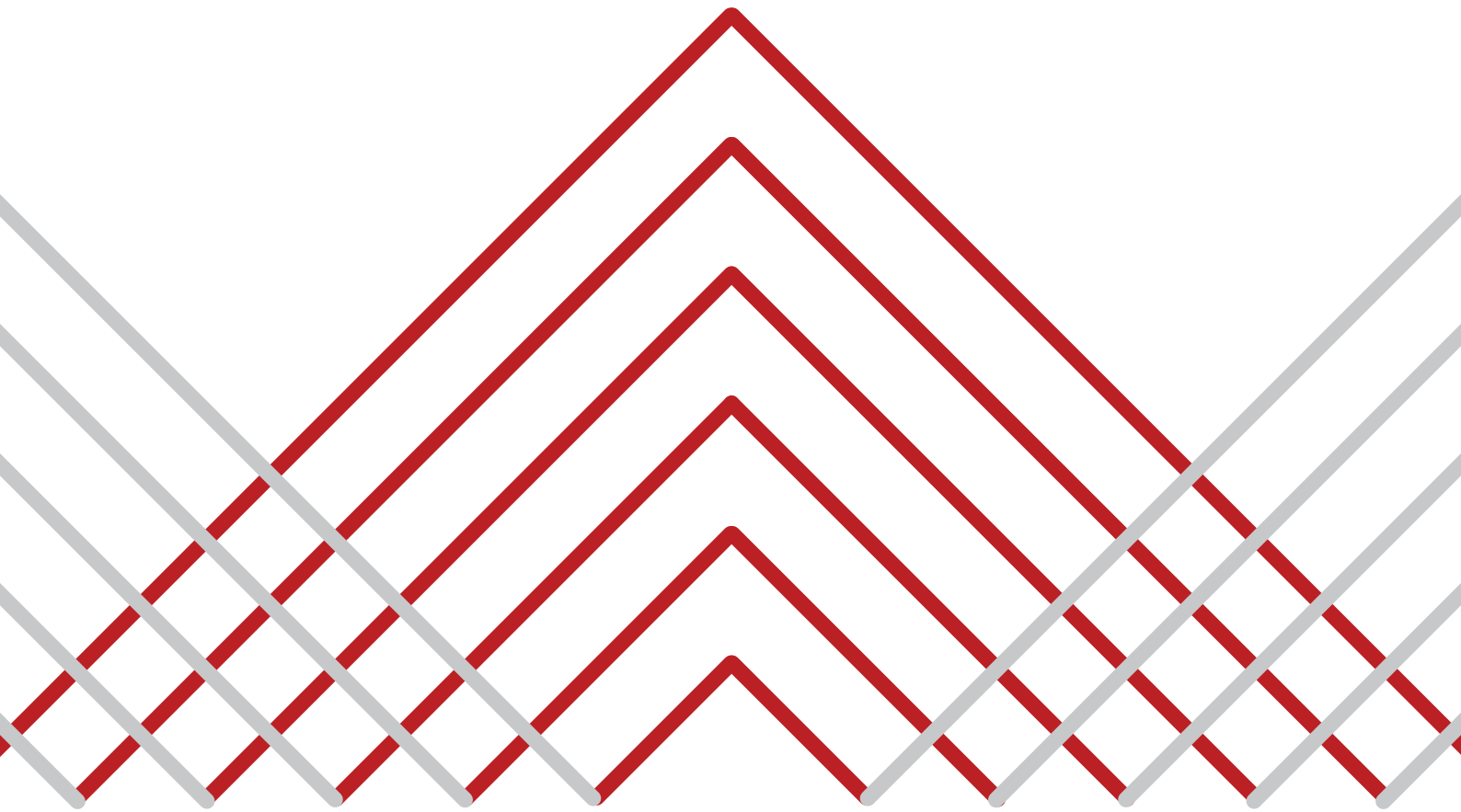




# Progressive Ambition: how to shape Europe in the next decade





PROGRESSIVE AMBITION:

how to shape Europe  
in the next decade



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Andreas SCHIEDER

**Preface**  
**The EU's post-2024 priorities**  
**to become strong and socially just**



The year 2024 is often called the super-election year. More than 60 countries, including Pakistan, India, South Africa, Russia and the USA, are holding elections. Half of the global population is being called to cast its vote. The quality, freedom and democratic standards differ significantly and not all elections can be seen as fair. When looking at these countries, we see that holding elections does not automatically mean that it is a democratic society. Nevertheless, the super-election year has an influence on the course of the global situation. In the last decade, the world has become more complicated and more insecure. Olaf Scholz, Germany's social democratic chancellor, called this changing environment the "*Zeitenwende*".

In less than four months, 6–9 June, the European elections will take place. A crucial, decisive moment in European history and for the 450 million EU citizens. It is probably more important than any other previous European election. As the world gets more and more insecure and complicated, this unstable global environment makes the importance of a united, strong EU as an area of fundamental rights, fair chances and stability clearer. Will the EU be able to act with a united front and quickly enough? Will the EU have the means and structure to react to global challenges?

As European integration is a work in progress, these questions are not easy to answer. However, the 2024 elections go far beyond normal discussions. National, populist-right and extreme-right parties are getting stronger and might also get more support at the European elections and more seats in the European Parliament. This is a threat to European integration. The EU was founded as the antithesis to the inhumane catastrophe of nationalism and two world wars. The EU is a post-national democracy, and we should not allow nationalists to destroy it.



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What is behind the rise of right-wing parties? Right-wing populist movements cannot be explained as being just on the political fringe. During the past years, they have reached influencing positions, or even formed governments in several European countries. Different examples of the situations in Hungary, Italy, Austria, Sweden, Poland or the Netherlands show the rise of the right wing. The context of their power gain and the reasons or political situations in each country are very different, but they all have the following in common: the right wing is exploiting the momentum of these uncertain times. They also have other shared similarities, for example, whenever they have reached positions of responsibility within a country, the social security nets have become less stable, their own amount of corruption has grown and the established links to Putin have strengthened. But is the rise of the right wing a European phenomenon? No, we see similar trends in the USA, India and other countries.

### **How to react to this trend**

The distance from the political fringes to the programmatic approach of the European conservatives (EPP) was not far – some in the democratic centre-right parties think they can stop a possible voter shift to the extreme right by adapting their politics to the extreme right. A stupid and dangerous mistake. In the end, it will not work: why choose the copy instead of the original? Additionally, this behaviour is also weakening the EU and its ability to be an answer to future challenges.

For progressive politics, it is important to focus on future challenges and, as the FEPS Next Left project in general and this book specifically shows, there are ideas and concepts for how to shape a positive reform of the EU. The world needs a stable, strong and united Europe. The more the world is shaken, the more the EU has to be the pole of stability, fundamental rights and a vital democracy. And we should



also not forget Europe's contribution to global progress by innovation, science and modern industry. What we need is an EU industrial policy that aims to strengthen the competitiveness of EU industry and to promote a more sustainable, resilient and digitalised economy that creates jobs. Through COVID, we learned that strategic autonomy has to be improved in some sectors. Fairness in global production needs to be strengthened; we need to eliminate child labour and exploitation and enhance social and working conditions throughout the full supply chain, but also protect our high European standards at the same time. A just and sustainable economy needs rules for companies to respect human rights and the environment in global value chains – the EU Directive on corporate sustainability due diligence is such a milestone. Nevertheless, although it was long and well negotiated, and all necessary compromises had been made, a cynical coalition of the centre right, liberals and extreme right are trying to impede this historic law at the last milestone.

## **Lookout: How to have a strong EU**

If we want to have a strong EU, we need to tie our social nets tighter, regardless of whether it concerns the European minimum wage, the child guarantee or a regulation for the newly exploited platform workers. It is not the unleashed globalisation we want, but fair conditions for all that we need. Digitalisation brings many benefits to our society, but also new risks. The EU was the first to introduce legal initiatives to provide a regulatory framework for the digital Wild West and to combat hate speech.

Speaking of industry policy, we need more research, new social justice, and to modernise our social and technical infrastructure – for all that, we need European programs to finance this. The European financial policy has to be more flexible to allow necessary investments.

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The neoliberal paradigm of austerity has shown its negative impact on the resilience of our societies.

The climate crisis is real and has already arrived in our lives. It is the responsibility of politicians to understand this. There are those who tell us that we have to radically change our lives individually, and those who are denying the existence of climate change altogether. A modern social democratic approach is exactly in the middle – acknowledging the negative impact of climate change and working on answers, but in a socially just way. We see the adaption that comes with the challenge: we have change happening, in terms of future new, green jobs, with the chance to strengthen the European economy by greening it. We need to be aware of the social impact and just distribution within our economy. A functioning Green Deal needs a red heart.

The circumstances are not easy, the challenges are not simple and neither are our concepts; however, our goal is simple and just: a good life for all. The fight ahead of us is not an easy one – but our democracy can only be defended by making it a social democracy.

**PROGRESSIVE  
AMBITION:  
HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?**

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Andreas SCHIEDER, László ANDOR, Maria MALTSCHNIG & Ania SKRZYPEK

# Foreword

## Progressive Ambition: how to shape Europe in the next decade



The legislative mandate 2019 - 2024 has been a turbulent period. Already at its start, it was obvious that there would be no shortage of challenges. And, consequently, the EU would have to profoundly transform itself to remain all for what it is praised for, namely: a vision of a more prosperous and fairer future for all, a Community that flourishes thanks to the joint members' commitment to fostering a unique socio-economic model; and a global power that stands for indispensable values underpinning the ideal of a better, more sustainable and multipolar world. There was a sense of urgency, especially with the very slow recovery from the financial crash and persistently growing inequalities, with the climate strikes and the most worrisome reports concerning the climate, and finally the repeated claim regarding the EU's democratic deficit and citizens' disenchantment with politics. But there was also hope, with some rather courageous proposals on the "Brussels" table and commitment to use the following 5 years wisely – building momentum for a major leap forward.

What happened next, however, was very different from any of the predictions from 2019. Partially, because what had been recognized as potential risks turned into a set of threats. Jointly they contributed to the reinforcement of the *polycrisis*, of which specific elements were added by the COVID pandemic and its impact, and by the Russian invasion of Ukraine and the consequences the war in Europe brought. The scale of the challenge ahead of the European Union wasn't the periodical debate about how to reform the EU anymore, but rather what to do to persevere and prepare it for what comes next. This greatly altered the ways of thinking about Europe's future, enabling also at several high pressure moments to turn hypothetical debates into implementable policy initiatives. It was remarkable how the old saying *need*

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is the mother of invention kept being proven right, with what used to be unthinkable and considered *vastly irresponsible* being now voted, adopted, and instigated.

This was a profound change, as it shifted the demarcation line, which used to split the idealists from pragmatists. And that transformation was to be more permanent. For Europe, it was a brutal wake-up call to see that neither peace nor democracy nor life free of plagues was to be taken as given. Some called it a *Hamiltonian moment*, and others spoke about *Zeitenwende*, providing both critical analyses and a variety of options as to how to go about them. What came to the surface during those conversations was a retrospective regret that there was such little preparedness and such a meager set of potential scenarios that could be used in the face of subsequent disasters. The less kind words described that as a lack of foresight, and that also meant that the time had come to depart from the predominantly short-term type of political thinking and that credentials would be more and more dependent on the ability to stretch the respective horizons of political imaginations. With that, the criteria of “responsibility” or “delivery” had to be defined anew, and a more “out of the box” reflection about the future of the EU in the rapidly changing world would be needed.

And all this didn't just happen in the proverbial Brussels Bubble. On one hand, because it was such a trying period there was a sense of *being in it together* across many social groups. So, the initial common experience of the lockdowns revived some of the social networks. The process had such high intensity that many political stakeholders hoped it would translate into enduring support for a more active state with bigger investments in both public services and goods. These hopes were cherished and nurtured, even if it should have been clear that such a connection does not happen by default. And that in the end, the prolonged COVID restrictions did hit the more vulnerable harder and deepened social and political divides. On the other hand, there

was also a more implicit understanding of the argument that the biggest challenges of contemporary times cross over national borders. And that instigated the expectation and the openness to see more European (and international) cooperation. Perhaps it wasn't a full revival of *glokalisierung*, but some aspects of it were for sure.

This led to the domestication of European affairs, which fell onto fertile ground. The 2019 European Elections saw the turnout rise for the first time since the first direct vote in 1979. At the time, this came across as encouraging in general. But, the results and the subsequent division of the seats inside the European Parliament were not what the mainstream, so-called "traditional" parties would have liked. The assembly would be the most fragmented in history and would see a growing number of radical parties and independent MEPs. This phenomenon made navigating through the agenda and pushing through the key dossiers much harder. This EP's leaning to the radical right and the atomization of the votes is predicted to continue also into the next term, which will in turn possibly elevate a new type of engaged Anti-Europeanism and Euroscepticism. The latter tendencies are likely to be more pan-European than in the past when the strong anchoring of the parties representing these attitudes prevented them from decisively structurally consolidating forces. As such they will need to be responded with a greater force. The changing political map of Europe, the radicalization of the center-right, and the extremist parties growing strong enough to be part of governments are the phenomena that imply that anti-Europeanism cannot be challenged only during the duels inside of the EP or at the Summit. It has to be done consequently also within the national and regional level debates. And again, there is a greater than ever potential for that strive to be more successful and invigorating than ever, observing still growing pro-European sentiments in parallel (i.e. according to the Eurobarometer) and reminding oneself of the legacy of i.e. the Conference on the Future of Europe (which



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yes, was long overdue and faded away rather quickly, but showed how many well-informed citizens there are, ready to take part in the serious debate about the common future).

These thoughts are of course just an initial snapshot of a reflection on the political context within which the EU is moving towards the European Elections. The campaign is slowly taking off with the main European political families having announced their leading candidates and finalizing their manifestoes. The next months will see the mobilisation, the vote, and then the negotiations, especially regarding the so-called top positions. The European Commission's President-Elect will need to present the proposal for the agenda (with some short and mid-term goals), which then will also open a possibility for a broader debate inside of the European Parliament about the legislative period's priorities. But what will be taking place in the background (being started by the Belgian Presidency of the EU), will be a debate about the long-term vision and ambition for the Union. And to that particular context, being a mix of proposals of immediate actions and ideas that may further transform the Union (especially ahead of the anticipated-on enlargement process), this jubilee volume 15 of the Next Left Book Series – entitled "Progressive Ambition: how to shape Europe in the next decade" desires to contribute.

The volume opens with the Preface by Andreas Schieder, Leader of the SPÖ Delegation in the European Parliament, MEP and Chair of the Next Left (the research programme established in 2009 and powered ever since by FEPS with the support of the Karl Renner Institut). Within his contribution, he offers some insights into the work of the Next Left Focus Group that culminated with the papers included here. Which also serves as his departure point, following which he elaborates on the historical nature of the challenges that the Union is facing and tools (including financial ones) that can make it stronger (for both internal and external purposes). The answer that Schieder offers

regarding what to do connects with the indication of what determines the capacity and the scope of the governing power across the levels of governance nowadays.

This issue is further elaborated across the subsequent three chapters, which respectively bear the following titles: *Governing with progressive purpose in turbulent times*; *Forging a Resilient EU agenda*, and *Building viable coalitions for progress*. And each of these consists of 4 research papers that were developed within 7 months of desk work and underwent 3 rounds of peer reviews. While the initial questions were discussed especially with the Polish Progressive Leaders (during both closed-door seminars in Warsaw in May 2023, and subsequently during the round table at the Forum Postępu that was presided by former President Aleksander Kwaśniewski), but then, there was also an innovation at the end of the year, when the final seminar held in Brussels welcomed respective Members of the European Parliament. In the context of the latter, the organisers are wholeheartedly grateful to the honorable MEPs: João Albuquerque, Marek Belka, Brando Benifei, Matthias Ecke and Matjaž Nemeč for their respective most instructive and inspiring insights, as also to their respective Teams that enabled these valuable sessions.

The first chapter *Governing with progressive purpose in turbulent times* makes a point that the responsibility of keeping the course of the policies according to the compass of the party's (electoral) programme cannot be forsaken with an explanation being "the tough times". On the contrary, it must be upheld – consolidating the party's profile as a predictable stakeholder, undaunted in principles and able to forge a comprehensive approach to all the pressing challenges. And it is also about assuming responsibility, not only for providing imminent relief (crisis management), but even more so for the transformative processes that should continue for the sake of social progress for everyone.

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These notions are vastly deliberated in the paper by Patrick Diamond, who critically assesses *Bidenomics* asking pertinent questions in how far this growth strategy isn't burdened by ambiguity and truly redefined the relationship between the markets and states. Diamond suggests that this narrative alongside "*the new productivism*" also falls short in terms of describing a new benchmark for progressive modernization, and to that end is the anchoring point for the sustainable coalitions that should rise behind the Democrats in the US. The sense that there is need to develop a more comprehensive approach is also echoed by Tomáš Petříček, who discusses the diverse ideas that could guide a new framing for geoeconomics in the "post-hegemonic" world. His findings suggest concrete innovations, which could provide both: safeguarding and strengthening the EU's role in the world, and in parallel ensuring that the new global architecture isn't a default outcome of competition and power struggle. But instead, it is defined by principles such as democracy, social justice, and respect for human rights. While Petříček argues for the application of these while framing new international order, Elinor Odenberg's chapter shows in a very practical and pragmatic way, how they can be translated into new approaches in economic and fiscal policies within the EU and inside of the Member States. She points out the root causes of persistent inflation, and argues strongly in favour of redistributive policies and other mechanisms, which could ensure that the burdens of the polycrisis are shouldered more equally. Odenberg writes that this is high time to aim at different types of financial and monetary policies, as well as to place collective and price-critical goods under democratic control. The point that there is a need for greater, more transversal democratic scrutiny resonates in the paper by Ania Skrzypek, too. She investigates how the popular discussion about the EU and its powers altered in this culminating, turbulent legislative period. Her focus remains on what the ongoing tectonic political shifts and the transforming character of Euroscep-



ticism will mean when it comes to the space for joint, multi-layered governance in Europe.

Consequently, the second chapter *Forging a resilient EU agenda* aims to review the existing concepts that social democrats have taken pride in promoting as their very distinctive vision for the EU. While looking at the premises within the flagship, concepts such as Social Europe have been articulated, the authors try to identify the scenarios within which the core promises that these agendas have brought, could continue being implemented and could guarantee further modernisation. Undoubtedly, within the past 5 years, the progressive family representatives managed to secure for themselves determining political portfolios (especially inside of the European Commission) and key EP reports. They have been at the forefront, shaping the debates in regard to triple transformation (green, digital and demographic). This translated into forging much of the desired primacy of European politics on one hand, and on the other remains a great legacy. And that it's bound to live on, as their initiatives have not only been transformative at the given moments but laid strong foundations for further equitable, sustainable, and socially just developments.

Within that context, the natural ambition is to ask to aim higher. Consequently, Eunice Goes argues in her article that Social Europe has to remain focused on the question of how to further empower employees and workers. For her, the key is through the revival of such concepts as economic democracy, for which she offers a revamped definition and a list of concrete proposals on how to implement such an ideal. They include further progress and deepening of the European Pillar of Social Rights, ending of abuse practices (such as bogus self-employment), and more co-decision-making powers for the workforce. What seems to emerge from this paper is that such an agenda could be powerful in counterbalancing such narratives as the abused slogan of *taking back control*. A similar tone runs across the collaborative

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paper by Juliana Chueri, Carlo D'Ippoliti, and Dimitris Tsarouhas, who devoted their efforts to looking at how diverse disruptions and twin challenges of technological progress indicate a need for a new type of active industrial policy. They argue that the EU would have to find ways in which innovation is turned into a source of productivity and that in turn provides outputs that contribute to prosperity for all. And, to that end, a new type of development plan, with a horizontal approach, well-balanced incentives and mitigation schemes to cushion negative effects is necessary. This is also their answer as to what to do, once the EU reverses the current exceptions and curbs the flexibility of state aid.

As the leading thread of this chapter is about *forging a resilient EU agenda*, it inevitably brings forward the challenge of how to design the very needed reforms and which policy areas, more concretely, would see the expansion of the communitarian methods. That topic is the focus of Marius S. Ostrowski's paper, which offers an ambitious 10 points action plan that could help resolve the existing tensions splitting the Union (between North / South, Euro-zone and others, Frugal and their opponents, West and East, Net payers and beneficiaries etc.). Among them, Ostrowski deliberates on how to foster solidarity with, what he names "an explicit progressive political economy of European culture", and in parallel on how to create a distinctive layer of EU-level entitlements that would give more material content to the notion of "European citizenship". These could be the elements for a further recovery boost, which is among the points included in the final paper of this chapter by Brian Shaev. He argues that reforms and innovations should be pursued with a greater picture in mind – exemplifying that with proposals on how to restructure the EU competition policies. Shaev's policy recommendations include several measures, whereby he insists (similarly to Goes, making herewith a parenthesis to that chapter) that alliances need to be built to challenge hegemonic neoliberal claims (still persist-

ent, as he writes, over the European economic governance) and they need to strive for greater accountability for industrial policies (towards workers, employees, trade unions etc.)

With whom and how to build those partnerships for change is then logically the leading preoccupation for the authors, whose four respective papers are included in the final third chapter: *Building viable coalitions for progress*. Their cross-cutting reflection is that the world of politics and its connections with broadly understood societies have changed. The comfort of concepts such as core electorates is an illusionary one, especially looking at the volatility of the voters, the polarisation of views, and the subsequent fragmentation of the political spectrum. More precisely, there is a greater diversification of the factors that make citizens throw their support behind one or the other party – with age, gender, education, and localisation increasingly creating inner-group divides. To illustrate this point, it seems that young men are more and more likely to get carried away with the extremists' appeal, while at the same time, young women would still be a dominant group among the voters of the progressive parties. The demarcation lines grow bolder and they make consensual type of politics hard to pursue and subsequently defend.

That is also an observation shared by Anna Pacześniak, who predicts that the trend of seeing the advancements of parties sceptical towards EU integration is unlikely to cease after the EU elections. She believes it will intensify, especially if the discussion to reform the Treaties will seriously take off. Her fear is also that the same organisations may attempt to further break the unity over the question of Russia and that must be prevented with all full force available. There is a question that connects the paper by Pacześniak with what Kaisa Vatanen tries to investigate in her subsequent article, namely what can the progressives concretely do to turn the trends. She observes that all the strategies applied so far have not been without faults – the ones

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focused on deliverables have placed social democrats in a kind of transactional relation with the voters, and the ones focused on larger questions (like migration) found progressives not infrequently internally divided. Vatanen concludes that the march of the right-wing cannot be halted if treated as a battle against one political opponent, but instead should be brought into a quest to safeguard and improve democracy as such.

This is a strong argument, also if to remember that the above-described transformation of the political spectrum affected the demarcation lines among the political movements. The right-wing radicalised, the liberals found themselves in a squeeze among others pursuing the moderate votes in the centre, and social democrats have been trying to preserve their position as the primer actor of the centre-left. Against this backdrop, sometimes Progressives indeed faced a challenge of consistency (which Vatanen eludes to), and sometimes – as the next paper by Konstantin Vössing stipulates – were “playing safe”. Looking at the latter, Vössing asks the pertinent question of how far social democrats lean into becoming a party of conservation that wants to protect and defend but is less vocal about the definition of modernisation and progress. His advice is to be bolder and think in frames of metaphors, with him directly proposing “building a house” to be a good one to use. For him that naturally creates the idea of *togetherness* and the need to assume responsibility for one another, which according to Felix Buzlaff – the author of the paper that closes the collection – is a key ingredient to any durable fellowship between parties and social movements. Buzlaff is convinced that such a partnership is within reach, however both sides will need to learn much about one another and drop some of their earlier perceptions. For the social democratic parties that implies a deep self-reflection, within which they will accept the organisational and intellectual independence of the movements on one hand, and on the other they will recover their roles not only as

organisations channeling specific social groups' interests – but also as *schools of democracy* themselves.

To sum up, there is undoubtedly a great richness in the content of the carefully crafted and systematically reviewed papers that this collection includes. Each of them attempts to offer a critical assessment of the contemporary challenges (especially from within the EU context) and provide a set of ideas that could inspire some courageous strategies. The horizon for the deliberations is the one that stretches between the moment just after the upcoming 2024 European Elections and the mid- long-term future. While they are diverse and drafted respectively by authors from both the worlds of academia and politics, they provide a coherent picture. Most importantly, by pointing to the way ahead – they carry a strong belief that social democracy's historical mission is far from being completed and that along the big tasks it needs to measure up to – there is potential and there are reasons to expect great things from it yet again.







**Governing  
with progressive purpose  
in turbulent times**

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Patrick DIAMOND

## **Learning from the US Mark II: The UK Labour Party's recent adoption of Bidenomics**



**Abstract:** This chapter charts the emergence of 'Bidenomics' and its growing intellectual influence on policymakers within the British Labour Party during a period in which there is an increasing likelihood of the party returning to power at the next election. The influence of Bidenomics is not in itself surprising given that Labour in the UK has long sought to learn from American experience and has an enduring ideological affiliation with the US Democrats. Nonetheless, the chapter argues there are potential pitfalls in too uncritically assimilating the Biden administration's political and policy strategy. For economies such as the UK, the major structural dynamic is still the long-term transition towards a service- and knowledge-based economy. Moreover, despite Brexit, there is a compelling argument that the centre left in the UK should learn from European models and nascent approaches to economic management that strike a productive balance between democracy and capitalism.

**Key words:** macro-economic policy, industrial strategy, green investment, democracy, capitalism.

## 1. Introduction

In the summer of 2023, the British Labour Shadow Chancellor, Rachel Reeves, made a high-profile visit to Washington DC to underline the party's commitment to "Bidenomics": an activist government approach to economic and industrial policy that replaces neo-liberal Reaganomics with a new era of state engagement in the economy and supply-side reform.<sup>1</sup> Bidenomics is particularly associated with the Inflation Reduction Act (IRA), legislation that seeks to tackle rising prices across the US economy by focusing in particular on the transition to green energy. In the Starmer/Reeves era, the British Labour Party's argument is that there is a new "Washington consensus" emerging, which seeks to supplant the neo-liberal economic settlement to prepare advanced economies for future challenges in the wake of the 2008 financial crisis, the aftermath of the Covid-19 pandemic, the competitive threat posed by rising economies such as China, alongside growing resistance among voters to market liberal policies, notably the disruption caused by free trade. Yet the precise shape of this new economic settlement is yet to be determined. The US economist Dani Rodrik (who is advising Labour in the UK on industrial policy) has argued: "Today we are in the midst of a transition away from neo-liberalism, but what will replace it is highly uncertain".<sup>2</sup>

The main purpose of this chapter is to chart the emergence of Bidenomics and its growing intellectual influence on policymakers within the British Labour Party during a period in which there is a growing likelihood of the party returning to power at the next election. The influence of Bidenomics is not in itself surprising given that Labour in the UK has long sought to learn from American experience and has an enduring ideological affiliation with the US Democrats. Nonetheless, this chapter argues there are potential pitfalls in too uncritically assimilating the Biden administration's political and policy strategy. For economies

such as the UK, the major structural dynamic is still the long-term transition towards a service- and knowledge-based economy. Moreover, despite Brexit, there is a compelling argument that the centre left in the UK should be prepared to learn from European models and nascent approaches to economic management that attempt to strike a productive balance between democracy and capitalism.

