, green, liberal, radical left, social-democrat) were able to present significantly different positions on socio-economic issues, euroscepticism and foreign affairs.

While a detailed analysis is clearly out of the scope of this chapter, there is much more to check and ascertain in the context of the 2014 European elections and the subsequent results:

1. Would this competition between Europarties become significant? If yes, would EP elections be noteworthy for voters?
2. To what extent will the (ex) small/single issue parties enter (or perform better) in the party system? Would thus domestic social democrats be tempted to follow partially their agenda or would social-democrats be in a position to set mainly their own agenda? What would be the EP seats performance of social-democrats become in a context of 28 second-order elections?
3. How would the next president of the Commission be chosen?
4. What would be the fortune of the politicisation of socio-economic Europe from this 2014 campaign to the next 2019 European elections? After vote-seeking and office-seeking objectives, how would it be possible to role as a socio-economic policy-seeker ensuring some continuous politicisation of socio-economic Europe between two European elections?

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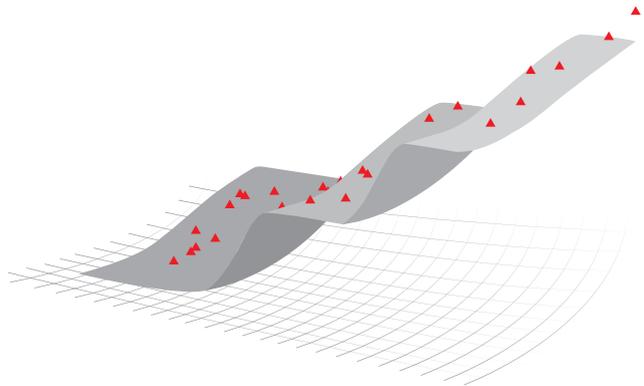
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Ania SKRZYPEK

# **Consensus, Coalition and Competition – Possibilities for Transformation of the European Partisan System**



**Keywords:**

**Assumed Permissive Consensus – Grand Coalition – New Quality Intra-partisan Competition – Lisbon Treaty – Transformation of the Europarties**

**Abstract:**

The provisions introduced in the Lisbon Treaty are likely to provide a set of new incentives for the further development of the europartisan system. Inspired by this hypothesis, the paper takes on a challenge to examine the three characteristics particular characteristics of the EU institutional set up: continuous struggle for a multi-layered and multi-dimensional consensus (including assumed permissive one), existence of a permanent “grand” coalition (and its mandate) and the current limitation of the political conflicts to the fringes of the system. Consequently, there are 3 Chapters - each of which reviews the existing methodology of European (political) studies, and makes a case arguing for development of a new apparatus that would be more adequate in fully grasping the dynamic of the ongoing transformation. Within each of the sections, the recommendations for the progressive family to consider are included, indicating possibilities to pave the way towards a new era marked by strengthening democracy and empowering parties both on the national and the EU levels.

The European institutional system's architecture induces the situation in which decisions are taken on the bases of a broad consensus. It needs to be both multi-layered and multi-dimensional, in order to accommodate policy actors and societal groups operating in both the communitarian and intergovernmental fields. The application of that logic predetermines the nature of decision-making processes. Seeking a consensus is usually exhaustingly long process, during which the 'picture' blurs. It becomes hard to trace, who in fact was the author of a respective proposal and who eventually made the idea alter decisively. This is perhaps why the EU has often been being diminished to an enigmatic, impersonal "Brussels", which stands for the lowest common denominator that frequently appears not even desired by anyone. Adopted policies emerge from there without any ideological flavour. Furthermore, the complexity of the process allows the national politicians refrain from taking responsibility in media for unfavourable and uncomfortable decisions. In this spirit it is again "Brussels" that turns to be a scapegoat.

While the national public spheres are by far more developed than the European one, the communication done by the national politicians and journalists seem still to have more impact in terms of shaping popular perceptions about the European Union. This is then not a surprise that the Europeans instinctively think that the consensus needs to be reached primarily within the intra-governmental pillar. Such an image was based on solid fundamentals, especially, that in the recent years the Council was a stage where a strong Franco-German cooperation cultivated by Chancellor Merkel and President Sarkozy, and then claimed leadership of Chancellor Merkel, emphasised the importance of intra-governmentalism. It was not only a subject of countless articles, but also in a negative sense an inspiration for the public protests – alike the ones in Greece. Though the austerity measures were induced because of the IMF (International Monetary Fund) demands and due to EU decisions, still the one held responsible the most was the Chancellor Merkel. It was she, who was portrayed in cartoons, who was called names on the respective protestors' banners. Even if from the political scientists' perspective, this new style of assumed European leadership may eventually become an exhilarating topic for research, the fact remains that these practices have been very saddening for all the progressives. One could perhaps go even as far as to assume that these were the times of the greatest set back as far as federalist "Social Europe" vision of the progressive family is concerned<sup>1</sup>.

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1 A. Skrzypek, *Ideology, Politicisation and Identification. The role of the europarties in providing citizens with a democratic choice.*, [in :] *In the Name of Political Union – Europarties on the Rise.*, E. Stetter, K. Duffek, A. Skrzypek (eds.); FEPS Next Left Book Series, vol. 7, Brussels 2013.

Interestingly enough, to the broader European public it did not particularly matter what party Chancellor Merkel was from and hence with which political family on the European level she has been associated. It was a nuance, which was secondary to her nationality. The dominance of inter-governmental pillar overshadowed the role that the communitarian institutions have been or at least supposed to have been playing. While there has been such a strong focus on the Council, the European Commission was effectively suppressed to play a role of its quasi-Secretariat. Not a lot has been communicated on the achievements of the European Parliament either. An example of that is the discussion on so called “Six-Pack, during which for instance the S&D Group in the EP strongly advocated for a complimentary Social Pact to be adopted simultaneously. Though in the whole fairness there were notifications that President Hollande demanded for a stronger social dimension of the EU, still this was not the news that dominated.

Conclusively, in the times of Conservative triumvirate (Council, Commission, EP<sup>2</sup>), it became almost eminent that the European Union and the conservative rule of the European Union became synonyms. Within those circumstances, European social democrats found it very challenging to grasp a space within which they could articulate and effectuate any alternative proposals. With the earlier electoral loses on the national level (which at a certain point reduced the number of Council's representatives to four only), they were not in a position to change the pace of the developments. Plus in a number of cases they themselves started ‘buying into’ the logic of ‘TINA’ (There is no alternative) that would have them believe that with the results of the crisis and with all the debts at hand, austerity may indeed be the only reasonable idea forward.

This would seem a paradox, especially in the light of studies that show that as far as the crisis the socialists ‘got the story right’ from the beginning on. The “Rasmussen Report” was a very prominent proof of that, of course. While still at the same time, the European socialist family seems to have consolidated profoundly, becoming more united in a historical mission of “standing up and fighting” this contemporary incarnation of financial capitalism<sup>3</sup>. Their narrative altered fundamentally and their common European positions, as adopted within the PES became much more “politicised”.

The crisis mood, which requires “crisis management responses”, seems to be slowly fading away by now. It is questionable if that is because of the fact that Europe is on the way to recovery, as President Barroso would have people believe through his latest “State

2 The article was completed ahead of the EU elections 2014.

3 See : M. Holmes & S. Lightfoot, *The PES and the financial crisis.*, [in : ] *In the Name of Political Union – Europarties on the Rise.*, E. Stetter, K. Duffek, A. Skrzypek (eds.); FEPS Next Left Book Series, vol. 7, Brussels 2013, pp. 94 – 107.; G. Moschonas, *One Step Forward, One Step Back ? Debt Crisis, the PES and the Limits of Social Democracy.*, [in : ] *In the Name of Political Union – Europarties on the Rise.*, E. Stetter, K. Duffek, A. Skrzypek (eds.); FEPS Next Left Book Series, vol. 7, Brussels 2013, pp. 126 – 141 ; E. Kulahci, *The Party of European Socialists from Euro to Crisis.* , [in : ] *In the Name of Political Union – Europarties on the Rise.*, E. Stetter, K. Duffek, A. Skrzypek (eds.); FEPS Next Left Book Series, vol. 7, Brussels 2013, pp. 108 - 125.

of the Union” address. It is plausible to assume that this may be due to the fact that the crisis circumstances became already so ordinary that they are the only reality known and remembered at this point. This is a grave issue for the European Union, of which the future has been questioned so frequently. As it is being repeated, “Europe seems more as a part of a problem, less as a part of a solution” these days. It naturally is worrisome ahead of the next European elections, in which progressives seem to entrust so many hopes.

These ‘great expectations’ could be classified into two groups. The first one encompasses political circumstances. Namely, social democracy stopped declining in respective national elections and in a number of cases managed to return to the respective governments. The second one is related to constitutional setting. The upcoming electoral campaign and the post-electoral negotiations will be organised on the bases of the Lisbon Treaty. This includes, among others, provisions that allow europarties to campaign and in that context to present ‘top candidates’. Progressives, wiser with lessons of 2009 and subsequent renewal process, are full speed ahead hoping to accomplish both. For them, it is the chance to re-politicise Europe again and, as they state, ‘present a credible alternative for Europe’.