## **2. The growth regimes framework**

The intellectual framework that shapes the approach of this chapter is taken from Peter Hall's recent work on growth regimes and growth strategies,<sup>3</sup> drawing on his previous research examining paradigm shifts in economic policy. Hall argues that all countries have "growth regimes": a combination of technologies and institutions that generate growth by shaping the behaviour of firms and workers, sometimes directly through government policy. There are two dominant approaches in the literature that address why changes in the growth policies of nations occur. The first approach emphasises secular changes from technology to globalisation, which affect conditions in the real economy, causing governments to shift policy regime. The second stance in the literature analyses the accumulation crises within capitalism itself, arguing that alterations in growth policies by national governments are an attempt to contain pressures created by capitalist crisis. Nonetheless, Hall contends that such approaches have major limitations: in particular, they neglect the role of ideology and politics in shaping growth policies, since secular changes do not speak for themselves, but have to be interpreted and conceptualised. Moreover, the emphasis on capitalist crisis adopts a misplaced functionalist logic.

In contrast, Hall adopts a historical approach, noting that significant changes have occurred in the growth strategies of developed economies over the last 70 years; he identifies three major phases:

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- *Modernisation (1950-74)*: In the process of rebuilding the economic base of nations in the aftermath of the Second World War, national growth strategies emphasised large-scale industry, the formation of state-run enterprises and nationalised industries, underpinned by Fordist production regimes. Full employment was to be achieved through demand management and Keynesian counter-cyclical monetary and fiscal policies. The “economic gestalt” focused on the imperative of state intervention in the national economy in contrast to the laissez-faire policies of the inter-war period. The UK government sought to raise the UK growth rate in the 1960s but was hindered by the determination of policymakers in the Treasury to maintain an artificially high exchange rate, alongside the failure to create economic institutions to revive the industrial base. In contrast, Germany and Sweden focused on policies to ensure coordination between producers and trade unions to drive export-led growth, creating rules within which the private sector should operate (the so-called social market economy). Meanwhile, the French government emphasised more directive dirigiste planning. In most Western European countries, electoral politics was based on a traditional class-based cleavage, in which the manual working class largely supported social democratic parties, while the middle class overwhelmingly voted for Conservative and Christian Democratic parties. As such, there was an electoral coalition that supported the modernisation strategy as a growth regime.
- *Liberalisation (1980-2000)*: By the 1970s, the policies of the post-war era were coming under severe pressure, notably as a consequence of so-called stagflation after 1973, where inflation and unemployment rose simultaneously in a number of industrialised countries, discrediting Keynesian prescriptions in national economic management. New economic challenges were emerging, notably



the rise of low-cost producers in the emerging market economies, the long-term shift from manufacturing to services and the growth of international finance that was more difficult for national governments to regulate. It was now apparent that the potential for job creation lay in services, as the cost of manufactured goods was falling, while consumer incomes were rising. In turn, the economic gestalt shifted away from state interventionism towards market-orientated growth strategies anchored in neo-classical economic theories. This approach led to efforts to curtail trade union power, subject key sectors of the economy to privatisation and deregulation, and to promote the advancement of the financial services sector. The emphasis of policymakers moved away from demand management towards structural supply-side reforms. Hall notes that in fact most national electorates remained sceptical of neo-liberal policies, but from the 1970s traditional class-based electoral cleavages were fragmenting, making it harder to resist those policies, as exemplified by the decline of trade union power.<sup>4</sup> There was a notable shift from class- to values-based voting, with a new authoritarian/libertarian cleavage reorientating the electoral arena. Centre-left parties responded with ideological strategies such as the third way that nonetheless accepted the broad thrust of liberalisation policies.

- *Knowledge-based Economy (KBE, 2000s-present)*: The fundamental driver of the KBE is the growth and diffusion of information and communications technologies (ICT) and the further shift of industrial production to emerging markets as part of global value chains. There was increasing polarisation in the labour market between so-called “lovely” and “lousy” jobs, and a growing emphasis on increasing skill levels. ICT was revolutionising financial services, making it more difficult for national governments to regulate complex derivatives. The idea of the knowledge economy reflected



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changes in the economic gestalt, which increasingly highlighted the importance of education and human capital in driving national economic growth, alongside the role of “social investment”, which emphasised labour market activation rather than redistribution and social protection. The EU Lisbon strategy launched in 2000 crystallised the new approach. UK governments increased spending on education and training, a model also followed in the Nordic states. The German government introduced the Hartz reforms to increase labour market flexibility, although most of the coordinating institutions remained. In the electoral arena, support for KBE and social investment policies was often strongest among economically active women of working age.<sup>5</sup> There was also a growing pool of workers employed in public services that created a constituency of support for higher public investment. However, Hall points out that, in many countries, coalitions of support for KBE policies have been fractious and unstable. Populist far-right parties, for example, have increasingly emphasised social protection and economic security over social investment, while other challenger parties have urged the return of industrial jobs and an end to free trade. Growing political turbulence over the last decade manifested in the Trump presidency in the USA and the vote to leave the EU in Britain underlined the electoral fragility of KBE growth strategies. As such, Bidenomics was an alternative growth regime, which acknowledged that the US Democrats could not assemble a viable and sustainable electoral coalition for KBE policies, and that an alternative approach was required.

As such, Hall identifies four factors that drive alterations in national growth strategies.<sup>6</sup> Firstly, secular changes in the national and international economy. Secondly, the economic gestalt, that is, how changes are interpreted through the lens of doctrines and dominant ideologies.



Thirdly, the electoral arena in which coalitions of support for particular growth strategies are assembled, taking account of major ideological and values-based cleavages. Finally, the politics of producer influence, in which interest groups from trade unions to business organizations are coopted to support particular growth policies and programmes.

Within this approach, it is argued that ideas matter in politics and policymaking, but that ideas have an impact alongside other drivers of economic policy formation, notably the electoral arena, secular technological and institutional changes, and the influence of producer interest groups. The analysis of Bidenomics also examines how ideas are developed and disseminated across countries through so-called “knowledge regimes” – networks of policy research institutes, think tanks, party foundations, ad hoc commissions and consultants – that generate ideas and promulgate them among policymakers.<sup>7</sup> Bidenomics has been developed among a wide array of intellectual actors both within and outside the Biden administration.

Hall’s pathbreaking analysis raises a number of fundamental questions about the emergence of so-called Bidenomics.

- 1) What is the change in the economic gestalt, which Bidenomics reflects?
- 2) How far does Bidenomics constitute a coherent growth regime paradigm? What are its core tenets?
- 3) Is Bidenomics a continuation or a break with the existing KBE growth regime?
- 4) What is the electoral coalition that underpins the Bidenomics approach?
- 5) How does Bidenomics relate to producer interests?

Before addressing each of these questions, this chapter considers the intellectual genealogy of Bidenomics as an approach to political economy in advanced economy countries.

## 2.1 Background: A new economic paradigm?

The main claim of Bidenomics is that neo-liberalism has weakened the fundamental foundations of advanced economies since the early 1980s, eroding the industrial base of the national economy and leaving behind those people and places with little access to marketable assets and human capital. Such problems are manifested in the comparatively weak performance of the UK economy on productivity and growth over the last 15 years. As such, by embracing these approaches, the Labour party in the UK is positioning itself as going with the grain of intellectual debate around the globe, not just in the USA but also in Australia and, to an extent, Germany.

The underpinning theme of Bidenomics is what Rodrik terms “productivism”, namely, extending economic opportunities to all sectors of the workforce and all regions of the national economy. The goals of productivism are to be achieved by placing less faith in market forces, extending the boundaries of state responsibility and increasing the role of civil society in economic governance. There is unquestionably a geo-political dimension to Bidenomics: the Biden administration’s economic plan seeks to address the challenge posed by Beijing to America’s role in the world. Rodrik stresses that policies should emphasise productive investment over consumption and finance, while challenging the power of large corporations and being willing to protect local communities from the threats posed by “hyper-globalisation”. As such, productivism also poses a challenge to the traditional Keynesian paradigm, stressing the importance of using supply-side measures to improve the quantity and quality of secure, well-paid jobs instead of relying on redistribution and demand management alone to protect the “losers” from economic change.

The key pillars of productivism, as exemplified by Bidenomics (or what is sometimes referred to as modern supply-side economics), are summarised as follows:

It involves the state taking on a more strategic role to expand a nation's productive capacity: its ability to make, do and sell more. It necessitates a new focus on improving the resilience of an economy to external shocks. And it places the government in partnership with the private sector, with the state creating the foundations on which a dynamic market can build. It means using the power of government to do what only government can do, while allowing business to do what it does best: innovating, competing and generating wealth.<sup>8</sup>

In relation to specific economic policies, the British Labour Party is currently advocating:

- An active industrial policy that uses public investment to build the companies and industries of the future while facilitating the green transition.
- Public investment to develop green and clean-energy industries. Labour is proposing to invest £28 billion a year over a single parliamentary term.
- A new organisation, *GB Energy*, to spur efforts to make energy supply more sustainable alongside a National Wealth Fund.
- Reform of corporate governance to disincentivise short termism in UK companies.
- Reforms of planning law to increase housing supply and boost infrastructure.
- Devolving economic and political power from Whitehall and Westminster to sub-national governments.
- Increasing the power of the trade unions, including the introduction of sectoral wage agreements, particularly in low-wage and low-skilled sectors of the economy.

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The signature programme in the USA is the Biden administration's 2022 IRA. This legislation commits \$500 billion over ten years to develop clean-energy industries in the USA, with a particular focus on creating new jobs that will spur de-carbonisation. Biden's team have blamed soaring inflation on the behaviour of large corporations rather than workers pursuing improved pay claims. This rhetoric and approach are mirrored in recent policy announcements by the British Labour Party.

Drawing on the work of the academic economist Mariana Mazzucato, the British Labour Party has announced it would pursue five "national missions" in government, including a commitment to make the UK the fastest growing economy in the G7. However, Shadow Chancellor Rachel Reeves has reiterated that all of Labour's plans are subject to an overarching fiscal rule, which dictates that debt must be falling as a share of national income over the course of a parliamentary term, otherwise public expenditure and investment must be reined in.

Labour's desire to embrace US policy thinking is nothing new. The party's leader, Keir Starmer, has called the US Democrats "our sister party", underlining his determination to learn from American experience. What is alluring for Starmer is not merely Biden's approach to economic policy, but the Democrats success in capturing "rust belt" states at the last presidential election, mirroring Labour's efforts to re-take "Red Wall" seats in northern England that were lost over Brexit. The economic agenda of Bidenomics can, in part, be interpreted as a response to the rise of political populism in Western democracies, notably the presidency of Donald Trump. The emphasis is on using the nation state and the federal government as an instrument to improve *national* economic performance, creating jobs and improving living standards while protecting communities from the firestorm of industrial change. Labour's approach under Starmer, to some extent, mirrors the third-way thinking of the early 1990s and the process of policy learning that occurred with Clinton's New Democrats.



There is little unusual in the British Labour Party looking towards the USA. The Attlee government's social and economic agenda in the 1940s was heavily influenced by the New Deal in the USA under President Roosevelt. In the 1950s, Crosland's highly influential work, *The Future of Socialism*, and subsequent revisionist analyses borrowed heavily from debates unfolding in the USA, in particular, on how to humanise modern capitalism without jettisoning market forces and how to capture the support of voters in an increasingly affluent post-war society. Even Harold Wilson in the 1960s sought to emulate President Kennedy's rhetoric about reaching "the new frontier" using the power of government to harness technological innovation. Throughout history, the British Labour Party sought to learn from US experience, albeit at the risk of neglecting European models and approaches.

Yet the emergence of Bidenomics and the adoption of a similar approach to modern supply-side economics around the world – in Australia and Germany, as well as the USA – is clearly a highly consequential development in centre-left policymaking. It signals a move away from liberalisation and the market-orientated growth regimes of the 1980s and 1990s. This approach is much more circumspect about the virtues of globalisation and deregulation in capital, labour and product markets.

The agenda of Bidenomics and supply-side reform signifies a strategic reorientation among social democrats away from simply accepting the existing economic model as a given and attempting to ameliorate the social consequences through redistribution, towards actively seeking to reshape market forces, production regimes and growth strategies. Labour Shadow Chancellor Rachel Reeves, in particular, has argued that crises such as Covid-19 and the growing influence of China in global geo-politics necessitate a more state-orientated national economic policy. The next section addresses fundamental questions raised by the Bidenomics agenda.

### 3. Bidenomics as a growth regime

Bidenomics posits that there are new economic challenges on the horizon for advanced economies, namely, the rise of China, climate change and the drive for clean energy, the need to recover fully from the Covid-19 pandemic, and the growing political resistance to globalisation in industrialised democracies. During the modernisation era, the key economic challenges were about recovering from war and moving towards large-scale Fordist production systems. In the liberalisation period, the challenge focused on the transition from industrial production to services given the competitive threat posed by emerging economies. Under the KBE regime, the challenge was to equip workers for an unprecedented period of technological disruption through investment in human capital. The challenge to which Bidenomics responds is both growing resistance to hyper-globalisation and the need to safeguard the resilience of national economic systems by investing in domestic supply chains.

If Bidenomics exemplifies a new growth regime and approach to economic policy based on productivism, the emphasis is on the role of government over market forces, the importance of productive investment over finance, while securing the national economy over the pursuit of hyper-globalisation. There is a different approach to trade, while attitudes towards China have unquestionably become more hawkish in recent years. According to Rodrik, “there are signs of a major reorientation towards an economic policy framework that is rooted in production, work and localism instead of finance, consumerism and localism”.<sup>9</sup> Nevertheless, there are reasons to doubt whether Bidenomics does actually constitute a fully developed growth regime comparable to modernisation, liberalisation and the KBE of previous eras.

### **3.1 Bidenomics and the economic gestalt**

As we have seen, the mantra of Bidenomics indicates a move away from the “neo-liberalism” that dominated policymaking after 1980 and a decisive break with the Thatcher/Reagan era. This approach can be interpreted to some degree as a return to the core thrust of the modernisation paradigm of the post-war age, with a greater emphasis on state intervention in the economy to aid national reconstruction, and a rejection of neo-classical theories of economic management.

Rodrik, among others, is keen to emphasise that the productivism underpinning Biden’s agenda is not only the ideological property of the centre left, but is widely endorsed among the centre right. Populists on the US right increasingly favour “pro-worker” and “America first” policies, particularly measures that protect the national economy and local communities from free trade deals that threaten the resilience of domestic production. It is striking that, on trade, Biden’s administration has broadly stuck with Trump’s policy instead of returning to the free trade approach of Obama or Clinton. Rodrik believes this bipartisan agreement will serve to cement support for the new policy framework.

Of course, it is important to note that Bidenomics does not reject market forces altogether, redrawing the boundary between the state and the market, nor does it advocate replacing the profit motive with economic planning. Instead, the emphasis is on using regulatory and tax incentives to stimulate private sector growth and competition. In that sense, Bidenomics may be merely an adjunct to the KBE era, rather than a decisive break with the previous growth regime.





### **3.2 Bidenomics: A coherent growth strategy?**

Bidenomics could be said to exemplify a new understanding of the relationship between the public and private sectors. The aim is that public investment will create conditions under which the private sector is willing to invest, particularly in the green transition. Nonetheless, there are obviously disagreements about the direction of public policy, even among those who advocate productivist economic approaches. There are some advocates of Bidenomics who claim that it advocates game-changing industrial policies that have the potential to strengthen the domestic industrial base while spurring the green transition. On the other hand, there are others who argue there is little very new in Bidenomics, and that the approach does not represent any significant breach with neo-liberalism. The danger is that industrial policies merely de-risk private sector investment, which means that corporations make even more profit while the state has little choice but to socialise the losses.<sup>10</sup>

As the economic historian Adam Tooze points out, there are many different ways of enacting industrial policies in advanced economy countries. Does the state engage directly, or it does it provide incentives through which private sector firms are encouraged to invest and grow? The Biden administration's IRA is heavily reliant on arms-length tax incentives, rather than direct engagement by the federal government. Another critical question is should policies designed to spur the green transition seek to transform the whole economy, or target particular sectors and industries? Tooze has written that the IRA, "effectively underwrites the status quo of the political economy",<sup>11</sup> while it is an effort to reconfigure the balance of class forces to build a majority for the Democrats in US politics. There is a particular emphasis on securing the allegiance of middle-class voters, mirroring FDR's New Deal and Johnson's Great Society programme.



Nevertheless, many have highlighted the relative paucity of scale and ambition underlying Biden's industrial policy, notwithstanding the institutional constraints of American politics that temper the president's radicalism. As Tooze states:

There may even be something like a little green state emerging. But, ultimately, what we see expressed in the Biden administration's new industrial policy is America's liberal elite struggling to craft a policy and a narrative that goes with it, to justify their claim both to domestic and global hegemony.<sup>12</sup>

### **3.3 Is Bidenomics a break with the KBE?**

As has been noted, Bidenomics could be seen as an attempt to address the weaknesses of the KBE growth regime in securing a viable electoral coalition for centre-left parties. Bidenomics seeks to emphasise the importance of manual industrial jobs, protecting the base of industrial production from hyper-globalisation and the intrusion of market forces. Moreover, the approach recognises the growing antipathy among key electoral constituencies to the mantra of free market globalisation, which was at the heart of the KBE as a growth regime.

Nonetheless, the new productivism is hardly oblivious to the growing importance of new technologies in the economy, notably artificial intelligence, and the ongoing importance of acquiring human capital. For that reason, the break with the previous KBE growth regime is less than clear cut. Moreover, it is far from clear that Bidenomics will reverse the fundamental thrust of both the liberalisation and KBE growth regimes, namely, that advanced economies are continuing to move away from industrial production and employment towards the knowledge and service sectors. In *Jump-Starting America*, Gruber and Johnson advocate government activism and public investment to ensure broader prosperity in the USA.<sup>13</sup> Yet their focus is investment in



science, breakthrough technologies and higher education to create the jobs and industries of the future, a policy mix remarkably similar to that advocated under the KBE growth regime.

### **3.4 The electoral coalition underpinning Bidenomics**

In the 2020 US presidential election, Biden's team sought to recreate previous Democratic party coalitions by winning back support from voters in the industrial heartlands of the USA. The emphasis on reshoring manufacturing industry and rebuilding domestic supply chains was intended to appeal to manual industrial workers. In the 2020 election, support for the Democrats among white working-class men rose from 23% to 28%, and among women from 34% to 36%, while the Democrats noticeably won back rust-belt states, such as Michigan and Wisconsin. At the same time, programmes focused on climate change appealed to younger voters and the educated middle class, particularly as government was stepping in to support private sector investment.

As such, the mantra of "green, clean energy jobs" is the binding thread of this new Democratic electoral coalition. The approach may be working electorally so far. It is striking that the US Democrats performed far better than anticipated in the 2022 mid-term elections. As such, Bidenomics can be interpreted as seeking to address the erosion of electoral support for KBE policies advocated by centre-left parties, in particular, by emphasising the importance of industrial jobs and America first trade policies instead of the KBE policy regime focusing on diffusion of new technologies and the acquisition of human capital.

In relation to producer interests, there is a much greater willingness to accept that trade unions should play an active role in the economy alongside corporate business interests. President Biden has stated explicitly that trade unions helped to build the American middle class after



the Second World War.<sup>14</sup> Biden has already pledged to be “the most pro-Union president in American history”. An explicit aim of Bidenomics is to revitalise the trade union movement across the USA.

#### **4. Bidenomics: A critique?**

Nevertheless, without negating the importance of the shift towards Bidenomics, it is important to spell out potential problems and limitations with this approach, particularly for social democratic parties elsewhere casting around for new economic policies. One set of concerns relates to the thrust of the policy itself, namely, that Bidenomics is essentially a supply-side strategy that emphasises removing blockages through interventions in clean energy, skills and infrastructure rather than demand. The policy framework is not fundamentally different from much of the KBE growth regime. Yet in many under-performing regions of economies, such as the UK and Europe, economic stagnation is primarily a consequence of the shortfall in aggregate demand rather than inefficiencies on the supply side of the economy. Among the most prolific issues in the UK is the concentration of economic and political power in London and the south-east of England, alongside the evident lack of effective regional economic institutions. The question of spatial economic inequality is not a core concern of Bidenomics, given that the policy challenges in the USA are understandably different from those in the UK.

As we have seen, Bidenomics is predicated on growing scepticism towards globalisation. The argument is that global economic integration has contributed towards the erosion of employment security and the social contract at the domestic level. It is claimed that greater economic resilience requires more products and services to be manufactured at home. This rationale is an alluring one and may be appealing to particular sections of the electorate; yet as an approach to public

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policy it is somewhat ill-informed. The fragmentation of welfare states was already well underway before the rise of “globalisation”, and in many countries the erosion of the social contract and rising insecurity was the result of deliberate choices made by national policymakers.<sup>15</sup> Moreover, there is very little evidence that globalisation has eroded the domestic policy capacity and resources of national governments. Globalisation has become a convenient alibi for neo-liberal choices among domestic policymakers.

Moreover, for centre-left parties, the key dilemma raised by Bidonomics is how far it actually enables ideological differentiation with the centre right. As Dani Rodrick has noted, industrial strategy and pro-worker policies are increasingly favoured by centre-right parties. This shift may have advantages in entrenching a new policy settlement, but it makes it harder to demonstrate that voting for social democratic parties will have a tangible impact on the economic fortunes of insecure voters. State activism is no longer a policy stance owned by the left.

Another obvious limitation is that countries such as the UK are self-evidently not the USA, while there are greater similarities to other European countries and models of capitalism. The structure of the American economy is markedly different from that of the UK, while there are major differences in the composition of the federal government. The USA adopted a model of capitalism in which the state is involved in very particular ways within the national economy. The literature on policy transfer alerts us to the problems that arise when national governments seek to learn too uncritically from policy approaches tried and tested in other states without being alive to nuances and unintended consequences.

Indeed, a compelling question for the centre left in the UK is why it does not learn more from Europe in forging a viable growth regime, and how far Brexit makes it harder to draw on European experience. Over the last 30 years, there has been a growing consensus that the

Anglo-American model of capitalism is in irreversible decline, while models of capitalism in Germany, France and the Nordic states are more likely to be successful in the long term.<sup>16</sup> It appears unlikely that even a two-term Biden administration will alter the fundamental trajectory of the US economy, although the recent improvement in relative American economic performance is striking. Europe itself is attempting to forge a new industrial strategy that will advance the energy transition and increase economic resilience, while advancing digitalisation in key sectors of the economy.

What Labour in the UK needs is not merely an industrial policy but a programme that is capable of unifying economic and social policy. For instance, a new welfare state model is needed to reduce the barriers to employment participation in the aftermath of the Covid-19 pandemic. The party has recently announced a “New Deal for Employment” that is designed to reduce labour market insecurity and address the problem of chronically low wages.<sup>17</sup> Given the ongoing transformation of gender roles, the shift from industrial production to services, and the likely impact of further breakthrough technologies, it is questionable whether the scope of Bidenomics is ambitious enough to devise a new economic and social agenda. The UK, given its size and geographical location, has long been a relatively open economy, and a pivot away from free trade towards national protectionism is unlikely to be a viable long-term policy trajectory, even for social democratic parties.

## **5. Conclusion**

There is little doubt that President Biden’s economic agenda has made a political impact, although the implications for the next presidential election are as-yet unclear. Yet there are reasons to be sceptical that Bidenomics does represent a coherent growth strategy and regime, at least drawing on the criteria set out by Peter Hall. Hall argues there are

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four factors that drive changes in national growth strategies.<sup>18</sup> The first is secular changes in the economy. There are clearly major changes underway in advanced economies, but it is not clear they represent a qualitative break with the KBE regime, given the ongoing centrality of technological change and the continuing importance of education and human capital. The second factor is the economic gestalt: how structural changes are conceptualised through the lens of doctrines and dominant ideologies. Bidenomics rhetorically appeals to the break with neo-liberalism and contributes to nascent thinking about the need for a new economic paradigm. Yet there is still a great deal of ambiguity about the new ideological framework, particularly its conception of the relationship between markets and states.

The third factor driving change in growth regimes is the electoral arena. Bidenomics does speak to the need to assemble a coherent coalition of support for a growth strategy taking account of major electoral cleavages, and the growing importance of the authoritarian/liberal divide. Yet it is not clear that Bidenomics is the basis for a long-term realignment of Democratic politics in the USA, while it is difficult to discern major shifts in voting patterns in the 2020 election given the extent of revulsion towards Donald Trump's presidency. The final of Hall's criteria is the politics of producer group influence. There is little doubt that Bidenomics has sought to coopt American trade unions to support particular growth policies. However, this approach has bred its own tensions against the backdrop of a more fractious industrial relations environment in the USA.

As such, there are reasons to doubt that Bidenomics and the new productivism constitute a distinctive growth regime rivalling modernisation, liberalisation and the KBE. It appears more likely that Bidenomics will serve as a corrective to elements of the KBE growth strategy that have proved most off-putting to voters, especially the embrace of hyper-globalisation and the perceived destruction of industrial jobs.

However, in most developed economy countries, the growth regime is likely to remain that of the KBE for the foreseeable future. Policies that seek to constrain or undermine the core features of the KBE are likely to weaken growth while producing few gains for social cohesion and equity. For the British Labour Party, the challenge remains to forge a governing strategy through which it can ratchet up the transformative potential of its programme, projecting radically forwards, as the Thatcher governments did so effectively after 1979.

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# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?

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Tomáš PETŘÍČEK

# **Progressive geoeconomics in the post-hegemonic world**



**Abstract:** The twin technological revolutions – digital and green transformation – are transforming the structure and key patterns of both the European and global economies. Societies worldwide are facing great changes, with digital and green transformations at the centre of these trends. As a result, supply chains are re-shaped, economic and trade patterns are modified, and economic geography is influenced by the emergence of new interdependencies, new economic and security risks, and vulnerabilities, as well as new opportunities for cooperation. All of this is happening in the context of deep changes to the structure of global power relations, which is becoming increasingly defined by multipolarity rather than the unipolarity that emerged after the end of the Cold War.

To address these trends, a distinctive and comprehensive progressive vision for the world should be developed. In this chapter, it is argued that a viable option is to centre this vision around new progressive geoeconomics that can be built on four main principles. These key principles reflect both historical traditions of international/global politics of social democracy and the changing global context that requires a new and more strategic approach to dealing with major challenges the EU is facing. It is also argued that progressive geoeconomics should be embedded in both the domain of political and economic strategic practices, in particular, in areas such as industrial and trade policy, economic security instruments, or improved frameworks for cooperation with international partners, as well as in progressive discursive practices that accent key social democratic values, principles and interests.

## 1. Introduction

Over the past couple of years, many relevant arguments have been presented to prove that we are re-entering the age of both global and regional geopolitical competition. At the same time, the era of neoliberal economic globalisation with its hegemonic institutional and discursive practices seems to be at its end.<sup>1</sup> We can illustrate it with several recent events, as well as trends that have the potential to change the structure of global political and economic relations.

The Russian aggression against Ukraine brought back large-scale conventional conflict between nation states and reaffirmed those who warned against Russian revanchism against international order dominated by the West, which is combined with its imperial ambitions.<sup>2</sup> The growing geopolitical and geoeconomic tension between the USA and China implies risks of destabilising the international system, which could have significant implications for global society. Chinese activities in the Taiwan Straits, South China Sea, are largely viewed as part of its military muscle flexing with not only regional implications, but with potential impacts on the global power balance. Moreover, the growing ambitions of the enlarged BRICS grouping and more assertive and confident regional powers, including countries like Turkey or Iran, show that we are facing challenges to the international rules-based order.

Also, the wave of nationalism, very often in its aggressive and egoistic form, has spread across the world and has been endorsed especially by right-wing and conservative forces, from Donald Trump in the USA to Bolsonaro in Brazil, Modi in India and others in many other parts of the world, with Europe not being immune to it.<sup>3</sup> It also has its expression in the economic sphere, where economic nationalism, protectionism and more strategic use of economic tools, including trade or industrial policy, have become the rule rather than exemption.

These examples illustrate that global affairs are increasingly defined today by competition, struggle and often zero-sum logic, rather than cooperation, multilateralism and efforts to look for win-win solutions. The traditional emphasis on hard security, defence, military capabilities and securitisation of non-security affairs, especially economic relations, trade or reliability of supply chains, as well as the underpinning power competition seems to be the key determinants of global politics today. In other terms, geopolitical and strategic considerations can be viewed as the main driving force of global affairs in the next couple of years. All this is happening in parallel with two structural transformations – digital transformation and green transition – that will structure the global economy in the future and create new geoeconomic domains where both cooperation and competition might occur.

Indeed, these are factors that should be comprehensively evaluated. When looking for a new progressive vision for Europe's position in the world and global affairs in general, it is not possible to neglect these factors. The centre left, especially in Europe, has been, to some extent, rightly criticised for not grasping the risks we are facing and for being weak on security issues. As a part of our rejuvenation, we should develop our distinctive stance on security and defence issues. In this regard, we can build on a fresh analysis of the geopolitical and geoeconomic trends we are facing today. At the same time, we can build on the good traditions of social-democratic foreign and security policy making. One example can be found in Willy Brandt's foreign strategy, which included aspects of deterrence as well as dialogue and cooperation, with a strong emphasis on multilateralism, as well as on genuine North-South dialogue, providing inspiration and traditions we can build on. Indeed, we should try to identify other historical experiences that can navigate our debate today.

However, I argue in this chapter that geopolitics does not provide a fully exhaustive picture of the changes the world is undergoing or

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of the challenges the EU is facing nowadays. And that we should be cautious about how we use the terms geopolitics, geopolitical tensions or power competition narrowly. Instead, I propose that we integrate geoeconomic analysis and practice into our vocabulary and our political toolbox. In particular, it is necessary to understand geographic or territorial factors as important determinants defining the structural context in which actors conceptualise strategies and which influence agency. It is not claimed that geoeconomic factors are the sole factors, rather that we should understand them better in confluence with other major changes taking place in global society – in particular, technological innovation, reaction to climate change in terms of both mitigation and adaptation, and new security challenges that cannot be limited to geopolitical tensions in the world. Ultimately, we should integrate the geoeconomic perspective into the progressive response to the challenges the EU needs to deal with. Last, but not least, we should try to add the geoeconomic perspective to historical practices of social democracy, where a focus on multilateralism, cooperation and international solidarity goes hand in hand with developing a comprehensive geoeconomic toolbox – in terms of both strategic practices and the related narratives that support them.

## **2. Geoeconomics: Strategic practice, discourse or both?**

The term “geoeconomic” is not new in the vocabulary of theoreticians and practitioners. It was already coined at the beginning of the 1990s when the fall of the Soviet Union and the end of the Cold War triggered debate about the future of global political and economic relations. The notion that the post-Cold War era would witness a new kind of competition and even conflicts that would be based on the shift from

the domain of military contest to the domain of economy, technology and trade was spearheaded by Edvard N. Luttwak in his seminal article in *The National Interest*.<sup>4</sup> This understanding contrasted especially with the dominant belief that the end of the superpower competition would result in an era of cooperation, the proliferation of ideas of economic liberalisation, and globalisation overcoming the territoriality and sovereignty of national states. As a consequence, the general belief was that the international community aimed for a more harmonious era, without major conflicts between states or other spatial entities (such as regional blocs, subregional groups and regions). Geoeconomics instead assumes that territorially defined entities will strive for “relative advantage against like entities at the international scene, even if only by means other than force”.<sup>5</sup>

Nonetheless, the term geoeconomic has gained more attention only relatively recently, with a series of crises that highlighted the nature of strongly divergent and increasingly irreconcilable strategic economic interests of existing and emerging powers in the world characterised by the weakening of the US hegemony. New vulnerabilities also manifested themselves. During the Covid pandemic, we witnessed them in the form of the geographically concentrated production of medical equipment and pharmaceutical materials, which resulted in efforts by some actors to get relative gains over consumers. More recently, we can see it in the struggle to reshape supply chains of critical raw materials indispensable for the green transition of both the developed/OECD and emerging economies. It only illustrates the growing trend where states with relevant capabilities are increasingly designing economic policies to exercise power over other states and to “assert control and influence over other state’s resources and policies”,<sup>6</sup> which might seem to confirm the realist view on global affairs.



### 3. Geoeconomic as a strategic practice

However, for this chapter, I argue that we should not limit our understanding of geoeconomics to a traditional realist approach, which tends to define the objective of geoeconomic strategies in terms of simple power maximisation, political control and hegemonic domination through economic dependencies. While this approach still provides some useful insights, it is also necessary to understand that it operates in the logic of a zero-sum game. It has also used the evidence of power relations evolving around efforts to ensure control over key strategic resources of the global economy of the 20th century. It also applies to international trade. In recent years, we have witnessed states' trade policies shifting from support of a free-trade paradigm to increasingly using trade as a part of their strategic toolbox.<sup>7</sup> For example, the trade and investment policy of the USA in the Indo-Pacific has demonstrated the tendency to leverage the USA's strategic position in relation to important partners (e.g., in the Quad group) and to contain the influence of China.<sup>8</sup> The US Inflation Reduction Act, especially for provisions of domestic content for particular products, can be also seen from a similar perspective, that is, as a geoeconomic tool to increase the relative economic and industrial power of the USA in global competition through purposeful state action.

At the same time, the strategic considerations of states are becoming increasingly complex with the need to address new challenges – such as the need to speed up the green transition, adapt to climate change effects, mitigate already emerging negative impacts of climate change, develop new technologies and effectively deploy them in a relatively short period to strengthen one's economic competitiveness. In this context, it is, therefore, more productive to see geoeconomics as a strategic practice that aims to contribute to states capacity to provide

security, as well as to strengthen overall societal resilience, through developing economic tools that enable both the development of strategic sectors at the territory of the entity, as well as to provide control of international flows or reduce vulnerabilities associated with these flows using economic means of power – not military force.<sup>9</sup> Geoeconomic practice, therefore, employs a much wider range of instruments than pure physical control of key assets. Also, the practice of geoeconomics should not be confused with either mercantilism or even economic nationalism, at least from the progressive point of view.

#### **4. Geoeconomics as a discursive practice**

At the same time, it is worth mentioning that geoeconomics not only entails strategic practices that reflect global economic reality. It can be also understood as a discursive practice. In the case of geoeconomics, it may especially involve the process of securitisation of economic policies. For this purpose, it is also useful to employ the framework of securitisation theory on economic policies in general and the domain of geoeconomic practices in particular, while acknowledging that there are numerous deficiencies in this approach.<sup>10</sup> The concept is based on the work of the Copenhagen School of Security, in particular, on the work of Barry Buzan and his colleagues. In their view, security can be seen as the move to push political measures beyond the established rules of the game and through making these issues part of the security domain to transform them into a special kind of politics or as being above politics.<sup>11</sup>

In this view, state actors are motivated to label economic policies, trade policies, policies related to new technologies, problems of global supply chains and competitiveness challenges as issues of strategic importance for the state or other entities, that is, as a secu-

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riety issue, where existing rules no longer protect the interests of the state or entity. Hence, making them part of security practices where vital or even existential interests of the state are at stake. For example, the Covid-19 pandemic shifted the issue of supplies of medical and pharmaceutical materials from the logic of international trade, business relations and international division of labour to the logic of national security and the strategic interest of states. With it comes the moment of changing the hierarchy of public priorities, as well as the moment of public mobilisation to increase the legitimacy of deploying sufficient resources, finances or energy to address the particular problems the state or public institution defines as the challenges for the whole of society.

While this practice can be legitimate in many cases, to develop a progressive geoeconomics, it is also necessary to understand when, how and for what purpose economic policies are securitised. In addition, it is to assess individual strategic decisions from the perspective of potential economic and social costs, that is, costs of the securitisation of economic policies.

An example can be the tendency to securitise international trade policies. For example, US-China tensions are largely embedded in the discourse that unfair Chinese practices result in weakening US competitiveness, and as a consequence, they undermine US economic power and an ability to maintain competitive advantage in key military technologies. Hence, the Chinese policies are directly linked to US security. In response, the USA adopted a more coercive approach to trade with China, with national security arguments to give legitimacy to protectionist practices and weaponisation of economic relations. Nonetheless, this securitisation of trade policy can imply direct and indirect costs as “concerns around national security, dependencies, and technology are redrawing trade maps and could lead to a costly fragmentation of the global trade framework”.<sup>12</sup>



## **5. Developing progressive geoeconomics for the EU**

In this chapter, therefore, the term geoeconomics is applied both as a strategic practice that contributes to economic security, hence prosperity and economic development, without applying military power, and as a discursive practice that applies security logic to economic policy.

While conceptualising geoeconomics as both strategic and discursive practices, the chapter also aims to identify how they should be developed to reflect key priorities and key values of the European progressive movement. These practices can take many forms and can have both intended and unintended political, social and economic implications that do not support the broadly understood progressive agenda. Without an ambition to provide a detailed toolbox for progressive geoeconomics, four key principles are identified to integrate geoeconomic practices successfully with a broader progressive agenda.

Firstly, we need to define why and when we are no longer able to achieve key political goals through “regular” policies, such as a global free-trade framework, open technological cooperation, international cooperation on climate and a green transition, as well as in other areas; instead, we need to apply the logic of geoeconomics to them in the changing global context. In this regard, it is legitimate, for example, to better define key domains for enhancing European strategic autonomy, where securitisation can be considered legitimate to achieve the EU’s ambitions. At the same time, we need to assess the impacts of these decisions on other partners. Also, we need to engage partners who share our values and are potential allies in promoting the EU’s global agenda to prevent possible conflicts over the EU’s geoeconomic practices. For example, to prevent similar anxiety caused by the Inflation Re-

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duction Act among US allies due to the lack of differentiation between competitors and countries sharing similar values and interests. In this, the EU will need to be able to better and more flexibly define who are strategic partners or who are partners in particular areas. For this purpose, progressives should better calibrate the framework provided by the Strategic Compass and other relevant strategic instruments even with their existing limitations to strengthen its ability to foster mutually beneficial cooperation with a broad range of actors, especially with the Global South

For this purpose, we need to be able to follow long-term strategic goals, but, as social democrats, we should also stress that security is not the ultimate goal in itself, but rather a condition for achieving other goals. In particular, it is the precondition for improving quality of life, economic prosperity and social fairness in Europe and beyond. We should, for example, reiterate that “the goal of geo-economics (aggrandisement of the state aside) could only be to provide the best possible employment for the largest portion of the population”.<sup>13</sup> In this view, the aims of geoeconomics are not to make others lose, but to develop mutually beneficial cooperation, rather than simple competition. It will also require that we assess carefully when the security benefits of particular geoeconomic practices can have unacceptable social costs, for example, when we can avoid unnecessary impacts on the cost of living, especially for the most vulnerable parts of European society. For example, re-shoring is motivated by the need to strengthen the security of supply chains. It might have a positive impact in terms of new jobs created back in the EU. At the same time, this can lead to lower productivity and efficiency translating into higher costs for European consumers.

Secondly, avoiding the trap of employing geoeconomic tools to promote particular vested interests that do not deliver in terms of broader socio-economic development in the EU or other public interests. The

major risk of geoeconomic practices is “the instrumentalization of the state by economic interest groups that seek to manipulate its activities on the international scene for their own purposes”.<sup>14</sup> It is where we need to be able to very transparently deliberate what economic interests of the EU need to be promoted through geoeconomic tools. On the other hand, it is necessary to limit situations where vested interests capture regulatory, trade, infrastructural or other policies with claims of protecting the security of the EU.

Thirdly, a progressive movement uses securitisation very carefully to mobilise political support and necessary resources to promote and enforce its environmental, social and economic – in particular industrial – agenda. While it can be legitimate in some key cases, for example, in the securitisation of pharmaceutical supply chains, it can also be used to undermine support for other relevant internal or external agendas that need more resources in fact. In this regard, we can take inspiration from Brandt’s policies, which tried to find a balance between security, dialogue and active multilateralism. In other words, between enhancing the EU’s economic and political power, while strengthening global norms and standards, international cooperation, and preventing further fragmentation of the global economic and political governance. Also, it is necessary to prevent the progressive use of geoeconomic practices that would result in the economic nationalistic position of the centre left. Securitisation of economic issues has been often misused by the extreme right or extreme left to promote their own agenda. Donald Trump can serve as an example.

Fourthly, instead of seeing geoeconomic practice as inherently and inevitably resulting in a power struggle and conflict, a progressive vision should aim to promote the stance that “the mobilisation of economic resources, under a geoeconomic focus, could contribute to maintain welfare of a state through responsible cooperation rather than sheer competition and rivalry under a zero-sum paradigm”.<sup>15</sup> In

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the post-hegemonic world of today, we can witness the fragmentation of global economic governance with the weakening of the role of traditional organisations, such as the WTO, IMF or the World Bank, and the emergence of new platforms, from BRICS to financial institutions developed and promoted by China. At the same time, neoliberal globalisation, which had been the main force of economic integration of the world until recently, has also lost momentum. While some might see it as a problem, the progressive movement should consider it as an opportunity to devise new modes of global economic governance that would be more sustainable, fairer and oriented toward the promotion of social equality. For example, the Carbon Border Adjustment Mechanism represents a tool under the geoeconomic logic. It is in fact, to a large extent, a protective measure to protect European industries and European jobs. While being a legitimate geoeconomic goal, however, it is also a missed opportunity with regard to potential partners of the EU. For example, it does not include any governance mechanism or economic support scheme that would help the least-developed countries to cope with new obligations, and consequently, improve their position in the global division of labour and trade with the EU.

## 6. Conclusion

In the context of increasing geopolitical tensions, power competition and race to dominate in key economic areas defined by the dual transformations – digital and green – the EU faces mounting challenges regarding its global position and its core values of respect for human rights and individual freedoms, democratic principles, and solidarity and social justice enshrined in its welfare state model. To address these challenges, this chapter argues that the EU needs to develop a comprehensive toolbox of geoeconomic instruments that can safeguard its interests in the world defined by multilayered crises and complex risks.

Indeed, more work needs to be done to elaborate on how to design individual instruments. It was not the goal of this chapter to provide a list of possible tools and instruments progressive politics should propose in areas including industrial policy, trade, technology and innovation, development policy, or relations with particular actors.

Instead, the chapter proposes to conceptualise our progressive geoeconomics in terms of both strategic practices – that is, specific measures and economic instruments supporting economic, political and security interests of the EU and its citizens– and discursive practice that carefully uses and employs narratives of security in the domain of economic policies without obsessive securitisation of all economic interactions, as often performed by right-wing and conservative forces.

At the same time, while acknowledging that the world is becoming defined by new power struggles and competition, progressive geoeconomics should not give up on the best traditions of centre-left foreign and security policies, for example, the comprehensive strategy of Brandt in the 1970s, and be built around key principles that reflect both values of the centre left – including peace and solidarity at its centre, but also the promotion of social justice, environmental sustainability and genuine respect for the views and interests of our partners – and key priorities for the social democratic movement – such as the protection of labour rights, the creation of better jobs, and the strengthening of the security and resilience of our society. Therefore, progressives should not shy away from applying the logic of geoeconomics to address key challenges the EU is facing; one should not simply take over the practice and discourse promoted by conservatives, and right-wing populists, but define the more nuanced alternative that enshrines the four organising principles presented in this chapter.



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# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?

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Elinor ODEBERG

**Time to abandon the Phillips curve  
And create policies for growth,  
climate resilience and full  
employment**



**Abstract:** The term poly-crisis has been used to describe the pandemic, the war on Ukraine and the threat of climate change. These turbulent times have led to supply shocks and unforeseen shortages that have contributed to the most aggressive price hikes in centuries. Coupled with just as aggressive interest rate hikes, all in the effort to tame inflation, households are hurting and unemployment is on the rise. But is dampened demand really the answer to inflation, or should we see inflation as a symptom of much larger issues - such as corporate greed, market failures, vulnerabilities to global value chains and underinvestment in critical infrastructure? This chapter scrutinises the intellectual framework behind austerity, in particular hawkish monetary policy, as the way to combat inflation and describes more progressive strategies to tackle the root causes of inflation, strengthen the economy and share the burden of increased costs more equally.

**Keywords:** inflation, monetary policy, austerity, Phillips curve, resilience, NAIRU

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The American Elizabeth Holmes had a grand idea. A drop of blood would be fed into a small machine that minutes later spat out an answer to whether the blood contained everything from sepsis to HIV. Holmes thought her technology, which she called Theranos, would revolutionise blood sampling. Despite the lack of scientific evidence, Holmes managed to convince several rich investors. Holmes got so far that her blood sampling machine was stationed in thousands of supermarkets around the USA where people went to get tested for diseases.

The only problem was that the machine did not work. A combination of whistleblowers, research and investigative journalism finally burst the bubble for Holmes. The machine was fake, the tests misleading and the marketing false. The fairy tale Elizabeth Holmes, who a few years earlier was ranked the youngest woman ever to become a self-made billionaire by *Forbes* magazine, ended 2022 as a convicted fraudster.

Another invention that has never been scrutinised in the same way as Theranos is the Phillips curve, which is the supposed connection between inflation and unemployment. It was originally deduced from the workings with an analogue computer that in 1958 used hydraulics to model the UK's economy. The man behind the construction was New Zealander Bill Phillips. He was neither remembered as an impostor nor a Nobel laureate, but his invention is still very much normative for modern monetary and fiscal policy.

In his self-made hydraulic computer, called Moniac, Phillips entered data on the UK's economy from the 1860s until the 1950s. Through its calculations, Phillips came up with the following correlation: when unemployment is high, wages are low. This was later interpreted as when unemployment is high, inflation is low. This connection has come to be embraced by modern central bankers and politicians, who think they can choose between higher unemployment and higher prices. If unemployment rises, does inflation fall?

The analysis to support the curve is that, when more people have a job and a salary to support themselves, they can also demand more goods and services. Low unemployment means higher demand in the economy. The more people who have wages to support themselves, the higher their purchasing power is. The higher the purchasing power, the more opportunities there are, theoretically, for companies to charge more and raise their prices.

Companies may also find it more difficult to recruit when there are fewer job seekers, and therefore, want to attract with higher wages, which, in turn, might require them to raise their prices to cover increased wage costs. Correspondingly, it is theoretically easier for companies to recruit without competing on wages when unemployment, and thus, the supply of labour, is higher.

The fear is that demand-driven inflation, or a so-called price and wage spiral, will occur. Therefore, low unemployment is assumed to lead to high inflation. This is sometimes described as the economy overheating, and interest rate hikes are a way to cool it down.

In modern economic theory, the Phillips curve has gained several heirs, such as the idea of equilibrium unemployment or *non-accelerating inflation rate of unemployment* (NAIRU), that is, a level of unemployment that does not fuel inflation. Both aim to strike a balance between unemployment and price increases. Interest rate hikes to bring down inflation follow the same logic – by raising unemployment (as interest rates dampen demand), it should, in theory, be possible to push back price increases.

For the vast majority, it seems logical and desirable that unemployment should be as low as possible. Jobs contribute to one's own and society's prosperity. In addition, low unemployment means that it is easier to increase one's salary because for every employee there are not three people who are ready to take the same job, but get paid less.

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Similarly, unemployment insurance and social benefits interact with the general wage level. If unemployment does not lead to poverty, it helps to keep wages up in the rest of the economy. In short: desperate workers are not good for wage negotiations. Unless you're an employer, that is. Desperate workers, on the other hand, are believed to be good at keeping down the general price level (inflation).

This is a very strong economic narrative that is holding back employee interest in the labour market. If too many people work, if the level of so-called equilibrium unemployment is breached, there will be counterfire in the form of interest rate hikes from the central bank. Based on the Phillips curve, central bankers assume that inflation will spike if workers are *too* well off.

This narrative needs strong social democratic critics.

First of all, the Phillips curve rests on shaky empirical foundations. During the 1970s, large parts of the world experienced high unemployment and high inflation at the same time. Although purchasing power decreased, prices continued to rise. In most European countries from the 1970s to the 1990s, it is difficult to even see a connection between inflation and unemployment (Figure 1). During late 2022 and 2023, the US unemployment rate and inflation fell simultaneously. Today, there is a broad group of academics and other critics who have dismissed the Phillips curve.

The economist Claudia Sahm is one of those who has been most outspoken in the criticism: ban the Phillips curve.<sup>1</sup> Even economists at the US Federal Reserve have said that the curve is no longer relevant for understanding inflation. "Who killed the Phillips curve?" they ask themselves – and conclude that the connection does not exist because of the weakened position of workers in the labour market.<sup>2</sup> Different explanatory models, both of which state that just because high unemployment and low inflation have coincided, just as the opposite has also done so, it does not necessarily mean they always have to do with each other.

Just as the money supply tells us little about how prices will develop, the unemployment rate in individual countries is also not decisive for the inflation rate when so much of the prices are set on international markets. Yet the idea that workers must pay with lower wages to bring down inflation continues to set the standard for monetary policy.

**Inflation och unemployment**  
 France, Germany, Great Britain and Sweden, 1970-2022

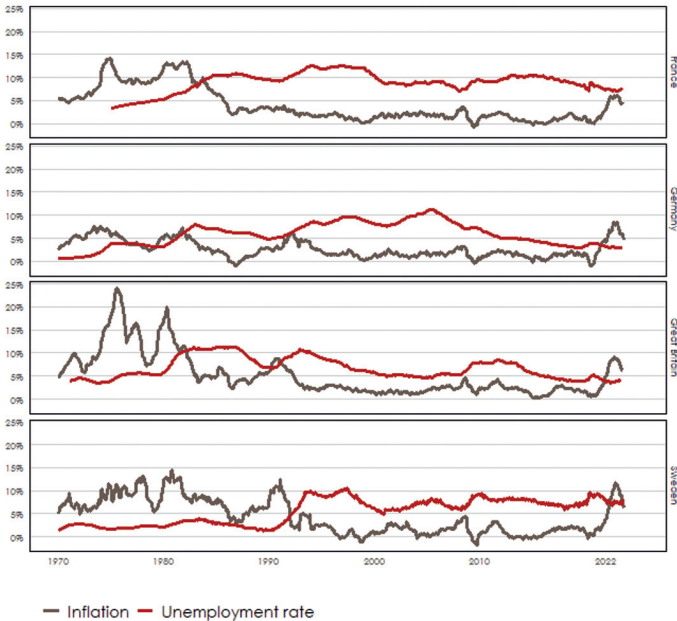


Figure 1. A comparison of inflation and unemployment in four European countries (1970-2022).

Source: OECD and Office for National Statistics (UK) 2023.



## 1. Doves and hawks

When traditional economists and central bank officials get a little pressed about what the benefits are of raising interest rates to fight inflation, they often respond that they see it as a necessary evil to cool demand. The calculation is that the economy benefits from sacrificing a few jobs and wage increases in order to bring prices down, as inflation hurts households more and creates uncertainties in trade. According to mainstream economists, it doesn't matter if inflation is due to supply problems, like the pandemic and Russia's war on Ukraine created; the path to fight inflation is still to lower demand. If no one can afford to pay the higher prices, prices should fall. Monetary policymakers rarely dare to openly describe it as unemployment needing to increase. Instead, it is implied in formulations such as that the labour market is "resilient" when unemployment does not increase as expected when interest rates rise. It is basically a fancy way of saying that more people should lose their jobs.

If we are to follow Phillips' logic that lower unemployment leads to higher inflation, this means that today's high inflation requires an even higher unemployment rate, even though the European unemployment rate, on average, was at 6% in 2023.<sup>3</sup> Where should the new balance lie – at 7% unemployment? Another million Europeans unemployed?

Say this works, but then the economy experiences a new inflation shock due to another geopolitical conflict or climate catastrophe. Is the next equilibrium going to be 8-10%?

The kind interpretation of the "hawks", which is what central bankers that want to raise interest rates rapidly when inflation rises are commonly known as, is that their position assumes that if interest rate hikes are too cautious, which is what the "doves" generally support, there is a risk that inflation will become entrenched. This is also because inflation has a lot to do with psychology – perhaps even more so than

previously thought. If everyone thinks interest rate hikes are necessary, regardless of the cause of the price surge, then not raising the interest rate might raise inflation expectations. If companies expect prices to rise, they might raise their prices to get ahead, which is why inflation expectations can become a self-fulfilling prophecy. The interest rate and inflation expectations overall also affect the value of the currency, which has an impact on inflation, as a weaker currency makes imported goods more expensive (at the same time, exported goods become more profitable).

Therefore, the hawks reason it is better to raise a lot and rapidly, rather than letting inflation go so far that the central bank is forced to make a sharp tightening (read: interest rate hikes) at a later stage. Better to raise too much and lower when inflation falls back, rather than to raise too little and be forced to raise sharply later. If the doves are allowed to steer, the hawks have to clean up.

This is the often told story of central bank governor Paul Volcker – perhaps the most famous hawk in monetary policy history. Volcker steered the US Federal Reserve (FED) between 1979 and 1987. When he took office, the West experienced an oil price shock in the wake of both the October War of 1973 and the Iranian Revolution of 1979. This led the petroleum exporting countries (OPEC) to target sanctions against the West. Countries with a strong dependence on oil, such as the USA and Japan, as well as Western Europe were hit hard when the energy supply sharply decreased. This led prices to rise.

Interest rates were raised, unemployment rose, but inflation became entrenched. Volcker's board began an aggressive series of rate hikes. The *federal funds* rate, corresponding to the policy rate, which was already about 11.2% in 1979, nearly doubled to 20% in June 1981. The *prime* rate, which tracks market rates, rose to 21.5% in 1981. Inflation peaked at 14.8% in March 1980.<sup>4</sup>

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Volcker's hawkish monetary policy contributed to a steep recession in 1980-82. Unemployment rose to over 10%. Volcker's leadership provoked the largest political attacks and discontent against the US Federal Reserve in the bank's modern history. The high interest rates hit agriculture, industry and construction hard and widely. Farmers drove their tractors in protest along the streets of Washington DC, blocking the bank's main building. For many, interest payments had become unmanageable.

Inflation then fell to 3% in 1983, US monetary policy eased and this contributed to a resumption of growth. By then, soaring prices and unemployment had plagued the country for ten years.

The question is what the lesson was from this period. Some argue that the Phillips curve was right after all: inflation went down (eventually) when unemployment rose. It was just that the economy took a little longer to find its new equilibrium. Another lesson is that fighting inflation via interest rate hikes and unemployment comes at a very high price – especially if the price increases are due to supply disruptions, such as reduced access to energy. Yet a third lesson is that inflation eventually fell because the geopolitical tensions, that had provoked the sanctions and disrupted value chains, eased. This third lesson should guide European politicians to policies focused on resilience and preparedness, as the climate crisis is the most imminent threat to both geopolitical stability and price stability ahead - two separate but also interlinked factors. In the European context, the discussions on strategic autonomy are a sign of this third understanding.

In the USA, they have chosen to mask the idea of equilibrium unemployment with the term "maximum employment". The mission of the US Federal Reserve is to keep inflation low and stable while achieving "maximum employment", that is, as high employment as possible without it becoming inflationary.<sup>5</sup> But "maximum employment" could just as easily equate to 15% unemployment if that's what it takes to keep

inflation in check according to Phillips' model. It is not specified what maximum employment means, but that inflation should be 2%. Anyone who has worked in politics knows that clear numerical goals always trump the more abstract ones.

## **2. The macroeconomic paradigm shift**

During the golden post-war era of social democratic governance in Europe, monetary policy was a tool to steer the economy, but not the most important. Fiscal policy was. Keynesian ideas about an active fiscal policy that could influence the economy and mitigate recessions through taxes and government spending dominated the macroeconomic field. But the neoclassical school, led by Milton Friedman, advocated deregulation and market reforms in the 60s and 70s. The monetary policymakers who belong to this school believe that it is possible to flatten the Phillips curve and stimulate steady growth through a slightly expansionary monetary policy that constantly supplies the economy with slightly more money in circulation. Friedman's monetary policy school has gone from being radical in the 1960s to being mainstream today.