While being carried away with that spirit, at least for the moment, one promptly comes to a conclusion that this may mean further relevant changes. **If indeed, following the pre-electoral declarations, there would be an emphasis that this time it “would be a real campaign”, if indeed it is “power to change” that is at stake and if indeed the “top candidate is just the first step” – there is affectively a chance that the EU consensus culture will be profoundly.**

Inspired by this particular thought, this paper aims at examining in the EU context the 3 categories: consensus, coalition and conflict. Each of them encloses the assessment of the state of play, as also deliberation on changes already beginning to take place. The focus of the examinations is particularly on the significance of the transformation of those three categories in the context of potential development of the europarties.

## **1. Broken consensus, seeking new system?**

Consensus-based system have been broadly analysed within the literature. Perhaps the most prominent work on that has been completed by Donald L. Horowitz and Arend Lijphart respectively. While Horowitz<sup>4</sup> admitted that there is still a lack of theory of consensus theory, his ambition was to create a model that would explain how political consensus may be reached and what purposes it may serve. This he has done in a hope that there would be a way to think about the method that would underpin a constitutional order in a way in

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4 D. Horowitz, *The contest of Ideas.*, [in:] *The Democracy Sourcebook.*, R. Dahl, I. Schapiro & J.A. Cheibub, MIT 2003, pp. 147 – 152.

which voting would be a way to bridge over divides. His “alternative vote” or “instant runoff”, they were looked at as potential ways to encourage elections of moderate representatives. These proposals of Horowitz inspired a paper of Lijphart<sup>5</sup>, in which the later one argues that Horowitz’s theories suffer from a number of shortcomings and that they have not been sufficiently proven by further academic work. Nevertheless, Lijphart admits that there is an interesting matter raised – namely the question of the optimal form of power sharing.

Even though the writings of both the authors are anchored in comparative studies of the national cases, they still provide most useful while looking at the current constitutional set up of the European Union. As stated in the opening, the institutional design implies that core decisions must be taken on the bases of a broad consensus, which is both multi-layer and multi-dimensional. Layers correspond to the levels of governance it concerns, while the dimensions refer to the two pillars of the EU (inter-governmental and communitarian). Horowitz writings point further however, that even if consensus is at the end an achievement on the governing level – it requires a number of factors that must occur additionally to enable its accomplishment. This is why he underlines the relevance of looking into sub-systems, including voting system.

Lijphart, on the other hand, maps in his very instructive paper benchmarks for assessment of power-sharing model for divided societies. He enumerates 9 of them, which categories include: the legislative electoral system; guidelines within PR (proportional representation); parliamentary or presidential government; power sharing in the executive; cabinet stability; selecting the head of state; federalism and decentralisation; non-territorial autonomy; and power sharing beyond the cabinet and the parliament. Lijphart idea of consensus that emerges from those is that the focus should be on creating as many as possible opportunities for political collective to emerge in order to give both voice and influence to different groups. He is convinced about a necessity to foster pluralism, which is why he argues for collegial cabinets, parliamentary systems and ceremonial only role for eventual presidents. He claims they should not be elected in a popular vote, where there is then a risk that they would make campaigns about personalities and overshadow politics of competing parties and party programs. Lijphart perceives such a development as extremely negative, stating that in the representative democracies it is the parties that provide crucial link between the voters and the government.

Taking into account the core of these writings, there are two observations to be made regarding the assumption that the consensus logic is sustaining within the EU governing structures. First of all, **it is not sufficient to look at the “EU consensus” only in the dimension of the decision making process. Following Horowitz’s logic, there is a need to also look at other layers – and especially in case of the EU, it seems to**

<sup>5</sup> A. Lijphart, *Constitutional Design for Divided Societies.*, [in:] *Journal of Democracy*, vol. 15, Number 2, April. <http://muse.jhu.edu> 2004.

be most indispensable to connect the research on “EU consensus” culture with the question of political participation of the voters. Only linking those two, as some authors would argue<sup>6</sup>, would give a more complete picture of state of democracy and per extension realistic assessment of the state of the consensus. If to introduce here the category of “permissive consensus”, hypothesis here would be that there the consensus is significantly weakened, if not totally broken.

Secondly, Lijphart argued that the collegial bodies offer the best chance to reach a consensus through which all forces are best represent. Returning to the reflection from the introduction, it is evident that such a consensus is no longer a feature of the EU governing levels. The relatively overpowering dominance of one of the political families means that the set up does not work. The reaction of the competitors is embedded in a new narrative that stipulates that “there is a need for another Europe”. This is also a rhetoric that the progressives applied. It is no longer about modifications and alterations to accommodate each other; it is about profoundly changing the course.

That being the case, one can question if there is still a space for sustaining a formula of “great coalition”, which has existed for example in the context of the European Parliament and which dictated the rule that its presidency is shared between the two largest political

**With the politicisation of the campaign, shall the provisions of the Lisbon Treaty be used, there will be a need to frame a new understanding what a pan-European consensus on the EU-governing levels would be.**

families (PES and EPP). Though the deliberations on the coalition-related questions constitute the core of the second chapter of this paper, it is relevant to spell out already at that point that the next European elections are likely to speed up the transformation that is being observed. **With the politicisation of the campaign, shall the provisions of the Lisbon Treaty be used, there will be a need to frame a new understanding what a pan-European consensus on the EU-governing levels would be.** Having said that, one will have to reconsider its meaning vis-à-vis following question: is an ambiguous notion of pro-Europeanism still something that brings the major political parties together and can ensure an overall consensus for progressing integration of Europe?

Those two fundamental questions, regarding the permissive consensus and regarding the notion of pro-Europeanism constitute consequently the two following sub-chapters.

<sup>6</sup> see: P. Norris, *Democratic Deficit. Critical Citizens Revisited.*, Cambridge University Press 2011.

### - Permissive consensus

The existence of the *permissive consensus* has been questioned since early nineties. The literature relates the emergence of the doubts upon its existence with putting in place the Treaty of Maastricht, which was supposed to decisively empower citizens within the framework of the newly established “Political Union”<sup>7</sup>. It is assessed to have failed to live up to its expectations. This is both as far as politicisation of the European Union and herewith greater engagement of citizens, as also as far as democratisation of the EU mechanisms and institutions. The recent crisis intensified those criticisms, while pointing out that there have been too many questions left open and too many issues unresolved. The incapacity of EMU (European Monetary Union) and the inadequate framing of the ECB (European Central Bank) are being seen as a heritage of that as well.

While addressing the issue of the “permissive consensus”, most frequently scholars refer to the questions of falling turnout in the European elections. These behavioural aspects of the European citizenship seem to dominate since also the scale of that decline is relatively massive. To remind roughly the numbers, in 1979 it was still above 60%, while 30 years later it reached only a bit above 40. Though the turnout has of course a crucial significance for the strength of the mandate that the European Parliament and its members get to enjoy, nevertheless it is not the only indicator. As authors of the recent Demos report point out, the questions such as how “active” the citizenship actually is and also in how far people are satisfied with democracy play, among the others, a relevant role. So if to take the level of discontent with the EU, which has been demonstrated in subsequent euro barometers, it is apparent that a greater problem is emerging. And even if previously authors such as Lindberg and Scheingold<sup>8</sup> were pointing that disinterest lies at the roots of the permissive consensus and undermines therefore democracy, nowadays it seems that the actual reactions against the EU may intensify. These may in much more explicit way prove that indeed **the era of any, not only permissive, consensus on Europe may be actually over. On such a cross-road, there is obviously more than just one way. And though progressives would have most likely argue after Willy Brandt and then after Jens Stoltenberg that this must be “more democracy”, the odds known also from the history prove that essentially not necessarily.**

This poses a real challenge before the upcoming European elections. Looking at the different analyses of 2009 vote, the traditional pan-European parties concluded, that their “invisible enemy” while competing for seats in the EP was a phenomenon of abstention. Poul Nyrup Rasmussen, then PES President called this a “sofa party” during his speech at the PES Congress in Prague in 2009. True, that “sofa party” did not gain any seats – but

<sup>7</sup> see: D. Almeida, *The Impact of European Integration on Political Parties. Beyond the Permissive Consensus.*, Routledge 2012.

<sup>8</sup> Ibidem.

it was effective in preventing traditional parties to get larger number of seats in the EP. In the end result, the circumstances were then favourable for the more radical and populist parties to gain in terms of representation. And this brought the most fragmented ever European Parliament in place. It is likely that the 2014 will reaffirm the trend. **The fact that “permissive consensus” does not exist and that there are symptoms of disbelief in traditional parties, it may potentially mobilise more of the protest votes. At the same time lack of consensus on the elite’s level as regarding even overall future of Europe, means that there is really a growing space within which the alternative, radical movements can play more bluntly.** The logic of this hypothesis is visible on the graph below:



But unlike before, there is a greater possibility for the europarties to deal with that more efficiently this time. Following the provisions put in place by Lisbon Treaty, as also all the declarations that were already made by the main europarties regarding an ambition to have a top candidate and to run a ‘real pan-European’ campaign, it is actually plausible that the elections may not be seen that much as the second order elections. It is not synonymous to them becoming the first order one, but nevertheless should mark a certain solid progress. If that was to be the case indeed, the electoral campaigns could actually become focused on Europe and the EU’s future could be the question of the political debate. This is plausible, especially with the EU issues already infiltrating the national public spheres on one hand, and with the necessity of the traditional parties to become more outspoken on the other. As already stated before, the tendency to do so on the European level is already there. This means further consolidation on one hand<sup>9</sup>, as also new framing of the political playing field, which europarties could try to occupy more fully. It would be a profound transformation, which would then also touch the base of the civil society. Citizens could find the europarties as new and potentially very efficient way to bring inputs into the EU level, where until now the alternative sources of such inputs have been being stronger due to the integration process patters<sup>10</sup>.

**Such a set up, with a greater role for the europarties, will not come by a default. It will not emerge as long as the discussion will once again finds itself diminished to the question of “pro-“ or “anti-“ Europeanism. Especially that, as the next paragraph is to show, the old well known categories do not fit here anymore either. For progressives remaining locked in the “pro” and “contra” layer would be particularly**

9 see: S. Hix, *What’s wrong with the European Union and How to fix it.*, Polity Press, Cambridge 2008.

10 D. Almeida, op. cit. 2012.

unfavourable, as they are the ones trying to break the image of the “consensus among elites” – for which they need stronger rooting to anticipate on the “new articulation” in their narrative. They need to become more distinctive, showing why they reject the prevailing neo-liberal rule and what is, realistically, what they offer, shall they be granted greatest number of seats in the EP. If they indeed fail to do so, they do not stand a chance to mobilise, not only the more “ambivalent” voters, but even their own ‘traditional’ supporters perhaps. With the new game set-up their votes may become then much more strategic and in order to express their dissatisfaction with today’s Europe, they may seek to support more outspoken, protest parties<sup>11</sup>.

### **Pro-europeanism and euro-enthusiasm aren’t the same things**

The recent crisis *europeanised* the national public spheres. In that sense the questions on the European Union, its decisions and its future became an integral part of the national debates. As written above, this meant that the dispute among the political actors has been shifting. But although it already abandoned the reductive two-dimensional divide between pro- and anti-European, it still has not reached a level in which other possible axes of divide would be visible. That especially concerns the ideological underpinning of such a partition. In that spirit, even if progressives repeat frequently in Brussels circles that they do not agree on the current course of the European affairs – it would be perhaps somewhat premature to say that they have developed a distinctive, pan-European narrative that they apply also on the other levels of governance.

Furthermore, for progressives the issue is not simple. After many years of contesting, finally in the 1990s they all gave in into the notion of “pro-Europeanism”. This is reflected in the Manifestos adopted prior to the subsequent European elections, in which it was underlined that the socialist movement is a “pro-European” one. The fact that these documents were “footnotes and disclaimers” free is important to underline. Herewith the initial criticism that the Community was “just a common market” driven project was overshadowed by a sense of a mission of building a political and social dimension of the Union. With the trend of social democrats returning into the governments across the continent it seemed possible to be accomplished. Regardless of the evaluation that came later, the projects, such as Lisbon Agenda, are examples and prove that there indeed was such a conviction at this moment of time. But with the tides turning, with conservatives assuming broadly the leadership over the Union and also with the crisis hitting, the discontent within the progressive family with “this sort of Europe” has grown. Neo-liberal logic of the integration processes has become the dominant one again, especially with all the cuts and austerity measures that have been subsequently put in place. The progressives have

<sup>11</sup> C. E. de Vries & G. Marks, *A struggle over dimensionality: A note on theory and empirics.*, European Union Politics, Sage, 13 : 185, <http://eup.sagepub.com/content/13/2/185> 2012).

been left with discomfort caused by ideological duty to defend the Union, while at the same time deep at the bottom of their hearts knowing that this has not been the Europe they dreamt of<sup>12</sup>. Different attempts to patchwork some of the social ideas, such as the recent communication on strengthening the social dimension of the EMU (EC 2013), did not gear a feeling that this could be changed – unless the power over the Union would be assumed by social democrats themselves.

**The challenge for the progressives is to formulate a platform that would be on one side outlining the future of Europe in a hopeful way, on the other that would be realistic and would respond to the dissatisfaction that many within the movement itself share.**

Ahead of the European elections this poses a great difficulty that goes beyond the questions of rhetoric, which were already pointed out. **The challenge for the progressives is to formulate a platform that would be on one side outlining the future of Europe in a hopeful way, on the other that would be realistic and would respond to the dissatisfaction that many within the movement itself share.**

What may be helpful in imagining such a framework is to put a number of factors together. There is a differentiation between “hard” and “soft” euroscepticisms. The first one is a principle one, which favours withdrawal from the EU; while the second regards opposition to certain policies in certain areas. Consequently, there is a difference in terms of respective parties’ attitudes. There are those, who contest the EU project as a whole and there are those which focus on the EU membership issue of their country<sup>13</sup>. The graph below shows the combination of those attitudes:

Hard euroscepticism	Focus on the EU
Soft euroscepticism	Focus on own membership

There would be a following reflection coming from this graph. **In the context of four possible combinations (hard euro-scepticisms and focus on the EU; hard euro-scepticisms and focus on own membership; soft euroscepticisms and focus on the EU; soft euroscepticism and focus on own membership), European social democracy (and hence its europarty) can only be successful in case it frames a debate on the lines “soft-euroscepticism and focus on the EU”.** Shall it enter the combination with “hard scepticism” or with “focus on own membership” it runs a risk of being either captured in the old fashioned two-dimensional debate on “for” of “against” the EU. Shall it tap into the questions on the “own membership”, it will fail a mission to both further politicise and Europeanise the debate.

<sup>12</sup> See : R. Cuperus for « Renaissance for Europe »

<sup>13</sup> A. Szczerbiak & P. Taggart (eds.), *Opposing Europe? Comparative and Theoretical Perspectives. The comparative party politics of euroscepticism.*, Oxford University Press 2008.

Concluding that brings two hypothesis. First of all, this means that there is a potential political space to be grasped by the europarties. They have become in fact instrumental in creating a mood for a debate that would be anchored in soft euroscepticism and that would focus on the matters regarding the future of the Union. In order to achieve it, however, the europarties must adjust their working methods and tools. One of them is the Manifesto, which will have to be framed in a different manner. It must become a political platform, which will show the realistic agenda and highlight the differences between this and the other political families' offers. This implies many changes, including the ones in terms on style, rhetoric and reference points. PES seems to be the europarty ready to alter in that dimension; especially that it took the time in between the elections and elaborated the Fundamental Programme. This last document represents symbolic consensus on the general vision for Europe of all the progressive parties from across the continent. But to that end, the agreement is only on principle matters – while the question is if the progressive family is really ready to reach the agreement on the more detailed manner.

Herewith comes the second hypothesis. Framing the debate within the scope of the soft euroscepticism and focus on the EU will be possible if the issue of the relation between the pan-European process and the national campaigns will be resolved. For a very long time, the europarties agenda served rather as declarative and symbolic. Due to the organisational weaknesses of the europarties themselves, the europarties were not able to substantially influence the national electoral programmes. The situation seems changing, especially with the Lisbon Treaty in place. The question now is if a consensus among elites from even the same political family could be achieved. Here social democracy seems to have much work to do. Observing the debates at this point, it would rather appear that it is even more divided than before. There are 5 axes of such a split: for euro and non-euro members; for south and north; for east and west; for more traditional and more of post-Third Way; and finally for those in the governments and outside of it. Having that in mind, an important test is how the PES will go about reaching a new consensus, which would then in a more detailed manner explain the political offer and would at the same time be broad enough to accommodate all those different approaches. It is effectively possible that this "struggle for a new consensus" within the europarty itself is at the core of question, through which it will determine what course and what role the europarties can play further. In case of traditionally pro-European europarties, it is naturally also a query in how far they will be able to keep the debate within the "soft-euroscepticism" and through that prevent the "hard euro-scepticims" to develop further.

## 2. Different concept of europartisan coalitions

The hypothesis of the previous chapter was that the embedding of the EU governance was a prevailing culture of consensus. It has been transcending different sub systems, manifesting itself in a general consensus of the political elites on one hand, and in the “permissive” consensus from the side of the citizens on the other. The historical understanding of it has been that the agreement would need to be reached among all the actors and within all the dimensions. Within the context of complex and detailed negotiations, it would then be only pragmatic to think that something resembling a “grand coalition” is a fine embodiment of such a consensus.