The theories of money supply governing economic growth (and implicitly inflation) are a stone's throw away from what has been called "trickle-down economics", which became a popular theory during the neoliberal era of the 1980s. Trickle-down theory is based on the idea that tax cuts for corporations and affluent individuals will "trickle down" to people with lower incomes, and thus, strengthen the entire economy.

But when the large tax cuts that neoliberal politicians such as Thatcher and Reagan pushed through in the 1980s and onwards are evaluated, it turns out that the tax cuts have not benefited so many more people than those directly affected. The rich became richer and the poor poorer.

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Ben Bernanke, governor of the US Federal Reserve from 2006 to 2014, was the first in its history to use the goal of maximum employment to justify the expansionary monetary policy the bank pursued during his term in office, when asset purchases, also known as quantitative easing (QE), became in fashion amongst monetary policy makers. This was meant to push inflation up. Other central banks, like the ECB, the Bank of England, the Central Bank of Australia and the Swedish Riksbank, followed their lead. But despite the fact the money growth was historically high, inflation did not go up.

Both trickle-down economics and QE highlights the problem with the monetarists currently leading the central banks, nowadays independent from political influence: they lack the simple understanding that it matters *what* we spend money on, not that we spend per se. The marginal propensity to consume also weakens the further up the income ladder money is growing. In retrospect, if central banks, despite QE measures and historically low policy rates, were not successful at getting inflation up, why would they be successful at getting inflation down?

If a price shock is due to a rise in energy prices because of a shortage of workers in energy production, the answer is not higher unemployment, but rather more people working on energy production to increase the energy supply. And rather than fiscal austerity, there needs to be more investments in price-critical sectors, energy being an important one, as well as strategic regulation of private profiteering in times of crisis, a case strongly made by Professor Isabella Weber, who has pioneered the academic discussion on the role of profits in inflation.<sup>6</sup> According to the IMF, half of the price increases during 2022 were linked to higher profits.<sup>7</sup> Not only does this showcase the unequal burden of inflation, where workers are hardest hit as real wages have soared, it also demonstrates that the increase in profit margins, just as tax cuts for the wealthiest, dampens growth and investment.

The economic policy framework of the 1980s-90s – with independent central banks, austere fiscal policy, and a wave of deregulations and privatisations – meant that many European countries, in practice, abandoned the objective of full employment in favour of the objective of low inflation. Many social democratic parties have struggled since.

The main problem with the Phillips curve is not fundamentally whether the relationship between inflation and unemployment exists, but that the economic policy of recent decades has given up on the goal of full employment and had a far too one-sided focus on the inflation target. This tunnel vision has cost us dearly. If we are to return to the objective of full employment, this could, temporarily, lead to upward pressure on prices, unless other measures are taken to contain prices. But it is a journey that must be made, since the largest income gap is between those who have a job and those who do not.

For those who have lost their jobs, it is little consolation that prices are not rising quite as fast as before. Fighting inflation through unemployment defeats the whole purpose of fighting inflation, namely, to create stability and mitigate the effects on low-income households. It is a greater financial strain to become unemployed than inflation being slightly higher than before. Unemployment also has far more serious repercussions on society as a whole. It is also simply unjust to let workers suffer when inflation stems from outside factors, such as wars and climate change, and the increased profit margins of companies.

To boost employment, investment and growth, the inflation target could therefore be temporarily raised and discussions on government spending should focus not around deficits or surplus, but rather the actual needs of the economy, until full employment is the norm. To run a state deficit to invest in fossil-free transportation across Europe that profits future generations is not the same as running a state deficit to cut taxes that profit the corporate elite at the expense of the quality of tax-financed goods. When today's bubble economy is replaced by

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investment-led growth, the level of inflation can stabilise. Then we can navigate based on a more just and updated view of what the NAIRU, or “equilibrium” between unemployment and inflation, should be.

The worst-case scenario that risks occurring is that unemployment is high while prices continue to rise: stagflation. Much of the Western world suffered from this during the 1970s when OPEC countries restricted sales of oil. Like the inflation of 2022-2023, the inflationary period of the 70s began with an energy crisis caused by a geopolitical conflict. When central banks tried to address price increases due to supply problems (oil) with higher interest rates, the result was: more economic destitution, but continued price rises.

### 3. Fiscal policy needs to step up

Just as the Theranos blood test machine misdiagnosed its patients, the modern political interpretations of the Phillips curve misdiagnose how to fight inflation. Bloodletting did not cure diseases in the Middle Ages, nor can we cure inflation by making ourselves sicker. Of course, it can be argued that *Streptococcus*, which caused blood poisoning, was combated if the patient died, and thus, the disease could be considered cured. But then you may have lost sight of the purpose of the cure. The answer to a phenomenon that makes us poor (inflation) cannot be to become poorer.

Instead, poverty should be combated with redistribution. We need to use the economy for the people, and stop trusting the market to self-regulate in an era of poly-crisis. The cost-of-living crisis that followed the pandemic, climate shocks and the war on Ukraine has fuelled poverty and income dispersion and even led to the return of scurvy among poor children in Europe. The high inflation and austere policy measures will be engraved in the skeletons of children growing up in low-income households.



The question that needs to be asked is should the central banks be on board this journey of investment-led growth, or stay in their “independent” tower? The risk is that without a more democratic framework, where the value conflicts surrounding inflation targeting are properly disclosed and monetary policymakers are held accountable for their decisions, investments will be halted, unemployment will stay high, and the power imbalance between monetary and fiscal policy will remain. This is where Europe stands today. The will to have a common currency has led to an extreme democratic deficit when it comes to monetary policy,<sup>8</sup> and thus, to a neoliberal and monetarist hegemony among its experts and directorate. But this cannot be allowed to pacify finance ministers.

Europe needs a more active fiscal policy for strategic investments in fossil-free energy, reducing our dependence on imported gas and oil. There are several common European markets on collective goods, and when it comes to inflation, electricity and energy are crucial ones. For a common European electricity market to work, it needs to be paired with a price-setting principle that combines solidarity, predictability and incentives for efficacy.

We simply need to start asking what causes inflation on a much more granular level, rather than relying on outdated and simplified aggregated economic models that put too much emphasis on demand. A new geopolitical crisis cannot be allowed to spread and hurt European households and workers in such an extreme way as the war on Ukraine has, at the same time as windfall profits skyrocketed. Collective and price-critical goods need to be under democratic control. There should also be a clear framing of climate actions as actions to contain inflation, much like the American Inflation Reduction Act is, although the actual reforms can (and should) be discussed. Bad harvests and extreme weather can put upwards pressure on inflation and increase the risk of geopolitical conflicts. Tackling the climate crisis is therefore the most foresighted way to ensure price stability in the future.



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# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?

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Ania SKRZYPEK

## **Governing Europe – is it an audacious progressive ambition?**



**Abstract:** In the current year of 2024 half of the world's population will be involved in elections. Among the most important are the European Parliament ones, which are scheduled for 6th – 9th June 2024. The article presents an attempt to anticipate the political debates that will occur after, intending to identify the potential for progressive governance in Europe. This should be understood in broad strategic terms – namely both within the institutional and policy dimensions. Consequently, this paper considers diverse obstacles, including the changing nature of Euroscepticism and anti-Europeanism. But it also looks at the broader transformative trends, resulting from the demands that emerged particularly in the context of for example COVID and the Russian invasion of Ukraine. Striving to depart from political short-termism by investing in capacities to think and act both medium and long-term. In that sense, this is a contribution within deliberations on how to ensure the primacy of the progressive ideas in the context of the (ongoing) debates on the EU's future and how to offer a reassuring, but also aspirational agenda that could make it for a fairer, more prosperous and more sustainable future.

**Keywords:** European elections – multilayer governance – radicalisation and tectonic political shifts – primacy of progressive ideas – new aspirations to redefine social progress

## 1. Introduction

The upcoming European elections are expected to bring further shifts in the European landscape. Though in 2019 there was – for the first time in 40 years – an increase in turnout, it is hard to predict if this tendency will sustain itself. And, to that end, if more citizens go to the polling stations, there is no way of knowing if that will translate into augmented support for progressive forces.

But even with these variables, and the fact that the number of seats inside of the European Parliament (EP) will increase by 15 (EP 2023), the forecasts suggest that the current groups of European Reformists and Conservatives and of “Identity and Democracy” are expected to make the most substantial gains (winning about 25–30% more seats than they have today). On the other hand, liberal RENEW Europe and Greens-EFA are said to drop by about 30%. With the European People’s Party and Progressive Alliance of Socialists and Democrats remaining at almost the same level, it means that the new EP will continue to be fragmented, but what will change will be its lean towards the right and radical right. And that in itself re-emphasises the question about what would be a viable trajectory for the European project in the future.

## 2. Effective tactics amid tectonic political shifts

With so many years having passed since the foundation of the European project, it is easy to think about those first days through a prism of books and documents. It makes the decisions taken in those days appear as visionary, yes, but also rather straightforward. There was a choice made between what Europe should become and what it should never allow to happen again. But what no longer seem to transcend well are the emotions (the good and the bad ones) that

must have accompanied those discussions. There seems little attention paid to the determination that must have led the search for something positive and aspirational, as well as the anxieties, which boosted the quest for a settlement that would be reassuring and comforting after the years marked by the tragedies of World War II. So, it must have been not only the moment marking the start of the integration processes, but the first time when diverse ideas clashed that led to the very first reflection about the future of Europe in the new constellation. Observing it makes one realise, without a doubt, that the debate about *how to renew and improve* the European Communities is as old as the unification project itself.

The interesting common characteristic of the diverse deliberations about the potential reforms of the Community (and then the Union) is that there has always been a group of reformers and a coalition of willing, who would then embark on negotiating rounds. The initial ideas would frequently get tempered, leading bolder proponents to complain about the time-consuming deliberations and the culture of compromise. For those more frustrated, it was synonymous with the predicament of “Brussels bureaucracy”. But reform after reform, the way has always been found – not so much because of a set of mutually reinforcing miracles, but because of the convergence of three aspects: the right people; a determined will; and a conducive time (Kwasniewski 2023). The last two frequently derive from the context of a crisis, which directly or implicitly has called upon leaders to assume their historical responsibility. Hence, also, the historiography of European integration focuses much attention on the fact that the unification process has been sinusoidal (being boosted by predicaments), alongside the personalities that either inspired or led the negotiations and their final outcomes. How the results were achieved in exact terms is considered more of a background story. And this may explain why less is known about those who tried to block the changes and failed in

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the past century – with exceptions to the rule being the period marked by the “Empty Chair” and the TINA (There Is No Alternative) arguments raised by Prime Minister Thatcher.

This observation is consequential, as the dynamic seems to have changed – starting with the times of the dramatic negotiations around the Treaty of Nice and then the eminent failure of the so-called Constitutional Treaty (opposed in referenda in two of the EU’s founding member states: France and the Netherlands). The next years saw the contesters of EU integration growing in force, with some succeeding – such as the UKIP with Nigel Farage – in accomplishing the unthinkable: putting a proposal for their country to exit the Union under serious consideration. With Brexit having taken place, there seem to be many implications, but one that is overlooked is the impetus it has given to those who are sceptical or anti-European in their attitudes. It doesn’t mean that they are in denial about the political, economic and social costs of disaffiliation that the UK is continuing to face. But still, behaviour such as Prime Minister Cameron’s walkouts from the Summits and the harsh rhetorical attacks on the EU’s shortcomings turns out to be less bizarre perception-wise nowadays. With the political landscape evolving, it is the hurdles and not the achievements that preoccupy the attention. And it is the critics of integration who not only sound louder, but these days seem to have much more to say. And Euroscepticism seems to be less and less contained within the national frameworks of political thinking (De Vries 2018); it is growing steadily in becoming a pan-European trend.

This brings us back the point made in the introduction about the foretold shifts that the next European elections are about to bring for the EP’s composition. But this will be only one of the elements, as, in the aftermath of the vote on 6 and 9 June 2024, negotiations will also start about the composition of the European Commission and the appointments of the so-called top jobs (President of the European

Commission, President of the Council, High Representative etc.). The configuration of the current European Council suggests that they may be rather turbulent, especially since there is no guarantee that the Lisbon Treaty will be interpreted by the heads of states in a way that recognises the outcome of the elections by observing the win of one of the *Spitzenkandidaten*, as they will also be led within the context of the Hungarian presidency of the EU – with Prime Minister Orbán not being known, so far, as a compromise broker.

The critical question for social democrats in the months ahead will be how to define the premises of their success and how to enter the positions that will allow them to ensure primacy of progressive politics for the years to come. This is complicated, when taking into account the numbers, which ruthlessly show that they are far from having the hope of a majority in the Council, that they will have the possibility of nominating only a handful of Commissioners and that they will have a more difficult situation inside of the EP. There, the “grand coalition” or, if one wants, the alliance of more traditional groups, is shrinking – and while the right and radical right may not yet have a majority, the radical right will enjoy increased capacity.

Naturally, it is hard to predict the dynamics of the European campaign (and to that end, the 27 national campaigns embedded in it), and recent history stands as proof that there is always the chance for an unexpected turn (of which the best example is the impact Frans Timmermans had as a lead candidate for the PES family in 2019, which grew to be recognised as the “Timmermans effect”). This time, the choice has been made to support Nicolas Schmidt, who had been nominated by more than a dozen of the PES members initially and will be the only nominee ahead of the party’s Congress in Rome at the beginning of March. Schmidt’s candidacy embodies a strong message about the proud achievements and progress made in Europe thanks to social democrats’ determination, who indeed have managed, both



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within national governments and in EU institutions, to uphold the ambition to govern and not just manage in the times of the polycrisis. In other words, it's consistent with what progressives are trying to forge in their narrative and image – namely, a mix between predictability and integrity on one hand, and credentials to design and forge the necessary change in moments of trial on the other. This hopefully will translate and resonate, but even then electoral mathematics remains what it is. And it is prudent and not atypical to think ahead.

The question therefore remains about how to anticipate not only complex negotiations (which social democrats will enter without having the position of the largest powerhouse), but also how to consolidate around a clear-cut project for Europe (laid out for the next legislative period and for the decades to come). And this time, unlike in the past, this may call for setting clearer priorities – namely, defining a vision, but then breaking it down into tangible elements, and setting a handful of areas that will be determinant in making a difference.

For political operatives this may seem obvious, but effectively it still doesn't seem to be that natural for the parties – such as social democrats – which went from the mass to catch-all organisations (Krouwel 2012) and are still looking for the optimal format. The dominant thinking among the traditional parties is still that driven by an ambition to show their credentials by “having possibly all the answers to possibly all the issues”. But with an increasingly complex world, this aspiration is less and less a guarantee of credible results. Perhaps these are the times of making U-turns and retrieving the ideas of political agency and credentials derived from “owning an issue” in the political sense.

While the selection may appear hard, in fact, it shouldn't be. A (euro) party can offer all the answers and remain unable to convince voters, who themselves have their priorities and with whom some questions resonate at a given time. So, this is a time to show leadership by defining an idea for the future of Europe with only a handful of projects,



which – as the founding members tried – would be aspirational and comforting at the same time. Their choice should determine the strategy of aiming to secure specific positions for the progressive family (within the set of top jobs at the Commission and elsewhere) and, this time, the process should be conducted with much greater pan-European coordination with the remaining social democratic governments of member states.

This way, social democrats, who will be facing a challenging composition of the EP, can find an additional source of strength through investing more in synchronisation within the multilayer governance. This would consolidate forces, linking the national progressive (or progressive-led) governmental coalition's priorities with the dossiers that social democrats would like to lead on within the European structures. As a disclaimer and a clarification here – this is not a call for a move towards the reinforcement of the intergovernmental method, but rather for strengthening and using more of the federalist method by boosting politicisation and using better intrainstitutional mechanisms of cooperation. In particular, the record of the last five years shows the potential for it (Skrzypek 2023): several of the PES parties' leaders, in their capacity as prime ministers, kept forging bilateral meetings to discuss Europe (and overcome differences), while battling against the right-wing centrifugal forces over the future of Europe. The main battlegrounds should be expected to be within the Council and Commission.

### **3. Progress in the never-ending conversation**

In the previous section, there were several observations made regarding the changing political context, which will influence the composition of the post-electoral top negotiating table. The process is accompanied by the altering tone of a broader conversation about the

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future of Europe. Euroscepticism (and anti-Europeanism) has become a more pan-European thread, even if the specificities of politicians' approaches and their arguments are still strongly anchored within their respective national contexts. This may well be what will make this moment in history different from what could have been anticipated in the past. Historically, every crisis led to progress, as leaders assumed their historical responsibility, tried to cooperate and found a way to compromise in the face of necessity. The presence of radical-right leaders inside of the Council and in larger numbers inside of the EP may mean that the current polycrisis will not be a moment of *getting (acts) together*. It instead may see more power within the centrifugal forces and at best prolong the situation labelled elsewhere as a *great lockdown* (James 2023). This can mean persevering, but not thriving – which in any other moment would have been inconsequential. But because of the geopolitical context, war on the European continent and a new kind of global race to be in a position to shape the trajectories of future developments (i.e., in the fight against climate change or digitalisation), not moving forward fast enough would mean a relapse for Europe.

Coming back to the original question of what social democrats could do, as one of the two leading European political families in a very complex and not particularly conducive (for them) context. One part of the answer is about strengthening their acting capacity by being more strategic and more invested in the principles of multilayer governance. But the other, equally relevant part, concerns the project. And this is an important aspect, which calls for greater reflection.

For a long time, there have been complaints that the right-wing radicals have a very straightforward and simple story, which appeals to people's emotions and mobilises them to vote. When it comes to the EU and the European elections, social democrats seem to have grown even more frustrated about the fact that the radicals offer a simple "no", while they feel compelled to explain the EU and what needs to be re-

formed – but then, before they manage to arrive at the actual agenda for change, they either lose attention or the argument (versus the radicals) altogether. Somewhere in the back of that evaluation is also bitter regret, which, often in the aftermath of the campaign, is articulated in words like “we had a great programme, good manifesto, modern campaign, only people didn’t grasp it”. Now, the problem with this way of thinking is that it implies rather poor orientation on the citizen’s side. That is both unfair and untrue, as societies are possibly the most informed in history. And while any campaign begins with the assumption that people enter it with different ideas and positions, success is measured by how far parties are able to convince voters. The problem with European campaigns is not only the fact that, until recently, they have been considered as mobilisations for second-order elections, but also that, as in case of social democrats, it is hard to excite people around the long list of reforms (even the most necessary ones), especially if they are *extensively explained* and seem rather distant.

To face and challenge the radical-right wing, it is necessary to put forward a project that is aspirational instead. Especially, when it comes to national-level politics there is a trend of many young people falling behind these organizations. And this strive for a hopeful and empowering vision would seem that this is a niche that not too many European stakeholders try to enter, as observed after having taken a glimpse at the manifestoes (and what has been “leaked” about them so far). The radical-right speech is – in a nutshell – all about gaining control and more sovereignty. It resonates with feelings people have about the ongoing war, the cost-of-living crisis, climate change and many more issues. And it connects by offering a version of empowerment. The right seems to be more into the narrative of preservation, rebuilding prosperity and security (which is, to some extent, an attempt to reiterate the fundamental values upon which the Communities were built). The liberals focus much on the questions of completion of the single

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market, reforming institutions and safeguarding democracy. All these proposals are sound, and certainly reflect some of their proponents' core preoccupations, but they, to a large extent, describe Europe and the answers to the issues it is facing now. What is missing across the board is a greater ambition about what sort of Union there should be in the future.

There may be a good explanation for this state of affairs. To begin with, the outgoing legislative period was an unusual one, and the turbulent, mutually reinforcing developments arrived as rather unanticipated ones. For a while, it convinced politicians that, while they had already been suffering from short-termism politics and being very subordinated by the short, 24-hour media cycle – in the new context, they found they were lacking even more capacity to predict what kind of crash would come next. The only certainty has been that there would be one. As a consequence, exercises that would enable *foresight* and developing scenarios became popular again. Nevertheless, stakeholders still found it very challenging to speak about a long-term scenario, feeling that it may be irresponsible or even an illusion.

But amidst all this, one could only say with certainty that what worked throughout those difficult months and years was to stick to the course, remain faithful to the principles and continue governing. That integrity was rewarded, and even if subsequent elections would bring about change at the steer – the popularity of the party and their leaders who were in charge during, for example, COVID wouldn't suffer (see elections in Finland, Sweden or recently Spain). This would suggest that there is a way of going through crises and managing unexpected correlations while remaining focused on the initial goal (with adjustment of means) and firmly pursuing transitional projects.

There is no reason why this wouldn't be an inspiration for the progressive European agenda. And there seems to be momentum, because a bold proposal of how the Union should look and what it must

guarantee, especially for its citizens, is available. To name a few constituting factors: there was a Conference on the Future of Europe (CoFoE); a number of important lectures and speeches by leaders on the way forward (including a speech by Olaf Scholz in Prague); a question about the EU's power to remain competitive and influence international politics; the EU's promise to lead in the fight against climate change; and the enlargement process, which was revived again due to historic circumstances. The European flags have been waving at marches in the name of democracy in Budapest and earlier in Poland, and yes, farmers also picked Brussels as the main focus of their anger and anxieties. This suggests that neither these elections nor what comes after them on the EU level will be a supplementary, secondary question.

More concretely, what social democrats could dare to choose to face the challenge of providing an aspirational, empowering project for Europe is to propose a new industrial, socially invested Europe. It would need to be an ideal, a plan and a set of policies that would lead to its implementation. Perhaps it doesn't sound too revolutionary initially, but there is the question of the indispensable components that could make it rather ground-breaking if put together. To start with, unlike in the past, there are whispered comments about the fact that the EU may not be able to afford its future, and this is where the key lies, by saying how it actually can and what it would mean in strategic terms. In that sense, the new industrial strategy is about redefining productivity, modernising the labour market and possibly increasing Europe's cohesion. The way the agendas are designed nowadays still embraces the idea from the 1990s and the heyday of globalisation, namely, that capital can move freely and the labour force is bound in place – giving the former an unfair advantage. That, however, is no longer the case, and Europe should return to the ambition that is seeing a return as well, namely, that it can be the *most competitive, knowledge and quality-employment-based* entity in the world.

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The second thing about the proposal is that it would imply talking about *social investments*, and this would bring back discussions about public goods, public services and rights. This type of conversation is long overdue; two decades ago, there was a major clash around the so-called *Frankenstein Directive* (which was a diminutive way of referring to the Bolkestein Directive). It is very much needed, if, indeed, there were to be a sense of how much the EU does and can do in the future for its citizens in pursuit of a mission of “social progress and prosperity for all”. The results of the CoFoE were very instructive in that dimension, but also there should be an understanding that the world moves on and there is a need to redefine the scope of action for the public sphere, taking into account things like overall demand to live in a healthy environment, to see schools and workplaces organised with attention to well-being, and to see the principles of social justice reflected in approaches to digital giants and to provisions for affordable housing. There has been some progress made on diverse dossiers, but a progressive narrative that would encompass everything is still missing (despite some very compelling ideas like P. Magnette’s “Eco-socialism”, Magnette 2022).

Finally, this type of project would be conceptualised from within, but would also give an indication of a direction on which Europe could grow without feeling insecure or inferior. In the last years, there have been several proposals put on the table – like the European Strategic Autonomy or an ambitious agenda of trade agreements. These all, again, seem to be put in place in parallel – with one guiding goal, to strengthen Europe, especially in the time of war at its border – but they seem to be more like pieces of a larger puzzle, one designed as a segment rather than a broader picture in itself. In this context, the new proposal would have to do two things: (1) underline the openness of Europe and confidence in its own ability to define its future; and (2) be reassuring for those inside that it will be in the position to remain open and afford enlargement, manage immigration much better, and



still contribute to the world's fight for peace, sustainability and justice. There is a need for the kind of proposal that would be reassuring, to answer people's well-substantiated concerns, halt the march of the radical-right wing on Brussels and prepare the ground for processes such as ratification of the new enlargement wave (for which the process of winning social support currently does not seem to be much in focus and will be required all the same).

## 4. The real win

Evidently, the period ahead of any election is one when parties and candidates are mobilised, campaigns are being designed, and there is (or at least should be) a lot of energy among activists. That said, it is by now rather obvious that the forecast sees social democrats as the second-largest group inside of the EP after June 2024 – but it also entails a number of worrying facts, like the decline of the “traditional parties coalition” in power and an increase in seats for the radical right. They will be reinforced in numbers inside of the assembly, in scope of influence in the Council and through the fact that “anti-Europeanism” is much more *Europeanised* nowadays than it has ever been before.

This would suggest that an actual win depends on the ability to look beyond the horizon of this year and find ways in which, despite the numerous challenges, social democrats can persevere in their mission of being the family to shape the future for Europe. This will require boldness and a readiness to try out two things – a different operational strategy to pursue the ideal of multilayer governance on one hand, and a vision that would be ambitious and reassuring on the other. While Willy Brandt's *Dare More Democracy* has been recalled countless times, this is also the time for being audacious, to find ways to govern (even if in selected, prioritised fields) and *dare to start a new project* – which will revive a belief in political possibilities and in longer-term aspirations.





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## Endnotes

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# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?





# **Forging a resilient EU agenda**

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Eunice GOES

# **Renewing the Social Europe agenda: Democracy in the workplace**



**Abstract:** At a time of growing economic insecurity and political polarisation, European social democrats should renew the old traditions of Social Europe and develop an agenda centred around ideas of economic democracy aimed at empowering workers, reducing inequalities, strengthening labour rights and trade unions, and widening access to collective-bargaining mechanisms.

**Keywords:** economic democracy; labour rights; trade unions; workers; precarity

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In the last three decades or so, the old idea of “Social Europe” became a well-meaning but vague slogan used by social democratic leaders, who lamented the neoliberal direction of the EU, but who had no proposals of their own to reverse it. But as slow growth and economic insecurity continue to shape the political and social landscape of Europe, the time has come for social democrats to rediscover the ideals of Social Europe, which were set up in the 1970s by European social democrats, and which centre around ideas of economic democracy.

An agenda centred around the promise of economic democracy is justifiable on several grounds. Firstly, insecurity in the labour market is a growing and multifaceted problem with economic, social and political consequences. Indeed, labour market insecurity is not limited to the low-skilled services sector of the labour market; it also affects highly skilled workers in education, science and healthcare who are locked in insecure employment.<sup>1</sup> Secondly, greater labour security and stronger workers’ rights are correlated with higher economic productivity and greater employment rights.<sup>2</sup> Thirdly, tackling labour market insecurity will contribute to greater social justice and equity because it reduces socio-economic inequalities, as secure and unionised workers tend to earn higher salaries than precarious and non-unionised workers.<sup>3</sup> Fourthly, stronger unions and collective-bargaining mechanisms contribute to the empowerment and emancipation of workers, goals that have been the leitmotif of social democracy since its emergence in the 19th century. Fifthly, addressing insecurity in the labour market has the potential to improve the electoral chances of social democratic parties. The correlation between support for social democratic parties and trade union membership is very high. Bremer and Rennwald showed that “trade union members are 7.3% more likely to support social democratic parties than non-members”.<sup>4</sup> By contrast, support for parties of the radical right is correlated with the rise in inequalities.

Engler and Weisstanner's study of 14 OECD countries found that "rising income inequality increases the likelihood of radical right support".<sup>5</sup> This is so because "the threat of socio-economic decline, rather than actual deprivation pushes voters to the radical right".<sup>6</sup> Moreover, Stoutzer, Giesecke and Glücker showed that a one-unit rise in the Gini index increased support for far-right parties by one percentage point.<sup>7</sup> In short, social democratic parties have a lot to gain if inequalities and labour insecurity start to fall.