The notion of existence of “grand coalition” on the EU level has not really been a preoccupation of the political sciences studying the questions of the EU governance. It emerged from practice within the European Parliament and more precisely has been the feature of the European Parliament. This is where the leadership would be changing in half a mandate, travelling back and forth between EPP and PES (nowadays S&D Group). It does not mean that it would prevent other groups to get into the bid, but as a lock-out it would in a very simple manner prevent them from entering into a position. An example of that was the election in 2009 and in 2012. Though this has been mostly a “technical” grand coalition, still it is becoming quite apparent that its times may be over.

There are two factors to be taken into consideration. First of all, the evolution of the European Parliament has been evidence that the communitarian dimension was strengthening. The prerogatives it has been acquiring as a body meant it was growing in powers as institutions and within its scope the political, pan-European actors could consolidate. There are numerous examples of this consolidation; however the one already mentioned fact that the groups became more united for example in their positions during respective votes<sup>14</sup>. The question here is if the process that shifted EU back on the tracks of the “Europe of nations” vision is not going to change this tide as such.

Secondly, the provision of the Lisbon Treaty that allows the European groups to nominate a President of the European Commission (shall they become the largest) is not clarifying what would happen, shall their candidate not meet the approval of the Head of State of his or her country of origins. In the light of the same Treaty, the agreement of the Council is essential. So the dilemma emerging is about in how far the Lisbon Treaty is inducing more of the parliamentary system on the EU. Assuming that would be the case, and the candidate would be standing anyhow, with a backing of the EP, one would have to remember that any parliamentary democracy assumes a need for winning majority then at least. And here there are two options<sup>15</sup>. One could sustain the “grand coalition”, building alliance on the bases of

14 S. Hix, op. cit., 2012.

15 W. C. Müller & K. Strøm, *Coalition Governments in Western Europe.*, Oxford University Press 2000 (2003).

“purely legislative alliance”. This suffers from two shortcomings. It is a step back in attempts to politicise Europe and it may also prove a short term strategy. The EP becoming more and more fragmented means that the “grand coalition” is also shrinking in its powers. Then the second of the two options would be to create a political agreement that would be based on “committed coalition”. Then however the “glue” would have to be of primarily political nature.

Naturally, any coalition politics is a strategic one. This is why also so often it is being researched within the context of the game theories. These “games” prove of course to be multidimensional. They encompass as much political negotiations and bargaining, as also the factors such as leaders’ (elites’) interactions. Following the literature here, coalitions are of course induced by the constitutional system within which they are bound to happen. It is the institutional environment that pre-dictates two important aspects of coalition building. These are: scope and content of the agreement, as also the causes for termination<sup>16</sup>.

Looking at the later, literature enumerates 7 main causes for termination of a coalition. They result from empirical studies, on the base of which there was an attempt to classify the most common ones. They present themselves as follows:

Conflict between coalition partners		Intra-party conflict	Elections (non-parliamentary ones)	Popular opinion shocks	International/national security events	Economic event	Personal event
policy	personal						

Since the EU-level “grand coalition” presents itself as atypical, it would require a further study to be able to claim that they all apply to the European level. Assuming however that with certain necessary adjustments that would be the case, one could come to a conclusion that after the crisis such as the recent one, with the changing treaty conditions inducing the intra-party competition and with what could be seen as public opinion shock (end of “permissive consensus”), the current “coalition” set up can no longer survive. A new coalition to steer out of this predicament would be needed.

With that in mind, this chapter is aiming at looking at two aspects of potential new coalitions at the European Union level. The first one relates to the question of if that would be possible to build “coalitions based on the content agreements”. This leads to a query on what role the europearties could play to foster such coalitions, taking into account that with the “top candidate” mechanism there is an interest that they over-reach the scope of the European Parliament only. Therefore, it is also necessary to examine, what was already stipulated in the previous Chapter, if the europarties’ Manifestos should not play a different role than they have done till now. Secondly, there is an issue regarding in how far and for which groups new, content based coalitions would be representative for the broader population. Herewith the question of replacing broken “permissive consensus” comes into place. This is why the second part of this chapter looks at the space for

16 W. C. Müller & K. Strøm, op. cit., 2003.

europarties to build new bridges, reaching out and involving the European voters. This is why the focus remains on the impact that such coalitions could have within the Union's potential social dimension.

### **- New role for the Manifestos**

The manifestos of the europarties have been often criticised at the “lowest common denominator”. While assessing them with the criteria that one would eventually apply towards the manifestos presented by the national parties in the context of the respective national elections, it was frequently stated that their evaluation was at least relatively negative. They were long, complex, as also often did not point out what that is that the europarties adopting them could ‘concretely’ achieve. Although this criticism could be presented, if these documents were looked at with the blueprint from the national level – it would not be defensible if different, EU-level adjusted criteria were to apply. **The europarties’ manifestos played a very important role as: documents around which europarties would consolidate every five years; and as symbolic agreement of all the europarties’ members regarding the general direction for Europe.**

There is also another aspect that is frequently insufficiently appreciated. **The manifestos would enlist the major problems that the europarties identified in relation to the Europe’s future.** If to ignore for a moment rhetorical aspects and extract just and only the problematic points, one could compare easily the manifestos of the respective europarties. Putting those lists next to one another, one could then see three categories of themes. The first one would be common to all the main parties. This would be almost a guarantee in itself that those issues would make it into a debating table and would in some way be agreed upon within the next legislature. The second group would consist of the themes that would be framed in different ways, which would allow stipulating that they would create a debate, however not necessarily lead to conclusive end. And finally the third group would entail the questions that would only be found in one of the parties’ manifestos. Their chances of getting into a debating table and eventually making that into any legislative proposals would be microscopic. Of course, there would be exceptions to that rule. An example of that is the issue of “intellectual freedom”, which ELDR wanted to add to the existing within-EU freedoms – which make it to be the only party that had an ideological standpoint clarified, when the question of ACTA emerged.

Ahead of the 2014 elections, it would seem that the role of the manifestos needs to change because of number of reasons. Generally speaking, with the certain new extent of politicisation of the European elections; it would seem most natural that the manifestos need to become more of the electoral platform that they used to be. PES is in some ways prepared for it, having adopted already the PES Fundamental Programme. That document is not bound to be amended upon every election, as also it serves perfectly well as both

symbolic agreement among the member parties regarding the future of Europe and as an ideological explanation, what sort of Europe the progressive family would envisage in its vision. Hence there is a space to think about the manifesto in a different way.

Furthermore, the fact that the europarties will run within the electoral campaigns with the top candidates puts another requirement towards the manifestos. Of course, it can be debatable if the ideological document comes first and then the parties chose a person who best embody that; or in on the contrary they firstly pick the person and then check the messages. Presumably there would be as many supporters as many opponents for each of those scenarios. Nevertheless, the fact is that in case of all the europarties the processes are being led in parallel. Hence they are this time mutually dependent. A new sort of the campaign leadership will therefore have a determinant influence on the process and among others – it will surely mean a greater polarisation of messages, at least among the main competing europarties. It will require the manifestos to be reduced as far as their complexity is concerned, which is tightly related again to the question of leadership. In this understanding the manifestos need to bring answers on: core proposals, bottom lines and ways out of deadlock, paths towards solutions<sup>17</sup>.

An additional element is the relation between the inter-governmental and the communitarian spaces that the europarties developing manifestos will have to tap into this time around. The manifestos drafted until now have had more of declarative character. If they are to become the platforms for the top candidates on one hand, and if they are to create a real community of opinion between the European Parliament representatives and the actors from within the Council, there needs to be a clearer political link in between the European and the national agenda. Hence it is no longer really possible for the manifestos to remain the “lowest common denominator”. Instead they will have to become the “framework” within which the respective national agendas (member parties national priorities articulated in the context of the European elections) will have to find embedding. This is especially crucial in the times of a drift towards “Europe of nations” and as an understanding it can effectively help europarties with traditionally prevailing communitarian approach (such as PES) to change the trend. This is at least in the political terms.

Last but not least, **there is a potential to develop on the bases of the manifestos more of strategic thinking regarding the “coalitions based on the content agreements”.** **The manifestos in that sense should become benchmarks that can be used within the negotiations.** Until now the actual “life” of the europarties’ manifesto was relatively short. They would play a relevant role as leverage for the EU-focus debate among the respective member parties and member organisations before their adoption and then they

17 A. Saunerstedt, *Coalitions in the EU negotiations.*, [in:] *European Union negotiations: processes, networks and institutions.*, O. Egelström & Ch. Jonsson, Routledge 2005.

would be seen as a reference point for pan-European campaigning events. It seems that with a new understanding it is plausible, that their role could develop more similarly to the one played by the manifestos on the national level. They could become the platforms to negotiate eventual coalitions in the post-electoral terms.