Fortunately, social democrats do not have to search hard to find policy ideas that promote either "economic democracy" or "workplace democracy". As the next section shows, the history of social democracy is rich in proposals and practices of different models of economic democracy. Crucially, each proposal shows that economic democracy is a dynamic and mouldable concept, which can be shaped to fit the economic and social circumstances of the places (companies, cities, regions, countries) in which it emerges. Moreover, social democrats do not need to develop a big-bang approach to labour and social rights that runs the risk of encountering staunch opposition in the European Council, which, at the moment, is dominated by centre-right and right-wing governments. Streeck and Thelen showed that transformative change could occur following the accumulation of imperceptible, gradual but deliberate changes.<sup>8</sup> This means that a few well-targeted policies, which build on what is already on the statute book, have the potential to radically transform the lives of millions of European workers.

## **1. The historical lineage of economic democracy**

It is difficult to pin down the first time social democrats discussed the potential of economic democracy. Marx and Engels' proposals to collectivise the means of production and the experience of the Paris



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Commune of 1871 suggested the possibility of emancipating workers, by giving them full control over their work environment in an idealised socialist society. But in the early 20th century, most European social democrats interpreted the commitment to socialism and collective ownership of the means of production as a defence of nationalisation. Informing this commitment was their rejection of anarcho-syndicalist ideas for workplace democracy on the grounds that they promoted selfish interests at the expense of the common good.<sup>9</sup>

However, there was another group of social democrats who interpreted the concept of “common means of production” as a defence of cooperatives, models of co-determination and economic democracy to operate alongside a powerful social democratic state. In the first decades of the 20th century, Britain’s Guild Socialists were perhaps the first to defend workers’ control of industry through the delegation of authority to national guilds organised internally in a democratic fashion.

Inspired by the Guild Socialists and the impact of workers’ councils that had been set up in Germany in the tumultuous period of 1918-20, the Austro-Marxist Rudolf Hilferding suggested the use of either “industrial parliaments” or workers’ councils to “establish new, unified organizations that would dominate the state and the economy”.<sup>10</sup> Germany’s co-determination model was eventually set up in the period 1951-52, but its roots lie in the workers’ councils set up in 1918 by three trade unions and the employers’ federation.<sup>11</sup> In Sweden, and equally inspired by the Guild Socialists, leading social democratic theorist Ernst Wigforss defended industrial democracy on the grounds that social democracy could transform society “by democratizing the power held by capitalists”.<sup>12</sup> A result of this approach was the creation of work councils in Sweden in 1946.

In the postwar period, ideas of economic democracy were neglected in most European countries. It was assumed that the mixed

economy and the welfare state were sufficient to deliver social democratic aims. It was only when social contestation and workers' unrest peaked in the late 1960s and early 1970s that ideas of economic democracy became fashionable again. In reaction to the wave of youth and labour protests that hit France in the late 1960s, the then SFIO (now the Socialist Party) embraced *autogestion*, which was the French take on economic democracy. In 1969, the Danish social democratic government approved a model of economic democracy, which aimed to develop "a more democratic and socially responsible economy" and a fairer distribution of wealth.<sup>13</sup>

Inspired by the Danish experience, the Swedish social democrats proposed the addition of wage-earner funds to the Rehn-Meidner model of 1951. The purpose of such proposals was to compensate workers for accepting wage restraint at a time of high inflation, but they nonetheless offered workers a degree of control over their lives. Indeed, these wage-earner funds gave trade unions the right to participate in companies' decision-making, redirected company profits into collective funds and protected workers from unfair dismissal.<sup>14</sup>

Around that time, European social democrats started to understand how the transformation in the patterns of global trade and in global capital flows was casting a shadow over social democracy. It was this realisation that inspired the leaders of Germany's SPD, Willy Brandt; Austria's SPÖ, Bruno Kreisky; and Sweden's SAP, Olof Palme, to propose economic democracy as a way of guaranteeing the survival of social democracy. As Olof Palme explained during his dialogue with Brandt and Kreisky, "the essential component of democratic socialism, consists in achieving democracy in all areas of society" and in creating "forms of democratic labour and one democratic community".<sup>15</sup> Along a similar vein, Brandt justified the focus on economic democracy and co-decision on the grounds of creating countervailing power to the growing might of multinational corporations.<sup>16</sup>

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This debate was not a mere intellectual exercise. Moved by ideological resolve and heavily influenced by work developed in the 1960s by the transnational socialist group in the European Parliament (EP),<sup>17</sup> Willy Brand presented his proposals to strengthen economic democracy, as well as Europe's social dimension to the other member states of the European Communities.

If his European partners were somewhat lukewarm about these ideas, Brandt found a sympathetic ear in the European Commission (EC). The then president of the EC, Dutch social democrat Sicco Mansholt, was already considering a range of proposals developed in the 1960s by the Socialist Group in the EP, and which included the development of tools "for a policy oriented towards a new distribution of all wages and income", and towards "guaranteed employment and harmonized social security", which would be "achieved in collaboration with workers' and employers' organizations and embodied in the 'European social budget'".<sup>18</sup> In the late 1970s, the commissioner Henk Vredeling pursued the same agenda. Famously, he proposed the Vredeling directive, which envisaged employee consultation and participation in the decision-making of multinational companies (through European Works Councils), namely, in the management of its profits and capital growth.<sup>19</sup>

But, by the end of 1970s, most of the EC's "social agenda" was abandoned. The deteriorating economic situation created by the oil shocks and rising inflation, the growing influence of monetarist ideas, as well as a change in the leadership of the SPD, the election of Margaret Thatcher as British prime minister, and the divisions within the European left and labour movement condemned those plans to history.<sup>20</sup> Consequently, in Sweden, the wage-earner funds that had been added to the Rehn-Meidner model were heavily diluted following the defeat of the social democrats in 1976,<sup>21</sup> and a successful campaign from the business community.<sup>22</sup> The wage-earner funds were eventu-

ally abolished in 1992.<sup>23</sup> In Germany, the then new SPD leader, Helmut Schmidt, believed that Keynesianism had run its course and a new era of fiscal rigour was needed. In Britain, Thatcher prepared an onslaught against trade union and employment rights, whereas in France the socialist government of François Mitterrand was forced to make a U-turn on its progressive agenda and embarked on a *“tourant de la rigueur”*.

## **2. A brave new world of insecure work**

Around this time, social democratic parties started to lose elections, and the centre-right governments that were in power focused their energies on weakening labour protection, changing trade union legislation and eroding workers' rights. By then, the world of work had been radically transformed because of the process of deindustrialisation, which affected many European countries, and subsequent transition to a mainly services economy. In contrast to the unionised and well-paid manufacturing jobs that were available in the immediate decades following the end of the Second World War, in today's European economies, most work is concentrated in the services sector, where trade union density tends to be either very low or non-existent. Consequently, workers of the service sector have less control over their working lives. They often have no control over their working time, and their contracts tend to be short-term and employment rights are kept to a minimum.

When social democrats returned to power in the mid-1990s, European economies had been radically transformed; however, social democrats did little to reverse anti-union laws and the erosion of social and labour rights that took place in the 1980s. Instead, social democrats developed sophisticated active labour market policies that sought to address long-term unemployment and prepare workers for the de-

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mands of the globalised economy, as well programmes of tax credits that supplemented low wages, but neglected trade union legislation and collective processes of wage bargaining, and implicitly subsidised low pay. This approach, embodied in the Lisbon Strategy, focussed on employability; labour market flexibilisation; training and retraining; wage moderation; targeted the long-term unemployed, older workers and young workers; and aimed to foster greater competitiveness across Europe.<sup>24</sup>

This approach went with the grain of the economic orthodoxy of the 1990s, which cherished the dynamism of markets and private enterprise and accepted the weak bargaining power of workers, but by the time of the 2008 global financial crisis, it was clear that this approach was disastrous. Alongside the global financial crisis and the eurozone crisis, this approach led to the rise of inequalities and economic insecurity, and contributed to the populist backlash and electoral decline of social democratic parties.

### 3. An emerging consensus

It was in the context of growing inequalities and social democratic electoral decline that proposals for economic democracy recently returned to the debating table. In progressive intellectual circles, Thomas Piketty's proposed idea for "participatory socialism" has been getting a hearing. Piketty's participatory socialism includes proposals such as new forms of social ownership, a wealth tax, economic democracy and a universal basic income.<sup>25</sup> Similarly, Daniel Chandler proposed the expansion of "workplace democracy" or "co-management" or "workers cooperatives".<sup>26</sup>

The Belgian ecosocialist, political theorist and mayor of Charleroi, Paul Magnette, went a bit further and proposed an ambitious agenda to "confront the economic oligarchy" based on democratising eco-

conomic planning and sharing power in the workplace.<sup>27</sup> Drawing on the ideas of the Belgian sociologist Isabelle Ferreras,<sup>28</sup> Magnette proposed “economic bicameralism” as a means to achieve the democratisation of economic power. Under economic bicameralism,<sup>29</sup> companies with more than 12 workers should set up two chambers – one representing workers and the other capital – which would decide the overall direction of the company on matters such as wages, working conditions, investment, dividends and corporate strategy.<sup>30</sup>

Ideas of economic democracy are also being discussed in EU policy circles. During the eurozone crisis, Commissioner for Employment and Social Affairs Lázló Andor proposed to integrate social indicators into the macroeconomic imbalance procedure, which sought to counterbalance the austerity imposed by the rules of the eurozone.<sup>31</sup> More recently, the EU’s Recovery and Resilience Facility explicitly supported the introduction of labour market reforms into the recently created European Pillar of Social Rights (EPSR).<sup>32</sup>

In addition, the 2022 directive on fair and adequate minimum wages was hailed as a “paradigm shift” in European economic governance, because it no longer saw low wages as a path to economic growth and invested instead in a high-skilled economy.<sup>33</sup> Finally, the EPSR commits member states to “encourage collective-bargaining actors to negotiate and conclude agreements in areas relevant to them” as a way of ensuring that European workers enjoy rights to information, consultation and participation<sup>34</sup>.

At the national level, social democratic governments have led the way in the promotion of workers’ rights. In Germany, Olaf Scholz focused his winning electoral campaign on the promise of restoring “the dignity of work”. In Spain, the government led by Pedro Sánchez enacted radical labour legislation that addressed the growing casualisation of the Spanish labour market, which mostly affects young workers. The new labour law strengthens the information rights of trade unions,

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bans unjustified fixed-term contracts and privileges collective bargaining. In Britain, the Labour Party, led by Keir Starmer, has proposed a New Deal for Working People, which promises to ban zero-hours contracts, outlaw bogus self-employment, end qualifying periods for working rights and strengthen the powers of trade unions.

As it has been suggested, there is not a single policy toolkit to empower workers. The concept of economic democracy is dynamic, as it adapts to different economic and social contexts, and should be seen as one important piece of a more ambitious social democratic plan to strengthen and deepen democracy in social, political and economic spheres.

### **4. Proposals for a Social Europe for the 21st century**

The emerging consensus on workers' rights and economic democracy suggests the main outlines of what should become a key component of a winning formula for European social democrats. This winning formula has two components: one that focuses on strengthening individual workers' rights, such as rights to a minimum and/or living wage, a four-day week and flexible working hours, adequate parental and sick leave, regulated working times, training and retraining, and which outlaws practices like zero-hours contracts and bogus self-employment and other forms of insecure and precarious employment; and a second that focuses on spreading workers' access to collective-bargaining mechanisms. Here, the formulas vary depending on the traditions of industrial relations of the different member states. Workers can be collectively represented by trade unions or works councils, or through elected worker representatives or economic bicameralism.

The promotion of this dual agenda implies that the two dimensions are mutually dependent, as access to mechanisms of collective bar-



gaining contribute to higher wages, more secure employment and better working conditions. However, it is important to stress that, for the countries where collective-bargaining mechanisms are still incipient, the dimension that focuses on developing and strengthening individual workers' rights must be developed first. Each of these components has both a national and an EU dimension. If the national dimension allows the emergence of social and employment rights that are consistent with the preferences of member states, the EU dimension guarantees that no European country should fall below a certain benchmark, in terms of social and employment rights.

As mentioned earlier, there are several national and EU initiatives that have started the journey towards a stronger Social Europe built around ideas of economic democracy; however, for now, the overall picture is quite uneven. In countries like Belgium, the Netherlands, Austria, Germany, Sweden and Denmark, most workers are covered by collective-bargaining agreements; in countries such as Greece, Hungary, Poland, Romania, Slovenia and Portugal, collective-bargaining coverage has declined in the last decade.<sup>35</sup> This suggests that social democrats should prioritise the promotion of access to collective-bargaining mechanisms as a key tool to create a level playing field for workers across Europe. Social democrats also need to be more vocal in their promotion of the unionisation of workers and should treat trade unions as important political actors and social partners in representative democracies.

In some countries, the pursuit of this agenda should also involve the repealing of union-busting laws, which restrict trade unions' access to workplaces, especially concerning workers of digital platforms, who are not covered by collective-bargaining rights and who, in many instances, do not enjoy employment rights like sick leave, maternity leave, paid holidays or basic control over their working hours.

But to be enacted, this agenda needs also to be pursued at the EU level. For the social democratic parties that are leading governments,



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they should support initiatives of the EP that support workers' rights and ensure that they are heard and supported by the European Council. For instance, they can promote the recent motion proposed by the EP urging the EC to monitor and enforce the implementation of social and employment rights in different member states.<sup>36</sup>

Social democrats should also propose that the EC undertakes the task of sharing the best practices in employment and social rights across the EU, developing national action plans to promote greater trade union density and robust monitoring mechanisms that ensure that minimum-wage laws, rights to information, consultation and access to collective-bargaining mechanisms are adhered to. They should also propose the enforcement of the EPSR, the banning of bogus self-employment and zero-hours contracts across Europe, and start naming and shaming companies that engage in anti-trade union tactics.

Last, but not least, as suggested by Isabel Schömann, European social democrats should also defend the revision of the European Works Council directive to ensure that workers and their representatives can be informed and consulted effectively.<sup>37</sup> Schömann also defended the drafting of a new EU framework for information, consultation and participation, with the purpose of ensuring that businesses do not circumvent workers' voices and that board-level employee representation rights should be anchored in EU company law,<sup>38</sup> and possibly in a new EU treaty. Finally, the addition of collective-bargaining requirements to public procurement, as already happens in Germany (and is a key feature of Bidenomics, as Patrick Diamond's contribution to this volume shows) should become the norm in the EU.<sup>39</sup>

The ideas suggested here are incremental in nature, but they have the potential to transform the lives of European workers. Needless to say, introducing such a change to Europe's industrial relations, with a view to empower workers and restore dignity at work, will be met with some resistance (as it recently did in the case of the directive on mini-

mum wages),<sup>40</sup> but, as outlined in this chapter, the terms of the debate are changing and some key policy changes are already underway.

Social democratic parties should take full advantage of the emerging consensus on workers' rights and on the renewed interest on ideas on economic democracy. These are small, gradual steps that need to be consolidated and complemented with full economic democratisation (which also includes enhancing the rights of consumers, deepening municipal and neighbourhood democracy, democratising the management of common pool resources, and so on), but a commitment to an agenda of full economic democracy will not only contribute to higher rates of sustainable growth and equality, and strengthen their electoral prospects, but crucially it will bring social democratic parties closer to achieving their historic mission of emancipating the workers and citizens of Europe.

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Juliana CHUERI, Carlo D'IPPOLITI, Dimitris TSAROUHAS

## **The twin challenges of technological progress and big power competition: The case of active industrial policy**



**Abstract:** Technological innovation is transforming our lived experience, especially in the world of work, yet progressive answers remain elusive. At the same time, the post-pandemic “new normal” suggests that an important window of opportunity for modern, progressive answers to the new challenge has emerged. Through a comparison with developments in the USA, we argue that Europe needs to adopt a forward-looking approach to state intervention (e.g., a more active industrial policy) and remove itself from the shackles of a market-only settlement that does not serve its purposes well, and which has been abandoned in droves by the rest of the world.

**Keywords:** Platform work, welfare state, populist radical right, digitalisation, and automation



## 1. Introduction: New challenges, new solutions

Dignified employment for all and shared prosperity in a growing, fair and competitive economy have always been the main promises of social democracy. Two interconnected contemporary developments challenge not only our ability to credibly aim for these goals in the future, but also question our current standard of living and social progress.

On one hand, technological advancement is both the main cause of material well-being, in the long run, and a possible cause of disruption and unemployment. This time might be different because some of the most promising technological innovations in the field of generative artificial intelligence (AI) risk both by causing even more disruption than usual, since they may affect workforce strata, such as skilled professionals and white-collar workers, who previously had less reason to worry about rapid technological change.

On the other hand, the international context in which these changes are taking place is shifting. Since joining the WTO, China has been playing by its own rules, never falling for the neoliberal day-dreams of the West and consistently unafraid to actively nudge the character and speed of its development in the direction desired by its policymakers. It has also not hesitated to acquire the most advanced technology it can, even through methods that were frowned upon, and actively condemned, by the West. What is new today is that China has grown to be the world's largest economic bloc, at the edge of the technological frontier and rapidly moving away from the low-value-added "Made in China" caricature of a mere factory of cheap goods shipped all over the world. The fact that China has now become the world's biggest car exporter, surpassing both Germany and Japan, speaks volumes about the progress it has accomplished in a relatively short period of time.



Often in response to observing the rise of the dragon, developing countries and middle powers have come around to reconsider the options of protectionism and state interventionism. Most significantly – and in quite a dramatic fashion, spurred by an anti-globalisation sentiment that had been festering for years and found its political expression in 2016 through Donald J. Trump’s election as president – the USA has now also opted for a robust set of policy interventions that emphasise the salience of active industrial policy in meeting the challenges of today.

In what follows, we argue that these two challenges require a new European approach to preserve what is to be kept of the old and to embrace the new. The next section focuses on the AI revolution and what this means in terms of a new set of social and class-oriented stratifications it may give rise to. Section 3 focuses on industrial policy and draws on the US example to suggest that Europe’s old ways of a market-based rule and the decision to insulate a market-based order from political decision-making is no longer appropriate. Then Section 4 moves to the realm of concrete policy proposals that target short- and long-term responses to the challenges we face, focusing on the jobs-industrial policy nexus.

## **2. Technological revolutions**

Generative AI brings immense disruptive potential to the world of work and production by enabling widespread automation of sectors and tasks previously spared from the threat of substitution, as well as an increase in workers’ surveillance. The first effects of this new technology can be seen in the spread of “automation fear” beyond those employed in routine-intensive occupations, such as content creation, copywriting, copyediting and journalism, as well as the increase of stress in the workplace due to the use of AI to control and discipline workers.<sup>1</sup> Predicting



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the overall outcome of these transformations is challenging, because their impact can be complex and multifaceted. This technology could affect the distribution of income and property rights, further deepen the tendency towards a “surveillance capitalism” (with the systematic collection of users’ data), and even amplify the risks of fraud and commercial or political use of fake news (e.g., with deepfake videos or other realistic but artificially generated pieces of news, photos and audio recordings). In this work, we limit our analysis to the workplace impact of AI, without wishing to understate the other possible disruptions that it may produce. Different jobs and industries may be affected differently, and new job opportunities may also arise because of technological advancements. Optimistic scenarios suggest that AI technology will replace many occupations but will ultimately create more jobs than it destroys, primarily due to the complementarity of technology and human labour.<sup>2</sup> However, pessimistic viewpoints argue that this time could be different. With new technologies having the potential to automate non-routine tasks that were previously immune to automation, the complementary effect may diminish over time.<sup>3</sup> Regardless of the future we find ourselves in, it is important to acknowledge that all technological change inevitably leads to frictional unemployment and distributive effects, primarily affecting white-collar workers this time.

It is worth pointing out that none of these developments are inevitable or beyond our control. To ensure that the results of technological investments benefit both workers and society as a whole, it is crucial to steer the direction of AI developments away from being primarily driven by the market choices of a few all-powerful oligopolists. Instead, these investments should be subjected to democratic procedures that will hold business owners accountable to citizens, workers and consumers.

The rapid pace of transformation has already led to political reaction in the EU, which has recently pioneered a new set of rules through the AI

Act. Agreement on the AI Act means that the EU has become the world's first major entity to regulate AI systems, setting minimum standards for both foundational models (such as ChatGPT) and general-purpose AI systems. Moreover, the AI Act seeks to protect fundamental individual rights pertaining to data use and privacy as well as consumer protection.<sup>4</sup> Still, while the Act introduces some essential mechanisms to empower workers affected by AI, it falls short of providing a comprehensive framework for democratic and worker-friendly utilisation. For example, the Act's provision for worker consultation prior to the implementation of AI in the workplace is limited to high-risk technologies, and the responsibility for risk assessment lies with the firm. This leaves room for potential abuse and allows business interests to dominate the decision-making process.

Potential societal transformations resulting from the dissemination of AI in the workplace, such as an increase in inequality, job insecurity and unemployment, introduce a potential opportunity for the left, placing class politics and disputes over distribution at the centre of the agenda. Historically, large-scale automation and technological innovation have sparked movements demanding social protection – the worker movement was, in a certain sense, born from and through industrialisation. However, recent de-industrialisation and the displacement of traditional manufacturing roles by automation have fuelled economic anxieties, which, to some extent, were already at the core of the growth of support for radical-right parties across Europe. The fact that this new wave of technological advancement may hit those middle-class workers who are now the main supporters of social democratic parties across Europe<sup>5</sup> harder represents a challenge for progressive forces. Therefore, whether the introduction of AI technologies will further ignite a political illiberal backlash or stimulate a progressive movement aimed at enhancing labour protection will largely depend on how left-wing parties and groups respond to these challenges, and what sort of policy choices they opt for (when in government) and advocate for.



Regarding the debate on adequate social policies to meet this challenge, in both industry and academia, many have proposed a universal basic income (UBI) scheme as the prevailing response to address these challenges. It is a rather timid approach, as it fails to tackle fundamental issues, such as privatisation; power centralisation; self-realisation and the inherent value of work as a contribution to one's community at various levels, whether local, regional, national or global. Therefore, the policy on managing technological change cannot be limited to income replacement. Instead, it should encompass broader aspects, including strengthening labour rights and workers' bargaining power, and providing adequate opportunities for meaningful new employment. Adequate training opportunities are crucial in ensuring that workers are equipped to navigate the implementation of AI technologies in the workplace.

### **3. The return of industrial policy: The US example**

Europe's ability to manage this technological revolution and to benefit from it, rather than suffer its most disruptive aspects, depends on the sort of economic and industrial policy that we will enact, in the context of what the other major world players do. Given the existing track record, there are reasons to be critical of the path followed and to favour trying radically different policies. The tide appears to be turning, in terms of embracing industrial policy in Europe and rehabilitating what used to be considered a "dirty word" in Western corridors of power. In a 2022 speech, Commission President von der Leyen called for a "common European industrial policy [with] common European funding",<sup>6</sup> and initiatives such as NextGenerationEU (NGEU) appear to suggest that mobilising the public sector to address market failures, as well as enhance competitiveness, is becoming more commonly ac-



cepted. More generally, the pandemic has given reason and occasion for a drastic change of course in the West: with the bipartisan embrace of protectionism and interventionism in the USA, now conveniently rebranded as “friendshoring”;<sup>7</sup> and with the temporary suspension of state-aid rules and the Stability and Growth Pact in the EU. Change, however, has been slow and timid so far, and as we argue in the next section, new steps should be quickly taken, in light of both the pace of technological innovation and the international competitive context.

In recent years – and largely as a result of (1) volatile geopolitics; (2) its own relative decline in manufacturing output; and (3) the repercussions for democracy and stability that the combination of these two factors have had – the US administration has opted for a robust, state-sponsored response. Although the discussion surrounding “Bidenomics” appears to suggest that this is not as coherent an economic paradigm as its supporters suggest,<sup>8</sup> it nevertheless offers an enticing example of what the public sector can do, and how long-established policy dogmas can be broken. The combination of the CHIPs and Science Act, the Infrastructure Investment and Jobs Act (IIJA), and the Inflation Reduction Act (IRA) suggests that industrial policy has been discovered anew. The 2021 IIJA foresees a total expenditure of \$1.2 trillion, including \$550 billion in new federal spending geared primarily towards infrastructure, green technologies, broadband and electric vehicle (EV) investment in the form of a national charging network. It is important to stress that a small part of the funds allocated through the IIJA are derived from tax reporting rules on cryptocurrency investors (\$28 billion) and a superfund fee on polluting corporations (\$13 billion).<sup>9</sup> The 2022 IRA complements many of the IIJA goals, as it directs an extra \$400 billion towards clean energy through grants, tax incentives and guarantees. The US administration therefore seeks to entice corporations from across the world, not least Europe, to make use of such incentives to boost the country’s capacity to produce EVs and clean

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transportation and manufacturing options. Finally, the CHIPS Act's main goal is to diversify the supply of critical semiconductors for US industry to safeguard the latter from potential supply disruption resulting from tensions in East Asia. What underpins all three laws is the explicit desire to repatriate industrial jobs that are well paid and appealing to the broad swathes of the working and middle classes that have either left the Democratic Party or are bitterly disappointed by its emphasis on non-economic issues.<sup>10</sup>

None of the above suggests that this combination of industrial nationalism and superpower-induced undercutting of competing manufacturers is to be uncritically endorsed. Not only could this lead to a protectionist spiral that could exacerbate underlying tensions in our loose multipolar system; it would also lower global output and ultimately undermine living standards through higher prices. It is also worth remembering that this new industrial policy pushed for by the USA inherently does little, if anything at all, to curb rising inequalities, which are a potent threat to the prosperity of the USA and Europe. The offer of generous subsidies to the private sector is also far from ideal, in that it exacerbates underlying problems of market access for SMEs, and thus, undercuts their sustainability, while making use of the public purse to spearhead profits. Finally, a policy framework that makes a genuine difference to workers' lived experience is one that strengthens labour power as a whole, allowing trade unions and working people more generally to exert more control over new technologies and the output that they produce.<sup>11</sup> The steep decline in union membership in the USA, from 20% of employees in 1983 to 10% in 2022, has been even steeper in manufacturing, where the respective values are 28% and 8%.<sup>12</sup>

However, the big picture is clear: national industrial policy as a tool to promote domestic policy priorities, with the public sector playing a leading role, has been legitimised. This has occurred even if one of the consequences appears to be un-levelling the playing field among

economic allies and their firms. While this was never a taboo in China or other emerging economies, and it has been convincingly embraced in the USA after a few decades of relative neglect, in Europe there are structural difficulties and stronger resistance.<sup>13</sup> On one hand, much of our legislation, even at the “constitutional level” (international treaties), was drafted or rewritten during the 1990s and 2000s, the heyday of ordo- and neoliberalism, and rebalancing the state-market mix might constitute a formidable U-turn from a legal and policy perspective, despite recent progress. On the other hand, competition between member states continues to be more relevant than cooperation, and a crucial question is how to pick the “winners” in terms of nourishing EU champions, balancing the geographical spread of beneficiaries, obtaining and using sufficient resources, and avoiding the deepening of dividing lines between winners and losers (as happened during the eurozone crisis). To simplify, the question is how much the “Airbus model” can be replicated.

If, as mentioned above with reference to von der Leyen's 2022 speech, Europe is willing to be part of the new reality on industrial policy, the Union will need to be ready for substantial policy change. To start, industrial policy to fight climate change by reducing CO<sub>2</sub> emissions is a no-brainer, yet the differences between the US and European approaches are crucial. While Washington DC opts for subsidising “clean” industries, and thus, seeks to incentivise their rapid expansion, Europe clings to the “polluter pays” principle, which might delay the adoption of cleaner technologies with respect to direct subsidies to them, while potentially undercutting the competitiveness of “dirty” European industries at the global level, with possible negative impacts on employment. When permitted by current EU regulation, subsidies from EU member states typically target the consumption of merit goods (e.g., less-polluting cars) instead of production, with the consequence of subsidising a variable share of foreign firms that create employment

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outside of the EU. This difference in approach forms the background behind Europe's protests over Biden's green subsidy package entailed in the IRA.<sup>14</sup> The attractiveness of the USA as a potential investment site is clear for multinational and European firms, and magnified by the geopolitical tensions that Europe is suffering from, primarily due to Russia's invasion of Ukraine.

To counter this risk, in March 2023, the Commission enacted a "temporary" reform (until 2025), allowing member states to publicly fund green projects, if incentives for the same activity are offered outside Europe. Some conditions apply: the subsidy cannot exceed the point that makes the project financially viable in Europe (not to inflate companies' profits); and the authorisation request must come from a country in a poorer area, or three, of which two are in a lower-income area. However, such a "matching subsidies" approach (1) remains at the national rather than EU level; (2) entails a bias towards the EU states' reaction to some third country's scheme, rather than a truly proactive role; and (3) only relies on national funds that, due to the forthcoming return of fiscal policy rules, are bound to dry up much earlier than would be necessary.

## 4. Industrial policy proposals for Europe

Europe has overall managed to retain its high standard of living in the neoliberal era. But in the new normal, reliance on free trade and fiscal conservatism risks being a recipe for relative, or even absolute, decline. The twin challenges we have described, from rapid technological change and in the global competitive environment, require immediate action. We describe here some concrete, plausible proposals that we hope can be taken up in the upcoming EU parliamentary election debates.

The overarching rationale is that Europe must design its own recipe for an active industrial policy that leverages technological innovation as a source of productivity and competitiveness, and not letting the market pick winners. The market has never been the impartial and efficient invisible hand that free marketeers are keen to depict; moreover, it is notably inefficient in fairly distributing the benefits and costs of technological change. In the current environment, we cannot even expect a level playing field.

We propose here to try to manage technological change, hopefully nudging it in a direction conducive to greater stability and well-being for European citizens. However, a truly progressive approach would entail some degree of planning technological change too, for example, by means of direct large-scale funding of very specific projects. Due to the significant barriers that such an approach would face at the EU level right now (from legal challenges to the difficulty of picking winners, defining which geographical areas are to benefit directly, etc.), we propose that how to achieve such an ambitious goal be the task of a **specific study commission to be created**. At the time of writing, Commission President Ursula von der Leyen announced that Mario Draghi would be tasked with coordinating a study on the state of European competitiveness, but, in this crucial area, progressives need to have their own distinctive analysis and proposals.

Moving to more concrete steps, even assuming that the current exceptions and flexibility on state aid will soon be reversed (which is not necessarily a bad development, if coupled with more activism at the EU level), the Union is not totally devoid of instruments. We consider five here:

**1) Active industrial policies.** EU state-aid rules and the de facto ban on vertical industrial policies reflect the reality of the common market and the need to limit unfair competition among member states. But this inner-looking logic is now obsolete, and the bigger risks of unfair



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competition – due to economies of scale, first-mover advantage, but also subsidies and public support for national industries – come from outside of the EU. That is why it will be crucial to find a way to plan the development of key innovative industries and to reach a political agreement on the division of their costs and benefits. A key point here is the design of new fiscal rules for the EU in the aftermath of the pandemic. A design that allows for nationally oriented flexible modes of public sector support towards the technologies (green and digital) of the future forms part of the necessary consensus.<sup>15</sup>

Both to accelerate the green transition (and any other social goal) and to protect and stimulate incomes and employment in the EU, the Union must move to a more direct form of vertical policies based on subsidies to production (including through the creation of the appropriate material and immaterial infrastructure) of specific goods and services, with specific technologies, and in specific areas.

**2) Horizontal industrial policies.** As we argue above, horizontal industrial policies are insufficient, given the scale of the twin challenges ahead. However, while waiting for the required political and legal changes necessary to fully enact vertical policies, the horizontal ones are not totally useless. To tackle issues that cut across sectors, changing financial incentives is the easiest way. However, it is not very progressive to use public money to inflate firms' profits. Therefore, in deciding on the relative weight of subsidies versus taxation, perhaps more emphasis should be placed on the latter than is currently the case. For example, an interesting approach could be that of testing some form of "robot taxes". Existing tax systems tend to favour companies that heavily invest in technology, even when the outcomes of such investments are not necessarily beneficial to society.<sup>16</sup> By disincentivising firms through the levying of taxes on automation, governments can encourage them to prioritise developments that enhance productivity while considering broader social implications. These taxes

can also generate resources to invest in social welfare programs and be allocated to initiatives such as retraining and reskilling programs for displaced workers. Evidently, the actual design of such schemes is of crucial relevance, with the aim not to weigh on the competitiveness of European firms, but incentivise other forms of innovation instead.

**3) Less easy than taxes and subsidies, but probably more relevant in the long run, is the creation of an innovation-friendly progressive production environment.** From this point of view, we highlight two aspects. Firstly, the industrial relations system should aim at fostering economic democracy within firms and the active involvement of workers' participation in the innovation processes. Empirical evidence suggests that trade unions and their differing behaviour and relations with the firms' management can profoundly affect the speed and success of industrial innovation.<sup>17</sup> Secondly, as a large market for both final consumer goods and services and intermediate inputs for production, the EU has strong leverage in the form of regulation and standards setting. For example, all-powerful tech giants are already altering their online operations due to new EU digital rules. In many fields, the salience and relevance of standard settings seem to lose steam, for example, in the automotive industry, where environmental standards seem to be ever less efficient as barriers for foreign companies to enter in the market. Policymakers have taken notice and are trying to react (e.g., France plans to base subsidies for EVs not only on the nature of the engine, but also on the amount of emissions spent to produce it). In other fields, such as AI, the ability to set standards seems interwoven with production capabilities, in which the EU is a laggard. But, nonetheless, the attempt should be made to leverage the sheer size of the market, to reorient technological development in the social interest.

**4) Mitigation schemes.** Despite best efforts, some dislocation due to technological change and the shifting competitive environment are inevitable. To tackle these issues, we propose to rely on a

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few well-known instruments, chiefly lifelong-learning opportunities: AI technology is rapidly replacing tasks, while also creating new job opportunities. However, displaced workers frequently lack the requisite skills for these emerging roles. To address this challenge, the welfare state should prioritise training programs aimed at minimising skills mismatches at any point in life. Strengthening the welfare state, after two decades of neglect and retrenchment, appears to be unavoidable, starting from the beefing up of minimum-income schemes and unemployment insurance. However, progressives should also be ready to discuss more ambitious proposals. We are aware of the internal debate between those more in favour of solutions such as UBI, and those arguing for a job guarantee or the state as an employer of last resort. These schemes may appear to be utopian given the state of the European debate, but the scale of the challenges is such that at least an internal clarification would be urgently needed, in terms of what bold new proposals we should support, should the situation require it. The two schemes mentioned represent different visions of the role of work and the position of the state in society, and a healthy discussion about these big-picture issues would not be misplaced in a time of widespread detachment from politics and growth of even less “reliable” and “realistic” radical movements, especially on the right side of the political spectrum. Finally, the state’s provision of universal basic services, such as housing, healthcare and childcare,<sup>18</sup> also mitigates the potential negative impacts of AI in society by buffering the risks linked to job losses and attenuating the rise of inequality associated with technological shifts.

**5) Supporting fiscal policy.** Given the size of the investment that appears to be necessary, such a change in industrial and social policy likely requires a rethinking of fiscal policy (and hopefully a common fiscal policy) too. At the very least, progressives should support making the NGEU a permanent fund supporting green industry, distributing EU

support based on concrete projects that add value to EU sustainability goals. The Commission's plans for a "European Sovereignty Fund" have already met with strong resistance, and the Strategic Technologies for Europe Platform cannot yet reach any meaningful size due to lack of support from member states (which, however, lack the resources to be more courageous). However, that even traditionally prudent EU bodies try to push these initiatives forward is a measure of how badly we need an enhanced common budget and an overall public finance and fiscal architecture which does not prevent the EU and/or its member states from investing what is necessary.

## **5 Conclusion**

With respect to relatively more homogeneous blocs, such as China and the USA, internal competition has always been an issue for the EU. The formation and buildup of the single market was one of the Union's most important turning points, and it has led to considerable efficiency gains for firms and consumers alike; at the same time, the legal and regulatory framework that makes it operational has made the Union slower and less effective at changing course, which, in the face of very fast technological change, such as in the AI field, implies a risk of missing crucial chances and constitutes a threat to welfare and shared prosperity. Urgent progressive action is needed, and our contribution aims at outlining some of the basic contours of the shape that such action could take.

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Marius S. OSTROWSKI

## **A new treaty agenda for a progressive Europe**



**Abstract:** Over the last decade, the member states of the EU have entered into increasingly febrile debates about the future direction of “Europe”, prompted by a series of interlinked financial, diplomatic, social and environmental crises. The EU and its member states have faced rising pressure to offer innovative and effective solutions to these crises – and it is rare to find disagreement over the need for “something to be done”. But debates have emerged over the major fault lines that separate the different visions circulating in European space of who should ultimately lead these solutions: the EU or its member states. In this light, it is imperative to find ways of bridging these fault lines and resolving the tensions at the heart of “Europe”. At the same time, it is becoming increasingly clear that the only way of doing so with long-term durability is to inaugurate a new treaty process to amend, and update, the form of the EU instantiated by the 2007 Treaty of Lisbon. This chapter views the major questions that such a new treaty process must seek to answer through a progressive lens. It presents these questions under three headings: (1) qu’est-ce que l’Europe, what “Europe” is (and what it is not); (2) what “project Europe” means, what the primary aims and principles of “Europe” should (or should not) be; and (3) how “Europe” should be achieved, how far it should (or should not) be realised. The chapter outlines what a progressive agenda for a new treaty process might look like, and offers a ten-point action plan for the systemic reforms that progressives should push for in the structure, operations and purposes of EU institutions. The aim is to resolve the underlying tensions within the EU as it currently exists, and put in place a progressive political economy of European culture that can meet the challenges of the 21st century.

**Keywords:** EU institutions, Europeanism, political economy, progressive politics, treaty.



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The realisation of European unity was one of the signal progressive achievements of the 20th century. Yet at the start of the 21st century, the “European project” is going through one of its most challenging periods. Over the last decade, the member states of the EU have entered into increasingly febrile debates about the future direction of “Europe”, often in combination with several of their neighbours outside it. The upcoming European elections in 2024 promise to be the latest milestone in a 15-year watershed moment, where the capacity of Europe – or rather, the form of the EU instantiated by the 2007 Treaty of Lisbon – to react to grave existential threats has been seriously put to the test.

The urgent need to reform European institutions has been somewhat starkly demonstrated by a series of interlinked challenges that have arisen in rapid succession since the Lisbon negotiations came to a close. These include the 2009-14 eurozone debt crisis; the 2015-16 Mediterranean migrant crisis; Brexit in 2016; the 2020-23 Covid-19 pandemic; increasing diplomatic tensions with the USA, China and Russia now exacerbated by the 2022 Russian invasion of Ukraine; all accompanied by a pernicious thread of rising post-truth, polarisation and a resurgence of the far right, and set against the intensifying threat of climate change. The EU and its member states have faced substantial pressure to offer novel institutional solutions to these crises – in particular, demands for “Europe” to take on an enhanced social dimension, as well as to reduce its democratic deficit. There is a clear sense that “carrying on as before” is not a viable option, and it is rare to find disagreement over the need for “something to be done”.

But where debates have emerged is over the major fault lines that separate the different visions circulating within European space of who should ultimately lead these solutions: the EU or its member states. More broadly, this divergence feeds into a more fundamental series of disagreements about what the EU should (or should not) be, and how the various policy areas in which it may (or may not) enjoy full or partial



competence should (or should not) relate to the overarching project of integration. It may be tempting to view these disagreements as perennial existential questions that *must* accompany *any* kind of European continental coordination or cooperation. But this obscures how far (dis)agreement over the “idea of Europe” has evolved, in line with wider evolution in the dominant ideological dynamic across its constitutive geography. In the “foundation era” of the 1950s, European institutions were the product of a left-right bargain between social democracy and Christian democracy around welfare capitalism and the social market economy.<sup>1</sup> By the 2020s, the dominant left-right dynamic across Europe had shifted rightwards to liberalism versus national conservatism – but any trace of a bargain has evaporated, to be replaced by quite implacable opposition on key questions of political economy and culture. Both social and Christian democracy have been extensively marginalised as ideological forces, with only sections of the post-communist far left enjoying a modest mini-renaissance.

The main effect has been to replace a relative left-right consensus on Europeanisation with a form of left-right contestation that maps almost perfectly onto the dominant cleavage of Europeanisation versus de-/anti-Europeanisation.<sup>2</sup> European debates have moved from a choice between different variants of “more Europe, but how?” to a more existential choice between “more Europe” and “less Europe”: forging ahead with continental coordination and cooperation; or reversing it. So far, this choice remains unresolved, and to some extent still incompletely acknowledged. Europe has hesitated to commit to either path, which has allowed tensions to fester across the continent. This hesitancy is, in large part, the result of a widespread implicit assumption in European policymaking – namely, that “Europeanisation” is a broadly linear process, made up of an inexorable sequence of stagewise “settlements” that build on those that precede them. These stages tend to be seen as “closed-off” or “done deals” once they have been insti-

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tutionalised, immune to change except in a “more Europe” direction. In that context, the rise of a dedicated “less Europe” tendency poses a deep problem for EU policymaking, which has devoted much of the 2010s and early 2020s to finding ways of “continuing Europeanisation by other means”. The result is the “open method of coordination” and ad hoc intergovernmental bargaining, which have moved forward integration on a voluntary “soft law” basis – through guidelines, indicators, benchmarking and “best practice” exchange – in spheres such as employment and pensions, immigration and asylum, and education and research policy.<sup>3</sup>

Yet this tendency brushes over how close-run certain decisions on the trajectory of Europeanisation actually were, and presents as “de-contested” solutions that were, in fact, highly contested at the time.<sup>4</sup> It also obscures the role that deep, thorough, wide-ranging negotiation between all the stakeholders in European integration has played in creating the EU in the form it has today. The priority of European economic integration or political unification, the limits of European and national competencies, who are the core and peripheral members of “Europe”, and who is excluded from it: all of these were the products of intense dispute, which only received a modicum of closure by being made the explicit subject of painstaking negotiation between European stakeholders over the last 70 years of Europeanisation.

It is imperative that progressives find new ways to bridge the fault lines and resolve the tensions that now sit at the heart of “Europe” – and to restore progressive Europeanism as a “fighting creed” by reinserting social and democratic ideals into the left-right equation at the heart of Europe. Given what is at stake, progressives need to invoke methods that are somewhat more binding than the “open method of coordination” and intergovernmental bargaining. The only way to institute a progressive vision of Europe that carries some guarantee of longevity is to inaugurate a new treaty process to amend and update the form of the

EU instantiated by the Lisbon Treaty – and empower European institutions to confront current and future crises in a more systematic, formalised and less improvisatory way. It is easy to forget that, after the initial flurry of treaties that created the European Communities in their earliest form, European institutions settled into a fairly consistent pattern of new treaty settlements every five to seven years (bar the 1980s period of “Eurosclerosis”). On that calculation, the EU and its member states are now more than doubly overdue a new treaty process – which is arguably one of the key reasons for the increasing divergence between the European visions on offer within the bloc today.

In that light, it is welcome to see the emergence of a steady stream of proposals for a new treaty process, as well as the emergence of initial thinking – as-yet segmented largely along national or partisan lines – about what form of Europe could emerge from such a process.<sup>5</sup> This leaves progressives with both the challenge and opportunity to develop their own unique vision for the EU, in a way that responds to the crises that Europe has experienced during its recent past, but also pushes beyond them to articulate a new approach to face the challenges of the future. Given that the initial developments needed to put in place a new treaty negotiation are already in motion, progressive Europeanists have no time to lose in refining this vision. Progressives need to go into the 2024 European elections alive to the need for a clear agenda to shape the narrative and contours of a renewed European settlement back towards its social-democratic origin. What follows below is an attempt to imagine what a progressive alternative for Europe could look like.

## **1. Europe: a progressive (re)definition**

Any new treaty on European integration must answer three major questions on “Europe” and “Europeanisation”.<sup>6</sup> One question is about

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Europe's *extensity*: *qu'est-ce que l'Europe*; what "Europe" is (and what it is not). Another concerns its *intensity*: what "project Europe" means; what the primary aims and principles of "Europe" should (or should not) be. Lastly, there is a question of *timescale* or *process*: how "Europe" should be achieved; how far it should (or should not) be realised. These have been the questions that have explicitly or implicitly underpinned every moment of bargaining among European stakeholders "from Paris to Lisbon". What is at issue here is how a treaty process that sets out to give Europe a more *progressive* form might go about answering these questions.

Firstly, and most essentially, what should a progressive Europe's "extensity" be? What size should the future-facing community of Europe be, who is in it and how many members are there? How should progressives set about *socialising* (i.e., making more social) and *democratising* the boundaries, constituent parts, institutions and global role of "Europe" as it currently exists?

### 1.1. Who is "in" Europe, and who is "out"?

On the question of Europe's boundaries, progressives must be continental in their ambitions. Their touchstone must be that, by default, every polity, every economy, every cultural community on the European landmass capable of *both* contributing to *and* benefiting from integrated solutions to Europe's challenges must be included in the "Europe of the future". A progressive Europe must be expansively *großeuropäisch*, moving beyond historical dynamics of a West European "core" (France, Germany, Italy, Benelux) and a "periphery" to its North (Scandinavia, British Isles), South (Iberia) and especially East (Baltic, "Danubia", Balkans). A progressive settlement for Europe must be founded on the premise that policy cannot be driven predominantly by, from and for the "blue banana" of the "Lille-Milan axis", but must reflect and address the interests and concerns of the entire European



geography. One way to address this is to rethink the literal geographic skew that places key European institutions in the Western bastions of Brussels, Frankfurt, Luxembourg and Strasbourg, in favour of a more dispersed polycentrism that shifts them – either permanently or part-time – to strategic sites in the rest of the bloc, such as Barcelona, Florence, Helsinki or Warsaw.

Certainly, to be distinct as Europe, this geography needs an “outer bound”. So, if it is to serve the aim of reorienting and renegotiating the existing EU in a more social direction, then Europe should (and indeed could) not be expanded beyond the roster of current EU member states and actual or potential EU membership candidates. In “nation-state” terms, the outermost conceivable limit is the members (46 in total as it stands) of the Council of Europe and European Political Community – although since neither grouping is associated with the EU, their non-EU members are unlikely to participate in any EU treaty processes for the foreseeable future. The question of an “inner bound” is more difficult. It is not obvious that potential factional groupings among EU member states on the key questions that a treaty process is intended to resolve would track the historical “West versus the rest” divide. But progressives cannot rule out the idea that new “core-periphery” dynamics will emerge, in line with (e.g.) recent divergences over loose versus tight fiscal policies among “Club Med” and “Frugal Four” groups, or a nascent “East/South versus West/North” divide on value pluralism, tolerance and diversity prompted by issues of migration, women’s rights and LGBTQ\* rights.<sup>7</sup>

## **1.2. Who are Europe’s proper constituent members?**

While the immediate signatories of a new treaty will necessarily include the current member states of the EU, progressives should look beyond the constraints of nation-state structures to create a “Europe

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of citizens and regions". Instead of replicating the same patterns of intergovernmental partnership between European nation states, a new treaty offers the chance to realise alternative ways of breaking up the European monolith into a series of units, differentiated according to political, economic or cultural criteria. This applies both "above" and "below" the member state level. In the first instance, progressives should push back against "de-Europeanising" tendencies to insist on nation-state intergovernmentalism as a counterpoint to *European* universalism, by challenging the way that precisely this *national* universalism "crowds out" subnational communities and their interests and concerns. In treaty terms, this means giving the European Committee of the Regions (CoR) a significantly greater role within the list of "core" European institutions – specifically, raising it to the level of a regionally elected Europe-wide "upper house" relative to the European Parliament (EP), as is the case for "senates" and "federal councils" in several EU member states already. This would help ensure that future European policy is designed with subsidiarity in mind, and return one of the essential principles of Europe's founding "left-right bargain" to the heart of the European project.

But progressive efforts to "go on the front foot" and posit a Europe-branded regionalist alternative to nationalism and nation-statism cannot rest there. The structures of other "core" institutions must also be revised to acknowledge the reality of spatial proximities, total population, total Gross Value Added and emergent collaboration/coordination initiatives among EU member states (see figure 1): "Beneluxa" (Northwest EU); "Craiova" (Southeast EU); Iberia; "Nordic-Baltic" (North-Northeast EU); and "Visegrád-Austerlitz" (East-Central EU). These, along with the three largest member states – France, Germany and Italy – should be the eight geographies that frame the membership of the European Council (EUCC) and the Council of the EU (CEU), allowing the emergent regional "blocs" to speak with a stronger and more concerted



voice at the European level (see figure 2). Within the European Commission (EC), the number of commissioners and portfolios can be detached from the somewhat forced 1:1 equivalence to the total number of member states, and re consolidated by more organic criteria of policy need. Instead, each of these eight regional geographies should be represented evenly across all portfolios and allocated a proportionate number of commissioners. The ultimate aim of this would be to enhance and harmonise the move towards Qualified Majority Voting within EU institutions, as a structural rather than procedural way to ensure the primacy of majoritarian democracy and remove the anti-democratic hurdle of minority veto.

**Figure 1. Regional blocs of the EU, population and GDP (2022).**

Country	Population	Population (%)	GDP (€)	GDP (%)
<b>France</b>	67,935,660	15.17	2,642,713.00	16.72
<b>Germany</b>	84,079,811	18.77	3,867,050.00	24.46
<b>Italy</b>	58,856,847	13.14	1,909,153.60	12.08
<b>Beneluxa</b>	35,110,298	7.84	2,076,041.00	13.13
Belgium	11,669,446	2.61	552,446.40	3.49
Ireland	5,086,988	1.14	502,583.50	3.18
Luxembourg	650,774	0.15	78,130.10	0.49
Netherlands	17,703,090	3.95	942,881.00	5.96
<b>Craiova</b>	43,725,931	9.76	749,274.40	4.74
Bulgaria	6,465,097	1.44	84,560.60	0.53
Croatia	3,854,000	0.86	67,386.10	0.43
Cyprus	1,251,488	0.28	27,011.70	0.17

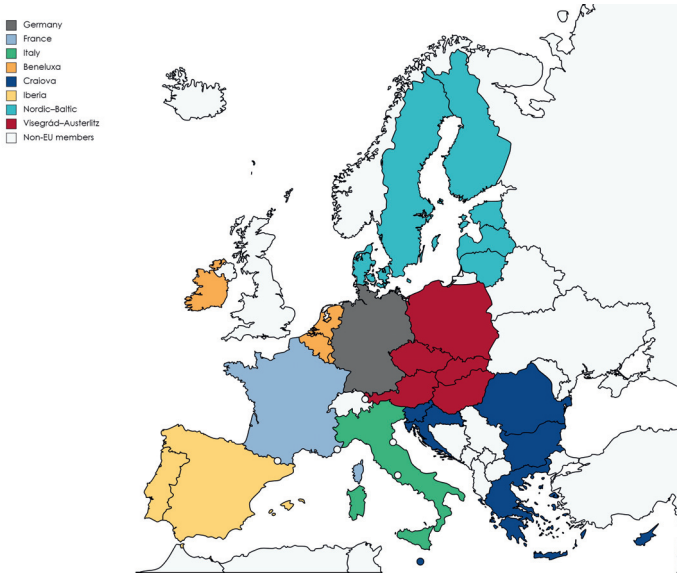


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Greece	10,566,531	2.36	208,030.20	1.32
Malta	523,417	0.12	16,870.30	0.11
Romania	18,956,666	4.23	286,427.00	1.81
Slovenia	2,108,732	0.47	58,988.50	0.37
<b>Iberia</b>	<b>57,994,041</b>	<b>12.95</b>	<b>1,568,400.80</b>	<b>9.92</b>
Portugal	10,379,007	2.32	239,478.80	1.51
Spain	47,615,034	10.63	1,328,922.00	8.41
<b>Nordic-Baltic</b>	<b>28,008,005</b>	<b>6.25</b>	<b>1,341,631.80</b>	<b>8.49</b>
Denmark	5,903,037	1.32	375,241.10	2.37
Estonia	1,344,768	0.30	36,181.40	0.23
Finland	5,556,880	1.24	266,679.00	1.69
Latvia	1,883,379	0.42	39,080.70	0.25
Lithuania	2,833,000	0.63	66,918.20	0.42
Sweden	10,486,941	2.34	557,531.40	3.53
<b>Visegrád-Austerlitz</b>	<b>72,245,457</b>	<b>16.13</b>	<b>1,655,793.20</b>	<b>10.47</b>
Austria	9,042,528	2.02	447,652.70	2.83
Czechia	10,526,073	2.35	276,105.40	1.75
Hungary	9,683,505	2.16	169,661.50	1.07
Poland	37,561,599	8.39	654,643.50	4.14
Slovakia	5,431,752	1.21	107,730.10	0.68
<b>TOTAL EU</b>	<b>447,956,050.00</b>		<b>15,810,057.80</b>	

Source: Eurostat, World Bank.

Figure 2. Regional blocs of the EU.



### 1.3. What should Europe's institutional structure be?

Progressives must conceive of Europe's future even more transformatively than restructuring and democratising the EU's existing institutions. Key to strengthening the progressive impetus of the EU is bolstering the social responsibilities – specifically, policy competences – that are vested at the European level. This taps into ongoing debates around expanding “social Europe” as a coherent direction for European institutional development.<sup>8</sup> These range from existing achievements, such as the incorporation of social policy into the European Semester (2011) and the proclamation of the European Pillar of Social Rights (2017),<sup>9</sup> to suggestions for new avenues in European social integration

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and proposals for a fully-formed European Social Union.<sup>10</sup> All of these are valuable additional steps down the path of a more progressive Europe. But all such gains need the constitutive protection of a well-defined European institution that can embody and oversee Europe's enhanced social presence. The most obvious candidate is to build the European Economic and Social Committee (EESC) into a full European Social Council (ESC), and to make this one of the "core" institutions of the EU as well. Its remit should be defined to explicitly cover welfare and inclusion policy, and social and human services provision – taking lead responsibility for these functions, insofar as these currently reside with other European institutions (especially the EC and CEU).

Together with the enhanced role for the CoR, this means that one of the core progressive aims in any future treaty process should be to expand the list of principal EU institutions from seven (CEU, EC, EP, EUCO, Court of Justice of the EU, European Central Bank and European Court of Auditors) to nine, by upgrading the CoR and EESC/ESC from advisory/consultative bodies to full institutions. To give the CoR and ESC a stronger presence, they should also be given sole control and dedicated oversight of the two European Structural and Investment Funds that relate most closely to their respective remits: the European Regional Development Fund (ERDF) for the CoR; and the European Social Fund Plus (ESF+) placed under the aegis of the ESC. The ERDF and ESF+ should be reconstituted as sovereign wealth funds, in which each EU region represented in the CoR holds a fractional stake (currently 1/329th) and separated out from the main EU budget. Both should be endowed by an additional surcharge on member states' contributions to the EU budget, rising from approximately 0.1% (ERDF) and 0.04% (ESF+) of member states' Gross National Income (GNI; as part of the 0.7% of GNI that majority-funds the budget) to an interim target of 0.25% of GNI for each one. The ERDF and ESF+ should both be bolstered by a hypothecated tax-and-spend fiscal process to finance



European-level regional and social policy initiatives. This should draw on a portfolio tax base that goes beyond the VAT surcharge currently used to part-fund the EU budget, and instead tackles interregional and interpersonal disparities of wealth and income (especially private passive income from rents, dividends, or other assets and investments). In the same vein, the function of the ESF+ in particular needs to be expanded beyond marginal support for employment, labour upskilling and retraining, and social inclusion towards a more coherent European social strategy – at the heart of which has to lie a clear vision of Europe-wide sectoral and place-sensitive public investment.