This could be a great shift in terms of enhancing the politicisation of the EU partisan sphere. It would give europarties a clear political standing and a scope for bargaining, as far as constitution of the new European Commission would be concerned. Anticipating the even more fragmented European Parliament post-2014 and the fact that in the current system there is really no change for any of the political families to gain the landslide majority, the europarties need to think strategically. Formulation of a greater alliance (in place of previous “grand coalition”) could effectively be the path. Conceptualising those would require taking into account two basic factors however. The first is the issue of number of the parties included in such a coalition following the MWC rule (‘minimum winning coalition’). The second would need to answer the question of the core content of their newly found consensus.<sup>18</sup>

### **- Linking social and political EU citizenships**

Conceptualising eventual content-based coalitions would represent another shift in the strategic thinking. This would require linking better the questions of political agenda and the issues of legitimacy and representation, addressing herewith another problem within the scope of the democratic deficit of the European Union. And herewith there is a need to look into two aspects. The first one is connected with the overall process of decline and transformation of the traditional parties. The second is about linking better the questions of social and political citizenships.

Political sciences literature of the last years is dominated by the theories that prove a decline of the traditional parties. There are number of explanations offered. Among them are: the overall politics-related one (which refer to sense of politics and engagements in the times of “TINA”), the party-related ones (regarding the adequacy of the existing parties in terms of being able to accommodate changes expectations as far as political participation and articulation of the political interests are concerned); and last but not least, the issue of the changed society and herewith voters’ profile (which relates to the issue of different societal cleavages and changes axes of socio-political divisions).

**There is no evidence that would back an eventual hypothesis that in the years political parties on the national level undergo such profound transformations, the process would remain irrelevant to the europarties. The studies focused on**

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<sup>18</sup> A. Lipjhart, op. cit., 2004.

the partisanship on the European level<sup>19</sup> prove to the contrary, that there has been ambition to transfer more of the national parties' characteristics onto the European level. With that in mind, and the changed character of the European elections, there is a need for the europarties to rethink who the target audience of their offer is.

The question is three dimensional. First of all, there is a need to look at the European voter without an illusion this time around that the multiplication factor of what used to be seen as "traditional electorate" and "convinced pro-Europeans" will together be a base strong enough to mobilise electorate and per extension ensure the electoral victory. This way of thinking is predominantly sentimental, as studies show that there is hardly anything left out of "traditional voters"<sup>20</sup>, as also that Europe in itself is a rallying factor.

Secondly, there is an issue of formulating an adequate question. If indeed the European elections are not going to be the elections of the second order, then the issue around which they would spin will only partially be embedded in the national context. Shall that be the case, the europarties should consider the challenge of a strategic voter emerging within the European context.

There is very little known on that within the European studies. Until now, scholars focused mostly on the issues of abstention or the question of support for radical groups and protest parties. There has been no linking tissue to look at a potential strategic vote otherwise, as the issue has always been entangled in methodology with research on the coalition-building mechanisms<sup>21</sup>. Especially that the electoral rules are still so diverse among the countries, making it very difficult to apply rules such as even most basic understanding of i.e. Duverger's Law. With different sizes of districts, different number of seats per district and different practice (preferential vote versus closed party lists), they prove to be offering insufficient knowledge.

That is made even more complicated by the facts that the conditions change from election to election. Until now the coalition building has of course not been really the practice at the EU level. With the politicisation of the European sphere, that of course can be changed. For the progressives that is an extremely important factor, especially if they were to try to frame the debate, as suggested before within the spatial dimension of "soft euroscepticism" and the "EU focus". Then however they may face emergence of strategic voters, who generally support certain lines – but would feel like preventing certain or ensuring concrete majorities<sup>22</sup>. These may lead to even larger fragmentation of the votes, support for smaller parties and as such may further contribute to enhancing the

19 I. Hertner, forthcoming)

20 see: C. de Vries, op. cit. 2012.

21 O. Kedar, *Strategic voting.*, blogs.lse.ac.uk/europapblog/2012/10/03/strategic-voting-orit-kedar 2012.

22 O. Kedar, op. cit., 2012.

tendency that is already known from the national level. This would mean further erosion or even break out of the current European partisan system based in number of ways on reproduction of the national practices in the matter.

Thirdly, with the gaining prominence of the Council versus the communitarian institutions, there is a question of how eventual coalitions made on the European level can transcend and reflect the coalitions from the national level.

### 3. Finally Entering a Real Competition

Because of the systemic set up within the EU, the matter of competition and intra-partisan conflicts has been seriously under-researched. It has been traditionally assumed that the europarties cannot and will not enter in such a competition, as they are neither seeking the office, nor primacy of concrete ideas. These two observations are likely to lose on their accuracy, with the ongoing constitutional and political changes.

With the transformation of the character of the euro-campaigns, with the new style of the campaign-leadership (that is to occur following the politicisation of the President of the European Commission post through the Lisbon's Treaty) and with the new format that the electoral manifestos are likely to take – this is expected to alter. **The introduction of an institution of “top candidate” means that the europarties will begin to “seek the office”.** **With the announced battle “for a different Europe”, the struggle for the primacy of ideas is also potentially to be the case on the European level. Herewith the new dimensions of the intra-europarties conflicts are emerging.** This means that a new methodological apparatus to adequately describe those changes will be required. It needs to be able to capture in a coherent picture the dynamic of the two pillars of the above described conflict, and per extension of the competition – which is likely to surface in the ideological and the institutional fields.

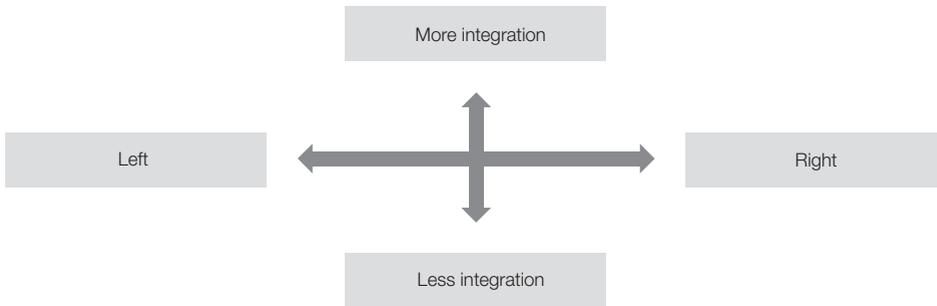
As far as the ideological one is concerned, the literature has proposed so far two ways of describing potential intra-partisan conflict. The first one was suggested by Tsebelis and Garrett, and is predominantly two-dimensional. It associates the left of the political spectrum with ambition for high degree of regulation (and interventionism), while it places the “low regulation” paradigm with the right. The graphic<sup>23</sup> would therefore present itself in a following way:



At the same time, Hix and Lord recommend a different way of looking at the issue, by proposing model according to which one could distinguish also degrees of 'leftism'

<sup>23</sup> following G. Marks & M. R. Steenbergen (eds.), *European integration and political conflict.*, Cambridge University Press 2004.

or 'rightism'. It would be accomplished by mapping the respective positions on the scale that shows the attitude towards the integration processes. Their vision is illustrated by a following graph:



Following those two, Hooghe and Marks proposed to put both the models above into one. This allowed them to map, for example, “regulated capitalism” in the top left corner, while placing “neoliberalism” in the bottom right one.

These models may have worked, if one would presume two conditions. To begin with, there would have to be an agreement that this modelling embraces the philosophy of the international relations’ models. This would imply that EU positioning is free from traditional societal cleavages<sup>24</sup>. And that, as the deliberations show is hardly possible to argue for any longer – seeing the EU entering the national political spheres.

Secondly, the models assume that the concepts such as “more” integration are neutral in their content. This is not the case, as, if to adopt the philosophy of the struggle “for a different course of Europe” – a slogan “more Europe” may not necessarily have positive connotations in this dimension. This would furthermore underline that the new models are needed to describe the conflict and hence the competition between the parties in both institutional and ideological terms.

### **- Development of partisan competition**

The previous paragraphs established that an eminent transformation regarding the European partisan system is bound to take place. Even though it may prove to be impossible to establish its exact extent, it is evident that it will be induced by the parallel impulses from both the national and European level. These in short could be classified in a following manner:

<sup>24</sup> G. Marks & M. Steenbergen, *Understanding Political Contestation in the European Union*, Comparative Political Studies, Sage Publications 2002.

	National	EU
Systemic	Europeanisation of the national public sphere and nationalisation of the European issues	Lisbon Treaty constitutes impetus to a new style of campaign, leadership and the role of the europarties
Partisan	Decline of the traditional parties, emergence of radical alternatives and strengthening of the anti-systemic groups	Consolidation of the parties (especially throughout the crisis period) and search for stability in the light of the expected fragmentation of the European Parliament after the elections in 2014
Voters-related	Inquiry after the role of state (especially after the crisis) and hence the return of the debate on EU membership costs/extent of individual state's sovereignty	End of permissive consensus and search for a modern, inspiring idea behind the EU

The correlation of these factors on respectively the national and the European Union's levels could provide a powerful incentive for the parties engaged within the European political family to consolidate further under their auspices. That would strengthen the europarties evidently. Even if the contemporary times have been frequently described as the end of an era of ideologies (which the scope of this paper does not allow to further examine here), the table shows that there pragmatic reasons to do so.