#### **1.4. What place does Europe occupy on the global stage?**

The mission of a more social and democratic Europe should be simply expressed, and embed the core purpose of progressive policy: to support “those without” across Europe, and constrain the ability of “those with” to harm “those without”.<sup>11</sup> This, in short, means embedding progressive values into Europeanism as the guiding ideological “map” of European integration – going beyond attempts to define it that amount to little more than liberal democracy with a blue-and-yellow flag attached.<sup>12</sup> The progressive bid to make Europe as a *society* and the EU as a *set of interlocking institutions* more social and democratic is neither empty rhetoric nor a question of procedural technicalities. Instead, it must be associated with an ideological project to advance a very specific set of political, economic and cultural ideals: equality and freedom; justice and solidarity; pluralism; and, of course, progress. Some of these are more-or-less closely associated with the “idea of Europe” already. Yet part of the progressive mission must be to establish the EU as not just a consistent and visible instantiation of these concepts in its internal affairs and conditions, but also as a similarly consistent and visible representative and advocate of these ideals in

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its external dealings with global peers and partners. One purpose of a treaty process is then to identify policy areas where the EU's internal and external approaches have incrementally come into tension, giving the European project a hypocritical "one rule for us, another rule for you" flavour.

In particular, progressives need to redefine European stability and security so that these concepts express Europe's geostrategic interests in a positive, inward-facing as well as negative, outward-facing way. The new treaty needs to help move Europe away from a protective or defensive "fortress" view of European unity and integration in the face of external threats (e.g., military/diplomatic assertiveness, industrial protectionism) and instead towards an understanding of solidaristic cooperation on behalf of – and in the interests of – its constitutive parts (European citizens and regions). This is a more ambitious challenge, as it does not rely on the "constitutive other" of (e.g.) a putatively erratic, dangerous or hostile China, Russia, USA and so on, to motivate and mobilise European "togetherness". In lieu of this, progressive Europeanism is an attempt to make Europe "work on itself" to iron out its accumulated problems and tensions, and to restore the "idea of Europe" as a lodestone to "uplift" society across the European continent. The "prize" to be won here is that this approach allows progressives to enter into the currently vacant ideological space of "European patriotism", and compete with (and in large parts replace) the de facto implicit "European nationalism" or "European sovereigntism" that is emerging thanks to Europe's rightward shift.<sup>13</sup> A progressive rendering of European patriotism can help consolidate Europe as an independent pole within an increasingly multipolar world, specifically a progressive pole that represents a social and democratic vision of what it means to live in a community that exists on a continental scale.



## 2. European integration as a progressive project

Secondly, what should a progressive Europe's "intensity" be? How far should its members give up their individuality, uniqueness and autonomy on policy questions to create it as a supranational polity, economy and cultural community? And again, how should progressives approach the task of *socialising* and *democratising* Europe's current geostrategic character, its "settled" integration equilibrium and its network of overlapping partnerships?

### 2.1. Should Europe aim to be a geopolitical, geoeconomic or geocultural entity?

The portfolio of policies pursued by Europe as the result of a new treaty must strike a careful balance between fostering political, economic and cultural solidarity between Europe's citizens and regions. For progressives to bridge the long-standing tensions between narrowly "prioritarian" (i.e., politics-first, economics-first or culture-first) visions of Europe, they need to leverage a distinctive account of what might be called a "progressive political economy of European culture" – premised on a conscious move away from passive neutrality on associated institutional and policy questions, and towards an activism of value and virtue. To offer a holistic transformation of Europe that is noticeably different from what has existed in terms of policy instruments up to now, the specific innovations that this activism strives for need to contain elements of political rights, economic transfers *and* cultural affirmation.<sup>14</sup> If any of these are missing, then the Europe that progressives hope to achieve will lack the constitutional permanence that insulates it from future erosion, the material underpinnings to make it a tangible reality for every member of society and the normative framework that aligns social conduct with a single coherent collective vision.

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A progressive Europe has to carry through a consistent ideological impetus into all three domains, political, economic and cultural. On all fronts, it must ensure that Europe's resources are distributed and the relations between Europeans are arranged in such a way as to empower as many people as possible, such as a concerted drive for "devolution deals" to local areas, workers' co-stakeholdership in company profits and management, and regulatory support for local and independent journalism. It needs to work towards achieving parity and removing stratifications between the groups that make up European society, including expedited paths from European residency to citizenship, an industrial strategy targeting "left-behind" places and sectors, and skills training for "new Europeans". A progressive Europe has to foster positive recognition among Europeans of the diversity that they are surrounded by, such as demographic "minimum quotas" for electoral representatives, formal remuneration for "invisible" labour, as well as domestic and foreign language teaching initiatives. And it must find ways to enhance cooperation as the lead metric of Europe as a shared interactive project, including encouraging "left bloc" formations among progressive parties, facilitating sectoral collective bargaining and "solidaristic" industrial action, and supporting "social mixing" in public services and infrastructure.

### **2.2. What form should Europe's integration and unification take?**

Progressives should reject the idea that any treaty process represents a "zero-sum" transfer of policy sovereignty from member states to the EU level. In the first instance, the institutions a progressive EU treaty puts in place create a new arena for policy cooperation with a particular subsidiary slant, without necessarily demanding extensive harmonisation. Insofar as it is a vertical diffusion of sovereignty away from member states, this is not exclusively upwards to the "European" (i.e., continen-



tal) level, but also includes specific structural forms of empowerment *upwards* to member state regional blocs *and downwards* to citizens and subnational regions. In this respect, both the structural reforms of the CEU, EC and EUCCO, and the elevation of the CoR to an equivalent level, are merely a way to institutionally recognise *what already exists* in terms of sub- and supranational “multi-level governance” within the integrated European system. It is the role of the ESC that is the more radical innovation here, as it also brings key elements of the economy and culture firmly into European political institutions in a way they simply have not been up to now. In effect, the new progressive post-treaty EU now includes a form of expanded co-determination: a *de facto* works council mechanism that involves business organisations and trade unions (and other existing EESC partners) more intimately in the policymaking process.

Yet the key point for progressives to emphasise is that, to a large extent, the EU as an institutional locus of particular policy measures can coexist very easily alongside member states’ existing provisions. This is ultimately the force of creating an independent European fiscal capacity rooted in a separate set of funds (ERDF, ESF+) with sources of finance (member state contributions, hypothecated taxation, debt powers) that are fundamentally unrelated to member states’ internal fiscal arrangements. This adds a “yes, and” flavour to European policy-making, elevating the EU as not a replacement for the existing (unitary or federal) national systems, but rather a supplement to them. With this same move, European progressives can also give cultural European identity its own political-economic underpinning, in the sense of making “European” mean something distinctive rather than just an “average” or “aggregate” of the various (by no means perfectly aligned) national approaches. This can be concretised through the introduction of specific EU-funded entitlements that give material content to EU citizenship. Obvious examples would be fiscal initiatives, such as a European



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Universal Basic Income<sup>15</sup> or Universal Basic Services scheme; public infrastructure megaprojects, such as a pan-European high-speed rail network<sup>16</sup> or renewable energy grid;<sup>17</sup> or investments in human capital, such as a renewed EU-wide lifelong learning programme and a European education and upskilling guarantee.

### 2.3. How many Europes should integration lead to?

The progressive Europe that emerges from a future treaty process must not be a separate form of Europeanisation – a layer of “enhanced cooperation” that sits within or alongside the existing EU. Instead, the goal that progressives must constantly keep in mind is that they need a comprehensive Europeanist offer that opens a way to negotiate a new institutional settlement among all current EU member states. Progress in a European context cannot look like yet more differentiation and fragmentation, not least because this is a concisive approach that plays straight into the hands of the far right and its minoritarian exceptionalism. The key here is to target a settlement that allows Europe’s *unity in diversity* to become a stable equilibrium, rather than an untenable oxymoron. As they have been on numerous occasions over the course of European integration history, socialisation and democratisation need to be ways of bringing divergent progressive visions of Europe closer together. This implies a need for a “maximinimal” rather than “minimaximal” approach to finding this settlement – aiming to get as many stakeholders on board with as much new integration as possible, *not* trying to see how far it is possible to push integration among the smallest possible “coalition of the willing”.

This is where the possibility of pro- and anti-Europeanisation (i.e., pro- and anti-treaty) groupings, and of an irreconcilable gulf between them, becomes particularly acute. Progressives have to decide wheth-

er they are willing to countenance potentially introducing a whole new dimension of “multi-speed” bodies and operations into the EU’s structure, just to bring the treaty process to a substantive conclusion. The specific risk is that not all treaty signatories are willing to sign up to an EU institutional framework that restructures the CEU, EC and EUCO, and contains “upgraded” roles for the EESC (as the ESC) and the CoR. Unlike (e.g.) the eurozone-EU distinction, where some member states share monetary policy competences with the European level while others do not, these institutional changes do not easily lend themselves to an “opt-out” system. If any member states withdraw or withhold their support from these institutions in the new-look form they take as a result of the treaty process, this fatally weakens their efficacy and legitimacy as Europe-wide institutions. At the same time, introducing these changes solely among those member states who are fully on board with the idea of instantiating them without waiting for unanimity carries the danger of consciously putting a stamp on what are currently “coincidental” differences among member states at the level of social/fiscal policy. Rather than helping different visions of Europe coalesce “under one roof”, that sort of treaty process would only entrench Europe’s tensions.

### **3. Achieving a progressive Europe**

Thirdly, and finally, what should a progressive Europe’s “timescale” or “process” be? What is the order and speed of the steps that must be achieved to “complete” progressive integration? And how should progressives go about *socialising* and *democratising* the legacy and interpretation of Europe’s past treaty processes, the logic shaping its future visions and implementation plans, its instruments of institutional renewal, and its ultimate ambitions?

### **3.1. Is Europe the inevitable creation of a grand plan or a contingent product of stochastic negotiation?**

Progressives need to tread a careful line between presenting any new instantiation of Europe as the “natural outgrowth” of the form that the EU has reached through the Lisbon Treaty and its subsequent tendencies, and respecting the fact that giving “Europe” a more social and democratic form is a specific response to particular aspects of its most recent crises. Certainly, this progressive vision of Europe is in effect a more thorough institutionalisation of the policy direction represented by landmarks such as the European Social Charter (1961), the “Social Chapter” annexed to the Maastricht Treaty (1992) and the European Pillar of Social Rights. But it must also develop beyond them to reflect Europe’s changing political, economic and cultural conditions and concerns – which were simply not yet on the agenda in many of these precedents for progressive Europeanisation. By the same token, framing the progressive agenda for a new treaty *only* as a long-overdue reactive solution to the various crises that Europe has faced downplays the importance of engaging in a healthy measure of future forecasting. Instead of starting down a path of constant incremental renegotiations that keep adding new unions to the European mix ad hoc – for example, “social union”, “digital union”, “health union”, “fiscal union”<sup>18</sup> – progressives need to approach the treaty process with a clear vision of the Europe they would like to see. This means returning to first principles and answering the fundamental questions of what political, economic and cultural progress looks like in European space – which in every case and context informs what is needed to realise it.

Progressives must use the treaty process to put in place a “thick” outline of “social and democratic Europe” as a coherent forward-

looking plan, which embeds a *Sachlogik* (“material logic”) that can help future (re)negotiations and treaty processes extend and intensify it in a mostly predictable direction.<sup>19</sup> The EU needs to be given clear resilience to changes in the identities of treaty signatories, to ensure at least essential continuity for a progressive “grand plan” in the face of future stochasticity. This is partly a result of potential enlargement: the EU27 could easily expand to 36 members or more (through the six Western Balkans candidates and three Association Trio candidates), which changes the political, economic and cultural identity of “Europe” as a whole. But it is also due to national and supranational ideological shifts, including “wave” tendencies in member state governments and European institutions (1970s social-democratic resurgence, 1980s neoliberalism, 1990s “Third Way” and 2010s populism). This implies that European progressives should pursue a very specific two-stage strategy to cultivate support for their “social and democratic” European plan. Firstly, given the continued preeminence of the Party of European Socialists (PES; and its Socialists and Democrats party group) as the leading vehicle of progressive European policymaking, they need to create a common Europeanist programme that all member parties of the PES agree to incorporate into their party platforms and manifestos. The aim is for this progressive vision of Europe to win incontrovertible democratic legitimacy through national and regional *as well as* European electoral processes. Secondly, the PES should enter formal talks with other progressive forces in Europe – starting with, but by no means limited to, the Greens-EFA, Renew Europe, and Left (GUE/NGL) party groups in the EP – to develop a cross-ideological progressive vision that can win popular support across the entire European progressive movement.

### 3.2. Is Europe to be realised gradually or in a “one-shot” way?

The purpose of any new treaty process is to present a qualitative “reset” of Europe’s political, economic and cultural structures – a comprehensive progressive renewal of the overarching “European project” that is to be agreed among all its stakeholders. Quite simply, too much has happened at a continental and global level since Lisbon for the next treaty process to simply be a matter of gradually tweaking what is already there (as with the Treaties of Amsterdam and Nice). Instead, the next treaty must be a substantial instrument on the scale of the Treaties of Rome or Maastricht, and the space it can offer to a more “emendatory” approach of Europeanisation is to set up future treaty processes that can “thicken” its new provisions. Where this new treaty should depart from earlier processes is in its delimitation of which of these stakeholders also become party to the negotiations and legal signatories. Given the substantive institutional proposals to significantly empower regions and civil society, both should be represented in the treaty process as well. This can be achieved by creating three “colleges” of signatories, one comprising EU member states; one the regions as represented in the CoR; and one made up of business organisations, trade unions and other civil society bodies. Each college should conduct its own “internal” and “external” negotiations, and the final “look” of the treaty should incorporate and reflect the Europeanist visions that each one produces.

Progressives need to confront a possible trade-off between completeness and effectiveness – or “extensity” and “intensity” – whereby they try to make it more likely that all treaty signatories will agree to the new-look Europe by “reducing” the ambition of what the treaty sets out, and “diluting” the form that Europe’s restructured institutions are to take. This means splitting up building the new “line-up” of Euro-

pean institutions into a mixture of “working out” and “working across”: identifying which priorities *this* treaty could “start with” to give the more social and democratic Europe an embryonic form; and which are more “second-order” aims that could be left to be expanded in *later* treaty processes once the basic shape and responsibilities of the new institutions and processes have bedded in. An obvious case is the need to define the roles that the CoR and ESC (and ESF+), in their more empowered forms, play within the European legislative and policymaking process as early as possible, to minimise the risk of later “competence clashes” – while the precise delineation of their remit on (e.g.) language policy or industrial strategy can be left to either the “open method of coordination” or subsequent treaties. In the same vein, when restructuring the CEU, EC and EUCCO, the initial focus should be on clarifying the boundaries and constituent forms of the new supranational groupings (Beneluxa, Craiova, Iberia, Nordic-Baltic and Visegrád-Austerlitz) as well as the revised institutions’ operating processes – leaving the reshuffling and streamlining of portfolios to a later date.

### **3.3. Is Europe the endpoint of a process or a transitional stage along it?**

Lastly, progressives need to recognise that the structures of European unification and integration, and the processes by which they are created, provide a certain precedent for similar forms of continental and macroregional integration across the rest of the world. While it is still far too early to consider a “World Union” for global policy consolidation, it is well within the contemporary progressive imaginary to prefigure similar projects of regional or social policy expansion to extend and intensify existing bodies such as PROSUR, ASEAN or the regional blocs within the African Union/AEC. In essence, the “upgrade” of the EESC to the ESC outlined above is a fairly direct parallel to the equivalence that a body like the United Nations Economic and Social

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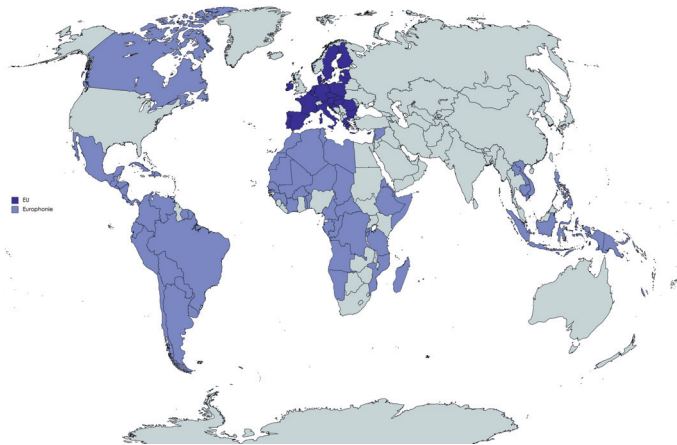
Council (ECOSOC) enjoys relative to other core UN organs (General Assembly, Security Council, International Court of Justice) at the global level. In this respect, there is a long-term “globalising” aim built into this progressive vision of European institutions that goes well beyond giving them a more social and democratic character. In a way that remains profoundly true to the longest-held aspirations of past progressives, who were both Europeanists and internationalists by firm conviction, restructuring the agenda- and process-setting power between European institutions also helps put in place the fundamental alignments needed to connect European and global bodies more explicitly to each other *whenever* the conditions for doing so eventually come about.

The progressive vision of Europe outlined here is by construction and design very inward-focused, answering the challenge that the issues Europe faces are ones that need to be dealt with through internal structural reform. But in this respect, the EU’s global role still has scope to grow, and not just exclusively in the sense of norm-entrepreneurship around the value of regional and social policy integration. Instead, as part of its global mission, the EU can also have functions of institution- and capacity-building, as well as investment in a role roughly equivalent to “EU foreign aid” – in conjunction with the Common Foreign and Security Policy or the structures and mechanisms that may be chosen to succeed it. In a similar way, the EU occupies a global leadership role in including conditionality around labour and environmental standards into its trade negotiations – a way to ensure that its “socialising” influence “spills over” outside European space. These speak to an overarching aim – namely, to develop targeted “EU-badged” projects that expand the progressive aim to support “those without”, and constrain the ability of “those with” to harm “those without” *beyond* Europe. One step in this direction would be for the new treaty to formally “Europeanise” what are currently highly fragmentary geopolitical, geoeconomic and geocultural “soft power” missions conducted by European member states into the



Global South. In particular, the treaty should acknowledge the EU's special obligation towards countries that fall into what could be called the *Europhonie*, former European colonial spaces where (e.g.) Dutch, French, German, Italian, Portuguese or Spanish are often still an official or primary language, as a way to mark the EU's political, economic and cultural (post)colonial legacy (see figure 3).

Figure 3. The EU and the Europhonie.



## **4. A progressive action plan for Europe**

There are many conceivable interpretations of what a more social and more democratic Europe that reflects and defends progressive ideals might look like. This one has prioritised the desire to give a “Europe of citizens and regions” a systemic form, and posited the idea of a “progressive political economy of European culture” as the leitmotiv



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for future EU institutional settlements. Of course, one of the progressive movement's greatest strengths – and one of its most refreshing aspects – is the leeway it gives its partisans to develop a vast constellation of alternative options for any and all policy areas. The “idea of Europe” and European integration are no exception. Even in a collection like this one, born out of a thorough process of iterative mutual feedback and exchange, there are areas where the various progressive European visions put forward do not quite see eye to eye.

Perhaps one of the most fundamental areas of contention is the question of why progressives should be wanting to embark on a new treaty process *at all* – firstly, when alternative methods of advancing European integration are readily available, and secondly, in a context where the EU is marred by pervasive power imbalances and increasingly severe ideological polarisation. The response, simply put, is that “things cannot go on like this”. Delaying or avoiding embarking on new treaty negotiations is not a viable recipe to resolve the deep ideological cleavage between advocates of Europeanisation and de-/anti-Europeanisation. The only way of doing so is to provide a process with clear social and democratic legitimacy through which all the views in these disputes over the EU and its future can be brought out into the open – a “pressure valve”, for which the undisputed best framework is a formal renegotiation of the EU settlement between *all* its stakeholders.

The expectation, or at least aspiration, is that a treaty process constituted along these lines will provide (at least temporarily) a definitive answer to the existential questions that have been asked of the EU in recent years. Going into this process, progressive Europeans need to have in hand a core agenda, or action plan, to which they are *all* committed across geographical and partisan-ideological lines. This agenda should aim to:

- Define a social and democratic account of European patriotism that supports “those without” and constrains the ability of “those with” to



harm “those without” both within and beyond a “Europe of citizens and regions”, realised through a revised set of EU institutions;

- Rework membership of the EUCO and the CEU to reflect supranational collaboration in Beneluxa, Craiova, Iberia, Nordic-Baltic and Visegrád-Austerlitz, and reduce and consolidate portfolios in the EC according to integrated policy need;
- Raise the CoR and a new ESC (created out of the EESC) to the level of core EU institutions, and give them control and oversight over the ERDF and the ESF+, respectively;
- Turn the ERDF and ESF+ into sovereign wealth funds, endowed by a 0.25% of GNI surcharge on EU member states and hypothecated taxation on wealth and income from private rents, dividends and other assets/investments;
- Move core EU institutions away from the West European “cluster” to strategic sites in the North, South and East of the EU;
- Foster EU-wide solidarity with an explicit “progressive political economy of European culture” programme that pursues empowerment, parity, recognition and cooperation among European citizens and regions via a mixture of political rights, economic transfers and cultural affirmation;
- Create a distinctive layer of “EU-level” entitlements that give material content to EU citizenship through fiscal initiatives, public infrastructure megaprojects and human capital investments;
- Develop a coherent programme of “Europeanised” foreign aid, institution-building, conditionality standards and “soft power” missions that prioritise the EU’s special historical obligation to help Global South countries in the *Europhonie*;
- Create three “colleges” of stakeholders to be represented in future treaty negotiations, comprising EU member states, EU regions and European business/worker/civil society bodies, and pursue a “maximinimal” approach to finding a new EU settlement that aims

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to reach a bridging consensus among all of these as co-signatories; and

- Build support for a common Europeanist programme among a broad coalition of EU, national and regional progressive forces, to be incorporated into election manifestos and party platforms by social democrats, greens, liberals and the far left.

Only with a concrete offer of this kind can progressives hope to provide a viable concrete alternative to the toxic rightward drift that EU institutions have undergone, and restore social and democratic thinking to the (re)founding bargain of an EU ready for the challenges of the 21st century.

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# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?

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Brian SHAEV

# **Competition and industrial policy in the EU<sup>1</sup>**



**Abstract:** Business concentration matters for European social democracy because it has been correlated with increased income inequality, a declining income share for labour and increased corporate lobbying. Drawing inspiration from the history of social-democratic competition policy and from renewed interest in antitrust in the USA, this contribution calls for a revival of social-democratic ideas of mobilising competition policy in service of environmental, regional and social goals. As industrial policy experiences a comeback in the EU and abroad, it will be essential to ensure greater conditionality and accountability for private businesses that receive exemptions from competition policy. What is at stake is not only the protection of workers, consumers, and small and medium enterprises from monopolies and oligopolies, but the protection of democracy itself from concentrated private economic power.

**Keywords:** competition; industrial policy; state aids; mergers; ordoliberalism



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When the European Economic Community (EEC) was preparing to open in 1958, Heinrich Deist, chair of the Socialist Group's Economic and Social Working Group in the European Parliament, declared that business concentrations "are above all the accumulation of power [that] establishes relations of subordination of man to man".<sup>2</sup> A Dutch socialist, Gerard Nederhorst, along with others, shared Deist's perspective. Emphasising the "political danger of concentrations of excessive size aimed against democracy", he pointed to campaign finance, warning that "the conservative parties are under the financial dependence of the concentrated economy".<sup>3</sup> The Socialist Group took the hardest line of the party groups against cartels and restrictions on competition in the early European Parliament, supporting the European Commission's efforts to build a strong supranational regime to regulate competition.

This history is important not only for restoring social-democratic contributions to the early political economy of European integration *but also* for public policy in the EU today. Competition policy was the strongest area over which the Treaties of Rome granted supranational powers to the European Commission. It remains one of the most powerful supranational policies and has received a lot of attention recently due to the activist stance taken by Margrethe Vestager, Commissioner for Competition from the Renew Europe liberal group. Freiburg school ordoliberals, who developed a unique strand of right-wing economic thinking in the early-mid 20th century, have claimed hegemony over European competition law and, through it, of economic governance more broadly. During the Great Recession, and still today, advocates of austerity and market liberalism legitimise their policies by reference to ordoliberal traditions – which scholars have identified as a "justificatory fable" and an "abuse of Freiburg's ordoliberalism".<sup>4</sup>

Ideas and policies presented as ordoliberal today actually bear little relation to those of ordoliberalism's founding generations – in many respects, they run entirely counter to them. Unlike many market liber-

als today, ordoliberals like Walter Eucken and Franz Böhm likely would have agreed with Deist and Nederhorst's statements because they were concerned that accumulations of economic power (an ordoliberal phrase) destroy the market freedoms that they saw as preconditions for societal and political freedom. Unlike right-wing European discourses today, which often adopt Chicago school ideology to emphasise competition for competition's sake and limit competition policy to goals of *economic efficiency* and *lower consumer prices*, early ordoliberals focused on *constraining private economic and political power*.<sup>5</sup> The state would guarantee competitive markets through regulatory law to achieve goals of economic balance, including protecting small and medium enterprises, balanced regional development and, for some, even social welfare.<sup>6</sup> Certain elements of the ordoliberal view on competition were therefore attractive to socialists.

Cartels, mergers, vertical and horizontal integration, and cross-border subsidiaries have been a subject of interest for socialists since the second wave of industrialisation in the 19th century. At first, social-democratic thinkers tended to praise concentration as a sign of capitalist rationalisation and industrial modernity. This positive view began to change in the early 20th century, as socialists grew concerned that cartels and monopolies were fuelling dangerous forms of international competition driving countries to war. In interwar Europe, trade unions, consumer groups and socialists coalesced around the view that cartels had to be supervised and controlled internationally by the League of Nations.<sup>7</sup> During the Great Depression, the Labour and Socialist International and the International Federation of Trade Unions blamed the Great Depression partly on monopoly prices. "Monopolistic concerns of all kinds should be placed under public supervision and regulation" to defend consumers, they argued, but also because they "forc[ed] governments into an oppressive dependence on capitalist plutocracy".<sup>8</sup> This regulatory turn in interwar social-democratic com-



petition policy created an important precedent for socialist economic policies after the war.

## **1. Postwar social democracy's competition and industrial policies in Europe**

In postwar Europe, socialists adopted increasingly restrictive positions towards cartels and anticompetitive practices. They became the strongest advocates of supervising cartels in the UK and of banning them in France in the 1940s. Clement Atlee's government passed the Monopolies and Mergers Act in 1948, though industry and internal obstruction hobbled its effectiveness.<sup>9</sup> The French Socialist Party proposed antitrust legislation and continued advocating for strong antitrust enforcement after France's 1953 competition decree created a Competition Authority.<sup>10</sup> The most ambitious competition law in postwar Europe was the 1957 West German Act against Restraints of Competition. Scholarship has presented German competition policy as the work of ordoliberals, who broke from classical liberalism by insisting that a strong legal framework and state enforcement were needed to maintain competitive markets.<sup>11</sup> However, German social democrats voted against it in 1957 because *it was not strong enough* and frequently teamed up with ordoliberals in the Bundestag's Economics Committee to push for more forceful competition laws in the 1960s-1970s. The result of this informal coalition was Willy Brandt's 1973 merger control law, the first major merger law passed in continental Europe.<sup>12</sup> This new field of merger control was a potentially powerful means of ex ante control to constrain business concentration, especially to control the expansion of multinational companies.