First of all, **belonging to a larger federation of the parties is a convincing argument in favour of this party that in the context of the national debate wishes to be seen as credible actor able to transposition its promises into relevant actions on the EU level. But, consequently, the europarty in question needs to be capable to 'deliver' in exchange.** Secondly, communality of the problem of decline of the "traditional parties" invites them to set an exchange that would enable them to seek jointly new openings. That is of course, if to assume that they would be ready to leave a comforting denial zone. And that they would approach the issue from the angle of their own weaknesses and not exclusively from the perspective that any alternative grouping poses a threat. Thirdly, electorate's concern regarding the role of state, as also concerning costs and benefits of the state's membership within the EU are likely to continue. That fuels the debates, such as the controversy regarding eventual referendum on the EU membership of the UK. In their lights, the national parties (should they remain acting alone) find themselves in difficult positions – in which assuming earlier suggested position of "soft-Euroscepticism" with "focus on the EU" may of course not even be possible.

These developments within the national dimension constitute an opening for a new type of a debate regarding European Union and the integration processes. First of all, nationalisation of the European issues means that the national parties need to take a stronger standpoint on these. Herewith the politicisation of them is likely to advance – within which waves the national parties need to ensure that the positions expressed by them are coherent with those proclaimed by the europarties. With the provision of the

Lisbon Treaty in place and the new style of a campaign to emerge, they will need to seek to reach more than declarative consensus (or as the critics would say: lowest denominator). To the contrary, by the joint efforts they would need to seek to clarify and sharpen their European positions, which is likely to cause both internal and external debates. The later one are likely to at least partially take shape of the debates among the ‘top candidates’. The end game of these is to establish clear differences among the europarties – which in case of progressives could be their chance to present themselves as a parliamentary, constructive opposition to the current taken by Europe nowadays. It is the politicisation that lays at the core of potential for establishing a feature and claiming the space of organised opposition<sup>25</sup>, which in itself seems most effective strategy to counter balance the voices raised by the anti-EU (anti systemic forces).

Secondly, there is clearly an opportunity to shift the conflicts regarding the EU and its future onto another, this time intra-partisan dimension. Of course, it is essential, as Peter Mair<sup>26</sup> argued, to drop the assumption that an overall consensus on Europe is either existing or still feasible to achieve (even among the elites or the mainstream electorate). **The EU is neither particularly popular among the voters nor truly trusted at this point. But the opportunity may arise, if shaping its future is made a matter of citizens’ choice. This understanding, deriving from Dahl’s supply-side theory of political competition would therefore mean that the europarties, and among them especially the progressives, would need to succeed in spelling out what their distinctive (contradictory to others) vision for the future of Europe.** And moreover, to imprint the same narrative onto their member parties on the national level. They would need to prove that the elections are not only called ‘historical turning point’, but they indeed can become a matter of choice of a representation that would pursue the chose path for Europe. And that offers bases for establishing a new intra-partisan competition in terms of “issue-seeking”.

### **- Re-assessing the power issues**

Embracing the idea that the “traditional” europarties are to compete, and that first and foremost they would contend themselves is not as natural as it may seem. Even if there has always been an understanding based on “we” and “they” among them, in general this logic would rather serve strengthening their initial negotiating positions while debating EU legislative proposals. They were sort of ‘game opening announcements’, with all partners involved operating under an assumption that at the end of the day a “reasonable” compromise would need to be reached by everyone in order to proceed at all. Any other

<sup>25</sup> After P. Mair, *Ibidem*; V. A. Schmidt, *The EU and National Policies.*, Oxford, Oxford University Press, 2007.

<sup>26</sup> P. Mair, *Political Opposition and the European Union*, [in: ] *Government and Opposition.*, Nr 42 (1), 2007, pp. 1 – 17.

way could pose a threat to a “well functioning” rotating system that served while choosing representatives for the EU leadership positions.

The pre-Lisbon Treaty system would indeed allow such rationale. But after 2008 the situation has changed, especially with the provision stipulating that the next President of the European Commission would emerge through elections as the eminent of the largest group in the European Parliament. That meant that there would not be any other compromise or alteration mechanism possible (as it remains in case of the Presidency over the European Parliament). **It also imposed on europarties adoption of a different attitude regarding the principle of representation. They would no longer benefit from “claiming acquaintance” with the representatives elevated through the power of their national parties, but would need to ensure nomination of their common representative(s) themselves. This required from the europarties dropping the emphasis on ‘coordination’ of agents and focus on ‘consolidation’ of strengths instead.**

This change has been overshadowed by the deliberations regarding the personalisation of the campaigns and personification of Europe in front of the voters. It is a pity, as in so far the fact that the content and quality of political representation has been changing skipped the overall attention. Returning for a moment to the earlier literature, and here especially again to the deliberations by Peter Mair, it is instructive to quote a reflection that the strength of a political mandate depends in how far the dimension it concerns is also the actual space within which really important decisions are being taken. Since it is still predominantly the European Council where the decisions regarding the European polity would take place<sup>27</sup>, through a power to nominate a candidate that EC would at least need to consider in setting a balanced European Commission, the europarties gained a new opening. They could officially present themselves as collectively competing for a political office.

This new task would benefit them in many ways. First of all, they were in a position to influence the dynamic of processes, instead of only offering a space for others, already engaged actors to discuss and restrain themselves to only commenting upon the developments. What they would be doing in the electoral context would matter, and herewith the new, stronger link between democracy and party democracy was established. That is even if that was not as enhanced as on the national level, where nowadays it would be hard to imagine elections without the europarties.

Secondly, they gained new cards to play with. Though promoting a common candidate would be the main mission, the objective was to grab a power position – and here, even if fading away, the legacy of the logic of a permanent “grand coalition” would appear helpful. A good, even if not the best result, would enable the respective europarties to claim in

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27 P. Mair & J. Thomassen, *Political Representation and Government in the European Union*, [in : ] *Journal of European Public Policy*, (17), 1, 2010, pp. 20 – 35.

the spirit of “balance” some other positions than the one of the President of the European Commission. And they would be the most natural forums to discuss a common strategy, during the campaign and afterwards, ahead of the decisive summits.

These developments showed that there is a potential for europarties to reach even further. The invention of a “top candidate” should therefore be seen as an initial step, which is likely to be followed by the subsequent ones. The new prerogatives mean that the europarties can and should assume more ambitious missions. These are related to both preparing and organising campaigns, as also to becoming the relevant representatives in the negotiation processes. There the europarties can begin to compete both regarding the issues (by setting mandates for the legislative terms for the EU respective institutions), as also regarding the distribution of the offices. In order to advance on that path, they would need to remain open towards subsequent possibilities.

In the context of agenda setting, the eventual increase of their power would lay in identifying the issues through advocacy of which they would prove themselves distinctive. That would mean setting the electoral Manifestoes in a shape of clear political pledge, instructive note for the representatives within the European Council and consequently a mandate to execute by officials in the European Parliament and the European Commission. It would also predetermine which portfolios in both the institutions would be crucial to secure ability to launch new proposals. And that would place the europarties in a position of strategist and negotiator, rather than the past one of the lobbyist and commentator.

Furthermore, the europarties would need to consider further internal processes. While the 2014 would be seen as milestone in terms of setting a practice of selecting a “top candidate” and here through would change their organisational culture, it would still be only the first step. The next ones would need to touch upon the processes leading to nomination of the rest of the College of the Commission, with a special attention to the strategic orientation of the europarties, gender and geographical balance, and of course political realism. The procedure should at least involve hearings within the respective europarties, which should have a collective say on the candidate before finding themselves in a situation in which their role is reduced to merely defending them at the beginning or end of the mandates. To that end, not to exclude is an idea of the transnational europarties’ lists. In that way they would become even more the “power seeking organisation”, which is an argument sine qua non of their further strengthening. That is especially, that most likely the struggle that they would need to take on in this particular dimension would be less amongst themselves on the EU level – and more on the demarking line between the EU and the national parties.

## **The future of Europarties: dropping old consensus, seeking new coalition and assuming another competition**

The paper is composed of 3 Chapters, each of them respectively taking a challenge of addressing three issues: consensus, coalition and competition. Each of them has been the opportunity to review the existing methodology, showing the case that a new apparatus to comprehend and describe the profound transformation of the European partisan system is necessary.

The first Chapter devoted to the questions of consensus showed that an erosion of the existing concept of European consensus offers a political space for the europarties to transform. The issue was analysed predominantly in two aspects. The first one related to an observation of a “broken permissive consensus”, while the second focused on cracked consensus among elites regarding content of pro-European standpoint.

The second Chapter looked at how the ongoing changes can transform the understanding of consensus, broadening it with a new concept of coalitions. There were two angles that the research features. The first one looked at the changing role of the manifestos, and the second at the questions of representations and legitimacy. This is why there was a case made for in how far the political and social citizenship could be linked together, and if they translated and in how far re-engagement of the voters into the partisan (and per extension euro-partisan) politics.

Finally, the last Chapter looked at the potential transformation of europarties through the prism of emerging axes of intra-europartisan conflict. The challenge here was primarily to construct a more adequate model, which would go beyond traditional one or two dimensional analyses and herewith could provide a more adequate way to look at the intra-partisan competition and into the quest for power of new quality.

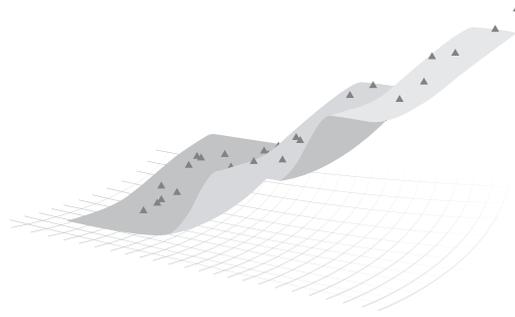
All these deliberations have been conducted, while making a reference to the empirical examples from within the progressive family. However with still many questions at hand, it would seem nevertheless, that there is a sufficient opening for the europarties to transform profoundly in the years to come.

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# **Biographies**



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**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.



**Renaud THILLAYE** is deputy director of Policy Network and lead researcher on EU affairs. He focuses on EU economic and social governance, the Single Market's agenda, EU institutional debates and the UK-EU relationship. He also comments regularly on French politics. Renaud is a graduate from Sciences-po Paris and the London School of Economics.



**Dimitris TSAROUHAS**, Dr. is Acting Chair and Jean Monnet Chair at the Department of International Relations at Bilkent University, Turkey. 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 *New Political Economy*, *Public Administration*, *Social Politics*, *Social Policy & Administration* and *Southeast European and Black Sea Studies*.



**Ignacio URQUIZU**, born in 1978, has a PhD in Sociology at Complutense University of Madrid and is PhD-Member of Juan March Institute. At this moment, he is Associate Professor in Sociology at Complutense University of Madrid and collaborates on Alternatives Foundation, where he was Subdirector of Estudios de Progreso. He has been Visiting Fellow at the Institute for Quantitative Social Sciences at Harvard University (Cambridge, EEUU), European University Institute (Florence, Italy) and University of Essex (Colchester, UK). Moreover, he has taught Comparative Politics at George Washington University (Madrid Study Center), University of Essex, Pablo Olavide University and Universitat Oberta de Catalunya. He is author of "La crisis de la socialdemocracia: ¿Qué crisis?" (Madrid: Catarata), manage a book collection about social democracy and author of journal articles and chapters on electoral behaviour and positive political theory.



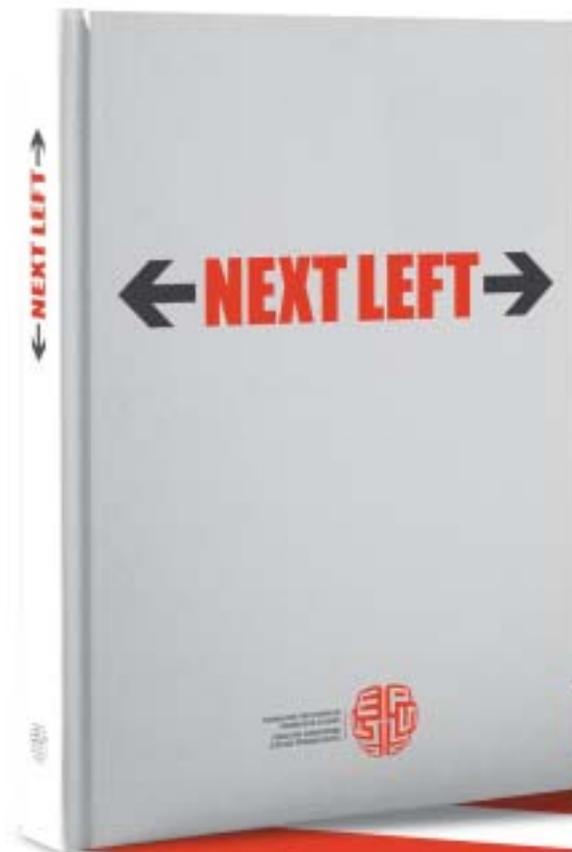
**Pascal ZWICKY**, born 1979, works as a political secretary for the Social Democratic Party of Switzerland. He is responsible for the issue management and advises the party in questions of the strategic direction and communication. P. Zwicky is a member of the FEPS Next Left Focus Group. Currently, 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.



# **FEPS Next Left Publications**

**“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.

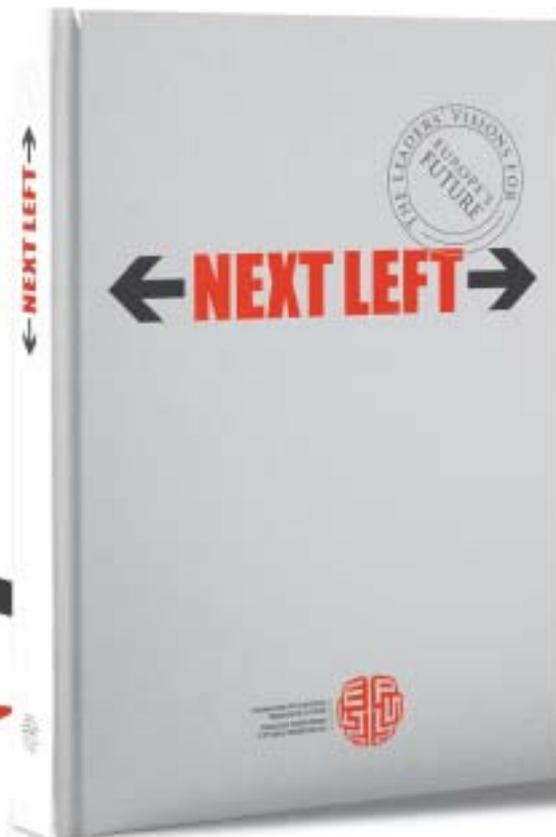
Volume I opens with the reflections by Poul Nyrup RASMUSSEN, President of the PES and former Prime Minister of Denmark; and of Dr. Alfred GUSENBAUER, Chair of the FEPS *Next Left* Research Programme and former Chancellor of Austria. Their conclusions bridge with the unique collection of interdisciplinary 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 PAPANDEOU, Jose Luis RODRIGUEZ ZAPATERO, Poul Nyrup RASMUSSEN, Alfred GUSENBAUER, Borut PAHOR, Jutta URPIAINEN, Eamon GILMORE, Caroline GENNEZ, Elio DI RUPPO, Jens STOLTENBERG, Werner FAYMANN.



**“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.

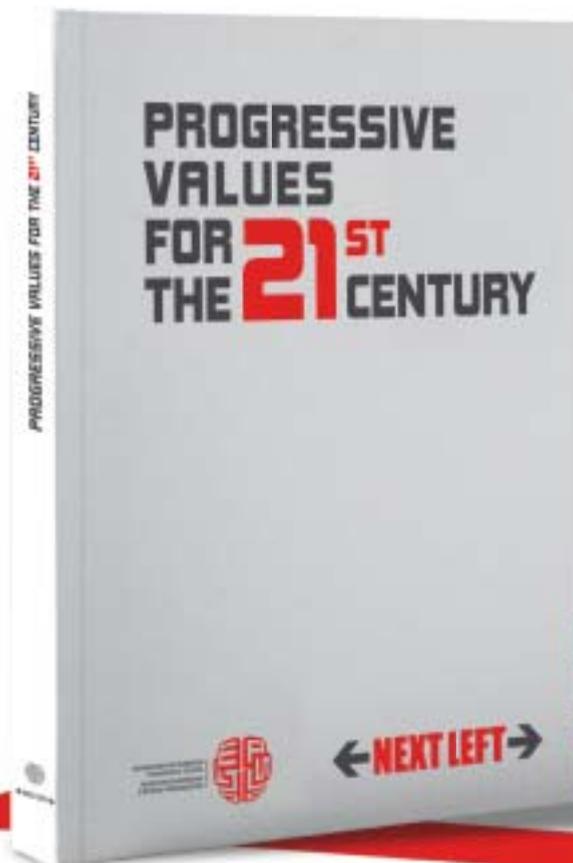
### **Featuring**

Irene RAMOS-VIELBA, Catherine de VRIES, Laurent BOUVET, Jan ČERNÝ, René CUPERUS, Florin ABRAHAM, George SIAKANTARIS, Attila ÁGH, Daša ŠAŠIĆ ŠILOVIĆ, Klaus MEHRENS, Rocío 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.



**“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.

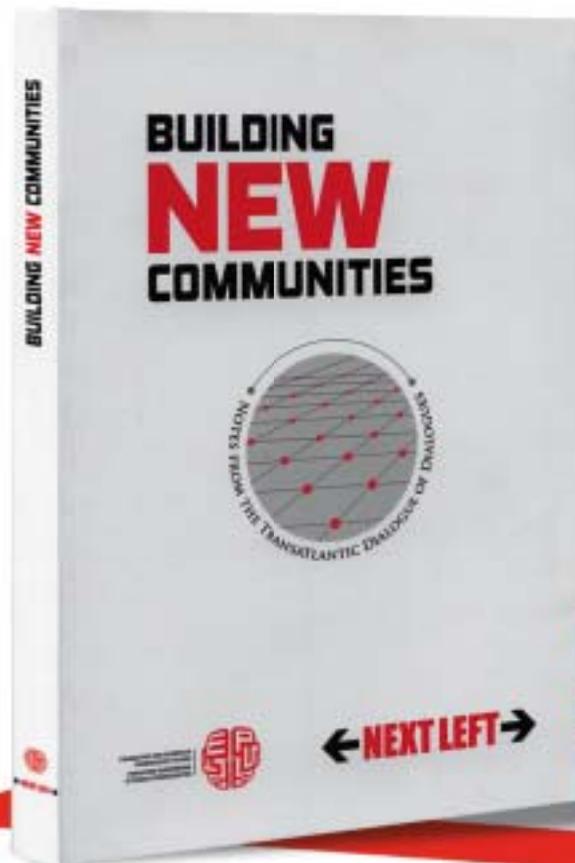
### **Featuring**

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: 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:

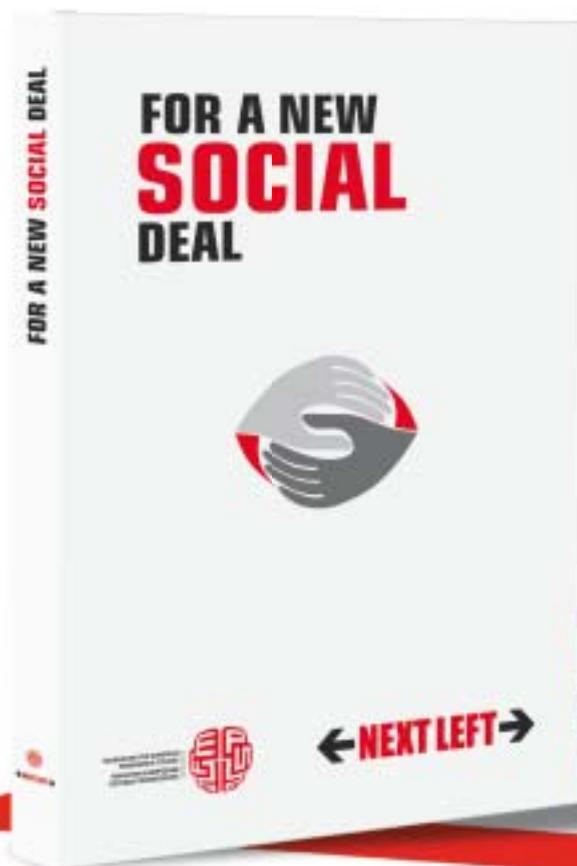
Gianpaolo BAIOCCHI, Cornel BAN, Rémi BAZILLIER, Patrick DIAMOND, Yannis Z. DROSSOS, Karl DUFFEK, Ernesto GANUZA, Paolo GUERRIERI, Alfred GUSENBAUER, José ITZIGSOHN, David KENNEDY, Michael D. KENNEDY, Ricardo LAGOS, Oscar LANDERRETCHE, Roger LIDDLE, Vivien A. SCHMIDT, Juliet SCHOR, Ania SKRZYPEK, Ernst 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



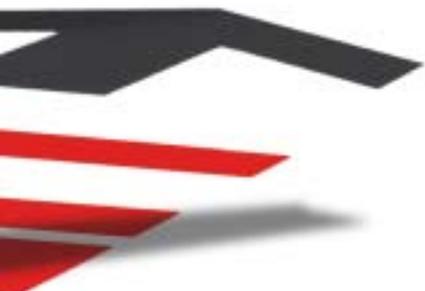
are being discussed in details. Hypothesis emerging lead to a conclusion of inevitability of modernisation, of which course should be steered by principles of empowerment. Hence the concept of “equality of autonomy of individuals” is carefully examined as an essential condition enabling people to actively 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.

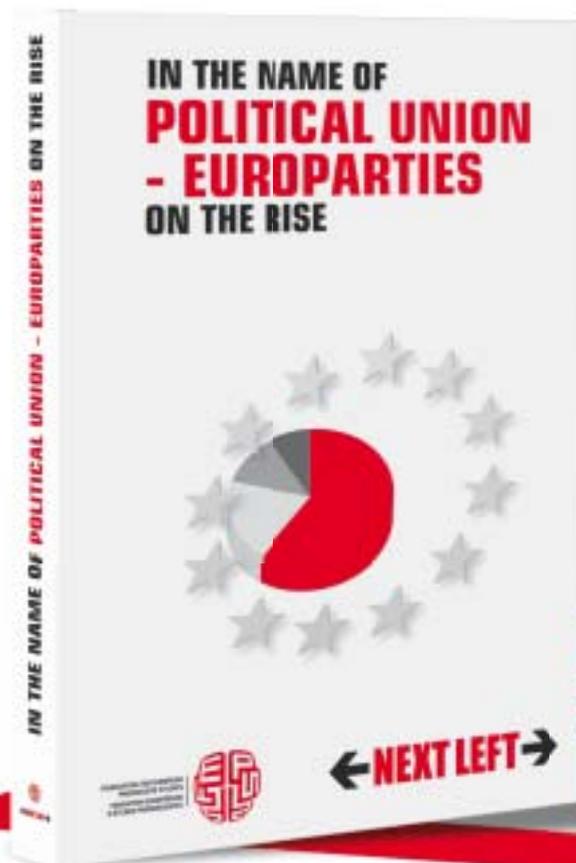
**Featuring:**

Rémi BAZILLIER, Andrius BIELSKIS, Patrick DIAMOND, Karl DUFFEK, Alfred GUSENBAUER, John HALPIN, Ania SKRZYPEK, Ernst STETTER, Dimintris TSAROUHAS, Ignacio URQUIZU.



*“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.

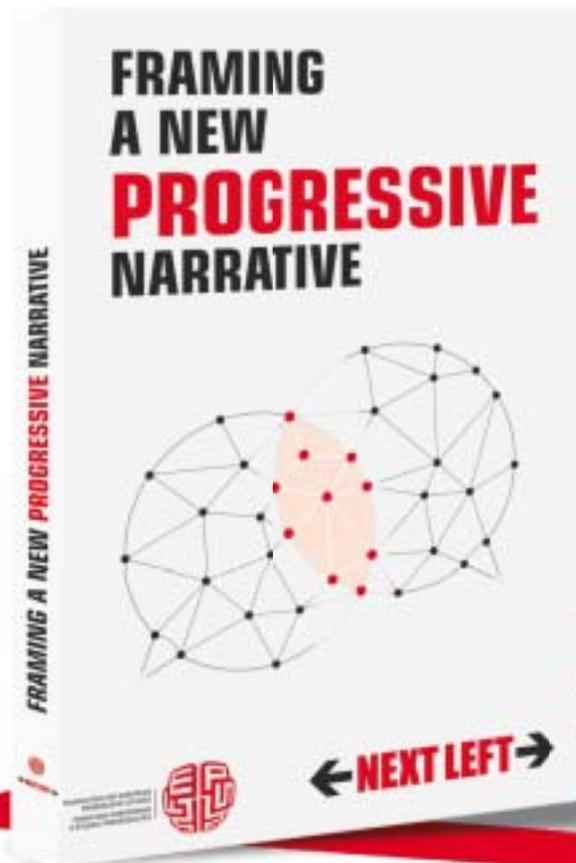
*"In the Name of Political Union: Europarties on the Rise"* constitutes therefore a great collection of analyses, which paint an accurate panorama of political and partisan landscape on the European level. The deliberations are anchored in original research, which links both academic methodology and 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.

*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

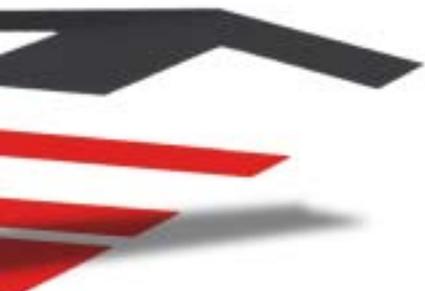


require restoring sense of politics, while proving that the dividing lines are not only between the pro and anti-systemic movements, but actually alternatives can be distinguished while choosing between the democratic left and right. It would need innovative approach to economy, while redefining the 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 HEMERIJCK, Rupa HUQ, Inge KAUL, Michael D. KENNEDY, Matjaz NACHTIGAL, Esther NIUBÓ CIODONCHA, Monika SIE DHIAN HO, Ania SKRZYPEK, Leopold SPECHT, Ernst STETTER, Dimitris TSAROUHAS.



**“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 ambience 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?