Social-democratic concepts of competition policy differed from ordoliberal ones in largely exempting public enterprises and in permitting



political discretion in the approval or banning of cartels and mergers, in contrast to the legal approach preferred by ordoliberals. Willy Brandt's merger law granted the Economic Ministry the right to overturn rulings by the German cartel office by referencing world market conditions or anticompetitive practices of foreign businesses. For socialists more broadly, competition policy was meant to be a tool, among others, for governments to coordinate macroeconomic programming to steer national and international economies towards goals of general welfare and balanced regional development. Not only would cartels and anti-competitive practices (foremost of which was abuse of dominant market positions) be banned, but national governments would be empowered to forbid private investments they deemed harmful, a powerful weapon for state economic steering.

German social democrats were inspired by US progressive economist John Galbraith's concept of *countervailing powers*.<sup>13</sup> The SPD argued that small and medium businesses should be exempt from much of competition law such that they could serve as checks on large businesses, joining public enterprises, trade unions, cooperatives and consumer organisations as countervailing powers against oligarchy. Of this list, ordoliberals also wanted to strengthen small and medium-sized businesses but were usually agnostic or hostile towards the others. The Socialist Group in the European Parliament supported the European Commission's efforts to expand European competition policy to include merger control in the early 1970s, but the initiative failed at this time.

Socialists were also not shy about using competition policy for the purposes of industrial policy. The largest competition case launched by the early European Commission was the prosecution of IBM, the US technology company. The case was the brainchild of Altiero Spinelli, a leading Italian social democrat, European federalist, and Commissioner for Industrial, Technological and Industrial Affairs (1970-1976).

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He wielded competition policy as industrial policy to help nurture a homegrown European computer industry. Socialists supported competition policy *and* industrial policy as being complementary to one another. They called for supranational control of multinationals in the 1970s, arguing that their cross-national nature allowed them to slip past national regulatory controls. When the economic recession struck in the 1970s, socialist European commissioners thought that national state aid, ubiquitous at the time, should be limited to industries capable of surviving after rationalisation and coordinated at the supranational level to maintain fair competitive conditions between countries with different fiscal capacities within the common market. In the 1980s, socialists split between those supporting state aid to maintain employment, and those who thought the money was ill-used to prop up “dinosaur” industries that were fated to collapse.

## **2. Moving beyond neoliberal competition policy and subjecting industrial policy to conditionality and accountability**

With this history in mind, how should we think about a social-democratic approach to competition policy in the 21st century?

If anything, the political and economic dangers of monopolies and oligarchy are even more potent today. Antitrust has re-emerged as a salient issue for the US left over the last decade, in the contexts of rising levels of business concentration and a proliferation of monopolies and oligopolies. It is an issue that resonates with both the left and centre left in the Democratic Party. Senator Bernie Sanders, the progressive leader, regularly emphasises links between economic and political power. Recently, he wrote,



But firms that profit from advancements in artificial intelligence could grow exponentially faster than traditional corporations, and quickly obtain exponentially more power than the market-dominating behemoths about which Americans are already justifiably concerned. That's why I believe future presidents and Congresses must be prepared to govern as trust-busters and regulators in the public interest.<sup>14</sup>

Antitrust also has support among centrist Democrats. Senator Amy Klobuchar, who chairs the Senate Judiciary Subcommittee on Competition Policy, Antitrust and Consumer Rights, has been a forceful advocate of re-empowering US competition policy after a period dominated by Chicago school thinking. In her recent book, *Antitrust: Taking on Monopoly Power from the Gilded Age to the Digital Age*, she writes, "Mergers and anticompetitive behavior have increased the price of everything from cable TV and beer to health care, and we must stop admiring the problem and actually start doing something about it".<sup>15</sup>

In 2021, President Joe Biden nominated Lina Khan to head the Federal Trade Commission, charged with overseeing US competition policy along with the US Justice Department's Antitrust Division. Her confirmation was celebrated by progressives and centrists and even received support from some Republicans.<sup>16</sup> Khan came to prominence with a 2017 law journal article, "Amazon's antitrust paradox", which argues that a consumer-only standard "is unequipped to capture the architecture of market power in the modern economy".<sup>17</sup> In a promising experiment, Khan is attempting a wholesale revitalisation project to make US antitrust fit for purpose for the 21st century.

Business concentration also matters for European social democracy because, like in the USA, it has been correlated with increased income inequality, a declining income share for labour and increased corporate lobbying.<sup>18</sup> Recent studies have shown that concentration has increased in Europe over the last decades, though less so than in

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the USA. A 2019 OECD study found an average 4% increase in concentration of European industry from 2000 to 2014, while a 2023 update found that the concentration of the largest business groups grew at a much larger rate of 12% over the same period.<sup>19</sup> This concentration movement holds both for leading European countries and for the EU internal market as a whole, as well as across sectors, though concentration has been stronger in services than in manufacturing. European regional concentration has grown faster than national concentration movements but from a lower starting point, meaning that European-level concentration is catching up with national levels of business concentration. The consequences for workers are often stark: a 2020 OECD study demonstrates that concentrated businesses behave like buyers' cartels on labour markets, lowering wages and reducing workers' bargaining power.<sup>20</sup> As artificial intelligence revolutionises the workplace, competition policy must ensure that the resulting productivity gains are shared by workers and society, rather than gobbled up by tech firms' monopolistic prices. There is social-democratic historical precedent for this. In supporting a strong European competition policy in the late 1950s, socialists in the European Parliament expressed similar concerns that cartels and anticompetitive practices were consuming the benefits that came from economic growth caused by the opening of the Common Market.<sup>21</sup>

The policy choice today is typically posed erroneously as one between industrial and competition policy, with socialists preferring the former and liberals the latter, but, in reality, socialists have consistently supported strong competition policies.<sup>22</sup> We are living in a time of a renewal of European industrial policy, for example, the European Green Deal and a reconsideration of the role of competition policy in addressing high technology. Much of the impetus has come from geopolitics, as European governments and the European Commission become increasingly concerned by fragile supply lines and anticompetitive



practices by China and other countries. The US Inflation Reduction Act (IRA) contributes to this impetus as well, as European businesses clamour for subsidies to match the IRA's. Public debates revolve around whether it is time to abandon the neoliberal era's consumer competition standard, in which low consumer prices and economic efficiency were the only justification for state intervention to ban mergers or breakup oligopolies. As Khan argues, the consumer standard is not sufficient to contain monopolistic behaviour. There are dangers though of bringing it into question. While the return of European industrial policy should be welcomed, it must not allow the consolidation of a new rentier class in its pursuit of increased European competitiveness on global markets. If we are not careful, vested interests may be positioned to capture Europe's industrial policy, channelling higher consumer prices into higher profits for themselves without enhancing collective welfare.

In 2020, the European Commission launched a public call for input concerning how competition policy can contribute to the European Green Deal.<sup>23</sup> The Austrian, Dutch and Greek governments have launched promising experiments to exempt certain forms of business collusion from penalties, if they pursue cooperation aimed at improving environmental sustainability, even if it leads to higher consumer prices<sup>24</sup> – but it is imperative to ensure that such collusion actually achieves measurable improvements in sustainability that compensates the public for consumer harm. *Conditionality*, which was heavily imposed on governments receiving money during the eurozone crisis, *should also be imposed on businesses accepting public assistance in the form of subsidies or tax write-offs*. Exemptions from competition policy must be subject to strict conditionality from the moment an exemption is agreed and to post facto *accountability*. Businesses that accept money but do not deliver their promises must return it to the public coffer and pay a fine for breaking their promises. Innovation in conditionality will be needed regarding public financing for risky private investments aimed





at future global competitiveness, for instance, rare-earth mining. Appropriate forms of conditionality in such cases include profit sharing if a risky investment yields profits, or assuring high wages and working conditions and improving local infrastructure.

### **3. Striking the right balance**

Using a narrow consumer and efficiency standard as the basis for deciding exemptions appears inappropriate for addressing monopolies and restrictive practices in the digital world. Consumer interests have always been core concerns for socialists and must remain an element of any social-democratic competition policy, but socialists generally balanced them with other policy goals, like employment and restraining the political power of corporate giants. How to strike this balance in the 21st century merits deep reflection given the challenge of remedying climate change, as well as problems of privacy and abuses of dominant positions by online platforms. Simply pitting industrial policy against competition policy skews the debate and eliminates alternative options that were previously important weapons in social democracy's policy arsenal.

Firstly, 21st century industrial policy rarely accords with social-democratic goals of fair distribution and well-paid employment. Europe's new industrial policy focuses on enhancing international competitiveness through internal devaluation, as marked by wage constraints and structural adjustment plans. European businesses, in this concept, should attract more foreign direct investment and increase their competitiveness by reducing labour costs, while national governments should assist them by making labour markets more flexible and cutting corporate taxes. This means competitive cost-cutting between businesses and European countries within the EU internal market. This policy has been promoted by the European Round Table of Industri-



alists.<sup>25</sup> Iratxe García, president of the Socialist & Democrats in the European Parliament, is surely correct in rejecting an industrial policy along these lines. She said about the European Commission's "Green Deal Industrial Plan for a Net-Zero Age" in early 2023:

The plan presented is very vague with regard to any fresh funding for industrial policy – for new key sectors but also for traditional sectors to adapt. This plan has no added value and it will not help European industry if it is limited to a rebranding and relabeling exercise. And, any public money injection must be conditional to companies respecting workers' and social rights. If this is meant to be a reaction to the USA's Inflation Reduction Act (IRA), it fails to propose any concrete measure and it fails to level up the ambition. The relaxation of the State aid rules should not be the only answer to the detriment of the single market.<sup>26</sup>

Secondly, new industrial policy governance largely bypasses democratic institutions at national and European levels, and consigns organised labour either to the role of junior partner or leaves it out entirely.<sup>27</sup> The EU's major industrial policy programs, for example, the European Fund for Strategic Investments, Important Projects of Common European Interest, national productivity boards and others mostly fall under the Commission's purview and are linked to the annual macroeconomic policy rounds in the European Semester. Friends of the Earth have complained that fossil fuel and other lobby groups have dominated the Industrial Alliances and roundtables the EU has established since 2017 to promote hydrogen production and raw material extraction.<sup>28</sup> Recent Commission proposals, such as the Net Zero Industry Act and the Critical Raw Materials Act, also suggest a willingness to provide companies with more lenient regulatory environments through the use of "regulatory sandboxes" and fast-tracked permit procedures. Cohesion policy has largely abandoned its older goal of fostering economic convergence between highly developed and underdeveloped regions and, for instance,

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in its Smart Specialisation program, has transformed instead into another tool to push regions to compete with one another to obtain funding based on criteria of enhancing competitiveness, rather than regional living standards and well-being.<sup>29</sup> Even the Recovery and Resilience Facility in response to Covid largely reproduces these same dynamics by pursuing industrial policy under the cover of social policy.<sup>30</sup>

Contemporary forms of industrial policy are overwhelmingly supply-side oriented, aimed at stimulating business activity through subsidies and other financial incentives. *Redistributing money from taxpayers to corporations in this way runs counter to the ethos of social democracy.* In addition to state aid in the form of subsidies and tax breaks, public-private partnerships have proliferated, often without sufficient conditionality and accountability. Patents are an important vehicle for maintaining monopoly prices in Europe. Vaccine patents were an especially dramatic issue during the Covid pandemic. They relied on government funding and guaranteed purchase agreements but have zealously defended their exclusionary ownership, preventing their diffusion to people in need in the Global South. This is all taking place in a wider context of impunity, in which corporations prefer enriching their top management and stockholders through bonuses and stock buybacks, rather than reinvesting their profits to enhance productivity. The European Central Bank has acknowledged the significance of what is popularly known as “greedflation”, that is, corporations taking advantage of the inflationary period to post record profits, thereby driving further inflation.<sup>31</sup>

## 4. Sketches for a social-democratic competition and industrial policy

Here, we propose *principles* for rethinking competition policy based on the history of social-democratic public policy, as well as *some measures* that can be fleshed out more fully in the future.

Firstly, *competition policy should not pursue competition for its own sake, but rather in service of socioeconomic and environmental goals.* Socialists should continue to seek inspiration from their history in targeting their competition policy in such a way that it is socially just and contributes to a social-democratic vision of environmental recovery and material well-being. The Austrian, Dutch and Greek experiments should be examined as potential models for the EU level, with an eye on whether they meet or fall short of their intended goals. Exempting business collusion aimed explicitly at improving social, regional or environmental sustainability can be supported, as long as it is subject to strict public supervision and a burden of proof be placed on businesses to demonstrate that the exemption results in the promised improvements.

Secondly, *taxpayer money should go to enhancing public goods, not lining private pockets.* State aid must be subject to strict conditionality and accountability to achieve environmental, regional development and social goals. Self-regulation like that in the EU's Industrial Alliances must not be allowed. Subsidising consumers during the recent energy crisis was necessary, but subsidising fossil fuel companies is disgraceful. Exemptions from competition law should be subject to strict *conditionality* agreed to at the time that the exemption is granted. Promises are not enough to ensure *accountability*; state aid must be returned if businesses do not meet their environmental, regional or social commitments. Flexible and creative solutions for conditionality can be found regarding state aid for risky investments like rare-earth mining, for instance, profit sharing if the investment turns a profit or by compensating workers and local societies in other ways. *Without conditionality and accountability, state aid amounts to little more than corporate welfare.*<sup>32</sup>

Thirdly, *public-private partnerships should be subject to stricter conditionality and accountability to ensure that they accomplish spe-*

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*cific public goals. Public enterprises should be re-legitimised and state aid allowed to the extent that they enhance environmental, welfare and employment goals, but this must be done in a manner in which small countries can benefit from state aid by multilateralising aspects of state aid at the European level.*

Fourthly, socialists should support Commission efforts to *lower the length of medical patents* from ten to eight years (unless they are made available in all EU-27 member states within a two-year timeframe), though they should push to go further.<sup>33</sup> *Patents developed with public support should have shorter lifespans and be subject to strict criteria, including conditionality and accountability based on public well-being.*

Fifthly, social democracy should emphasise *that accumulations of economic power are dangerous to the health and future of democracy*, in line with older ordoliberal and social-democratic traditions. Democratic institutions and workers' representatives must regain control over industrial policy. Parliaments and trade-union federations should have veto power over industrial policy projects – and, as importantly, they should directly benefit from them both in terms of high wages and in fulfilling employment, welfare and sustainability goals.

Lastly, *socialists should develop a stronger voice on competition policy to contest hegemonic claims by neoliberals over European economic governance.* New developments in US antitrust can be taken as potential models, though socialists would have to adapt them to European conditions. Regaining an element of issue ownership over competition issues would be a worthy mission for the Socialists & Democrats group in the next European parliamentary legislature. In doing so, socialists would make clear their intent to protect people from excessive accumulations of economic power that establish unjust relations of economic and political subordination in the EU.

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**Building viable  
coalitions for progress**

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Anna PACZEŚNIAK

## **In search of allies on the road to enhancing the integrity of the EU**



**Abstract:** Many historical examples show that the EU often emerges from external and internal crises strengthened and more integrated. However, nothing happens on its own. This article examines the dilemmas, actions and proposals for long-term solutions for Europe after 2024 that should be taken to counteract the weakening of the EU's integrity. The basic recommendation is to seek allies not only at the level of policymakers, but also among citizens. Since the legitimacy of the EU project is based primarily on a positive assessment of the effects of integration, the progressive political family should propose such solutions to citizens' problems that will allow them to appreciate the causality and efficiency and make them resistant to the populist and nationalist appeal that shatters the integrity of the EU project.

**Keywords:** external and internal crises, effectiveness, grassroots allies

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An optimistic interpretation of the history of post-war European integration teaches us that the EU emerges from crises strengthened and more integrated. The EU's difficult divorce from the UK or the Covid-19 pandemic would be recent examples of this regularity. In the former case, although the UK's exit from the EU can be seen as a failure of the integrationist vision and even – if one is fatalistic – as a harbinger of further exits, there is also no small number of voices saying that Brexit has cemented the bonds of the rest of the member states and shown citizens how unattractive the populist Eurosceptics' scenario is when put into practice. In the second crisis, the pandemic –although it initially physically distanced member states from each other, due to a temporary return to border controls or competition for the supply of medical equipment – the decision to allow the European Commission to emit some €850 billion in debt backed by the EU budget, to fund transfers and cheap loans to member states, has been hailed as Europe's "Hamiltonian moment".

However, a realistic view, especially recently, dictates greater restraint in believing that European integration is heading in the right direction and that we are always falling on our feet after a crisis. Some member states have begun to undermine not only the *acquis communautaire* and the supremacy of EU law, but even the common trade policy by, for instance, introducing a border blockade on goods from Ukraine during the Russian war, which was not agreed at the EU level. This is, especially in turbulent times, particularly dangerous, as it weakens the integrity of the EU and arouses additional anxiety among citizens. Instead of a message of solidarity and collective decisions, European societies get cacophony and chaos, which raises concerns that the days of the European integration process are numbered and coming to an end.

The social democratic family is faced with the dilemma of proposing longer-term solutions for Europe post-2024. To what extent is it

possible to curb centrifugal tendencies by influencing with existing methods? How long will it be possible to bypass troublesome member states at the expense of slowing down integration? How is it possible to reconcile the contradictory tendencies of those who see the need for deeper integration with those countries whose governments are actively dismantling the European project? Where do we look for allies?

## **1. Internal crisis deeper than previous ones**

From the very beginning, the process of European integration was shaped by various types of conflict and resistance, such as the conflict between a federal and an intergovernmental vision for Europe, or the clash between national and supranational institutions.<sup>1</sup> Moments of stagnation were alternated with qualitative leaps in deepening and widening, in terms of both the substance of policies and the number of member states. Despite differing socio-economic interests, geopolitical circumstances or political preferences reflected in the ideological colours of national governments, EU countries have managed to reconcile their differences, reach compromises, move forward, negotiate their participation in specific policy areas and confront their views in an ultimately constructive manner. For some time now, however, we have been witnessing profound conflict over the foundational and constitutive principles of the polity,<sup>2</sup> such as the rule of law. Issues of sovereignty, power, authority and democratic legitimacy are raised on this occasion and create deep fissures within the EU.

This systemic conflict became apparent with Hungary and Poland, when elections in both countries were won by political parties that questioned the values of liberal democracy (*Fidesz* in Budapest in 2010, 2014, 2018 and 2022, and *Prawo i Sprawiedliwość* (PiS) in Warsaw in 2015 and 2019). PiS and *Fidesz*'s manoeuvres while in

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power have put the issue of the rule of law on the EU agenda. Given that independent, politically neutral courts have become not only the foundation of liberal democracy, but also the core of the European project and EU laws, any attempts to politicise the judiciary, such as those observed in Poland until 2023 and in Hungary even longer, amount to a blow against the EU fundamental values and legal order. This made the problem with two governments of EU member states a systemic challenge for the whole EU.

It took some time for the EU institutions to agree and implement tools that would more effectively secure member states' respect for the fundamental principles than Article 7 of the Treaty of the EU (TEU). Regulation 2020/2092 on a general regime of conditionality for the protection of the EU budget adopted in December 2020 by the Council and the Parliament, on the proposal issued by the Commission in May 2018, subjects the allocation of EU funds to the observance of the principles of rule of law.<sup>3</sup> Moreover, it is already apparent that the need to strengthen the rule of law remains one of the most important objectives guiding EU reform proposals. Following the Conference on the Future of Europe, the report prepared and endorsed by the European Parliament's (EP's) Committee on Constitutional Affairs (AFCO) adopted by the EP in November 2023 contains further proposals to improve the tools for sanctioning member states failing to comply with the rule of law. The proposals envisage strengthening and reforming "the procedure in Article 7 TEU with regard to the protection of the rule of law by ending unanimity, introducing a clear timeframe, and by making the Court of Justice the arbiter of violations".<sup>4</sup>

Thus, the EU is learning from its own experience and is showing a willingness to end a situation in which, while it is very difficult for weak democratic countries to join the EU (countries like Orbán's Hungary after 2010 or PiS's Poland in 2015-23 would have no chance of being admitted), once they enter, little can practically be done



about a state that violates common values. A member state cannot be thrown out of the EU, unless it leaves on its own, like the UK. This dilemma (hard to enter, but no one has to leave) stems from the genesis of the EU, which in successive iterations implicitly assumed that all member states were democracies, so there would be no need to discipline them. The Treaty of Amsterdam saw the first appearance of disciplinary instruments that provide for the possibility of suspending a member state from voting rights in the Council when the state violates the rule of law, democracy and human rights. The procedure to bring about such sanctions was designed to be so complicated as to basically guarantee that it would never be brought to a conclusion. In the only two cases where the procedure was initiated (against Poland by the Commission in December 2017 and against Hungary by the EP in September 2018), the proceedings got stuck halfway. In doing so, the “naming and shaming” strategy enshrined in Article 7 TEU proved to be insufficient.

Thus, initially not fully prepared for an undemocratic twist in the ranks of its own members, the EU then negotiated mechanisms to protect the European community, its principals and its common budget against internal threats. However, the effects are different from what was expected, although perhaps not explicitly expressed. In April 2022, that is, after the adoption of the “money for rule of law” mechanism scheduled in Regulation 2020/2092 of the EP and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget, and after the freezing of the Recovery Fund for Hungary, Victor Orbán once again won the parliamentary elections. And while it is clear that *Fidesz*'s electoral win was due to the colonisation of the media by the ruling party, changes in electoral law favouring the party in power and the weakness of the democratic opposition, it also seems clear that the Hungarian government's troubles at the EU level have reinforced anti-EU rhetoric within this member state.



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Disciplining member-state governments by freezing EU budget disbursements has highlighted another problem. Neither *Fidesz* in Hungary nor PIS in Poland changed their policies under the pressure and consistency articulated by the EU institutions (EP, European Commission, Court of Justice of the EU) and, in fact, hardened them in their obstinacy. The results of EU mechanisms to defend the rule of law, the independence of the judiciary, media freedom and human rights could therefore be seen as counterproductive. However, the outcome of the Polish elections in October 2023, and the removal of Eurosceptic populists from power, changes this pessimistic perspective. For, while the policy of conditionality has its limitations in directly influencing governments, it is proving to be more effective at influencing citizens of member states. With a consistent explanation to the public that anti-EU rhetoric about unequal treatment of member states is a lie repeated by some national politicians, and that it is the duty of EU institutions to uphold common rules, the citizens in a democratic state can remove from power those politicians who violate the rule of law, rather than give them support. This is the task of the progressive family of social democrats: give a clear message on democratic values, aimed directly at citizens; and deconstruct the nationalist discourse that seeks to discredit the EU in their eyes.

## 2. Seeking to reconcile contradictions

At the threshold of necessary changes, the challenge is not only to strengthen the rule of law and the democratic legitimacy of the EU, but also to improve European capacity to act and prepare for future enlargement. However, the difficult dilemma is how to reconcile the seemingly contradictory tendencies, that is, the reluctance of some governments of the member states to strengthen cooperation and

delegate more competences to the supranational level, with the willingness of others to deepen integration. How can we ensure that no single member state, or group of them, is able to block the closer cooperation of those governments that are interested in it, while at the same time not forcing it on those that are reluctant?

The current system of the *liberum veto*, that is, the still frequently used unanimity rule, is a poison that allows decisions to be blocked for reasons sometimes completely unrelated to the real interests of the vetoing country. Viktor Orbán, in particular, has specialised in this: vetoing various EU decisions to achieve his own political goals or financial benefits unrelated to the blocked solutions. The introduction of a global tax on corporate profits, sanctions against Russia, aid to Ukraine – everywhere there was opposition from Orbán, demanding in return the cancellation of the decision to withhold EU funds from Hungary for violations of the rule of law.

The narrowing of the scope of the veto right seems an obvious condition for the EU's elementary effectiveness. The proposed extension of the majority decision (by qualified majority voting (QMV), which is not at all easy to obtain) concerns, among other things, foreign and security policy, the EU budget or the approval of subsequent stages of the accession process of new states to the EU. And, indeed, an analysis of existing reform proposals shows that EU agility and efficiency are understood as the ability to make decisions more quickly without unduly prolonging the work – whether through the veto of one country or the threat of a veto. However, if we define agility not only as the ability to make choices and binding decisions, but also to enforce the resulting commitments, it may turn out that QMV is not always a guarantee of implementation. An example and a kind of warning are the decisions on migration policy, which, although taken and adopted, were still contested in the countries that opposed them.



Another remedy is to move away from the dominance of intergovernmental cooperation and increase the role of democratically elected institutions (mainly the EP). This is also to ensure that the progress of integration is not blocked by the governments of individual member states, whose hostages become not only other states, but also EU citizens and their interests. The Conference on the Future of Europe showed that this is exactly what citizens want, which makes it possible to consider them as allies in the preparations for the reform of the Treaties to expand the importance of EU institutions directly elected by citizens.

### **3. In search of grassroots allies**

The campaign ahead of the 2024 European elections will certainly be an opportunity for Eurosceptics to scare citizens with visions of a voracious EU that wants to push nation states into a corner. The political effectiveness of such narratives will probably vary from one member state to another, as citizens' attitudes towards the need to deepen European integration and make the EU more effective are also different. Resentment towards individual states, national stereotypes and irrational fears will be exploited. The way the opposition, Law and Justice party (PiS), talks about planned EU reforms in Poland can serve as an example. This party has stepped up its anti-German rhetoric after losing the parliamentary elections in October 2023, with the aim of sowing doubts among pro-integration and pro-EU Poles about the need to improve the EU machinery and the intention to bring about change. In the narratives of the party's leader, Jaroslaw Kaczynski, and his supporters, the EU is not a win-win endeavour, but merely a lever for Berlin's interests. And Germany – according to this narrative – wants to strip member states (Poland, in particular) of their sovereignty under the pretext of preparing for EU enlargement. It is obvious that behind



such rhetoric there are party-utilitarian goals of diverting public attention away from electoral defeat, but what is problematic is that words have the power to influence public sentiment, delegitimise attempts to reform the EU and – no doubt – are not just specific to the Polish political scene.

Political parties that are radically sceptical towards further integration are gaining popularity in different corners of the continent, as the results of the Dutch general election in November 2023 confirmed. The Netherlands is also part of a broader trend, becoming another country – as was previously the case in Italy and Sweden, among others – where the right-wing mainstream parties have been surpassed by the radical right or those posing as anti-system parties. The success of Wilders' party has provoked the German *Alternative für Deutschland* (AfD) to conclude that everywhere in Europe citizens want political change and that they are turning to the right side of the political spectrum in search of it. Besides, the AfD's poll performance is giving not only the Social Democrats sleepless nights, but also other German ideological families.

The situation will not calm down after the EP elections because the Eurosceptics and populists will not evaporate after the campaign in 2024. Indeed, attacking the EU is also one of the leitmotifs of political campaigning in national elections, and there is always an election campaign going on somewhere. This Eurosceptic tendency will increase as a result of the work on treaty reforms, but also from external inspiration – such as from Russia, which is not interested in strengthening the EU's position – becoming more integrated and more effective.

What should progressive politicians do? Certainly not give up the field. Any ideological families that side with the EU, despite all the differences from the other families, should regard each other as allies against Eurosceptics or Europhobes weakening or breaking up the EU from within. However, it is not enough to seek allies for change at

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the level of policymakers, but citizens must be persuaded. Pressure from below has considerable power, as it is able to guide even those politicians who have previously resisted change. In a democracy, unfortunately, it is possible to manipulate, mislead and deceive, but it is not possible to act against citizens. That is why the battle is for their “souls and minds”. There are ideas on how to reach them without resorting to dirty methods. A focus on public goods, as proposed in the FEPS report,<sup>5</sup> can bring tangible benefits to Europe’s citizens, thereby convincing them of the need for reform and making them aware of the deceptiveness and falsehood of the arguments spouted by Eurosceptics, who, under the guise of defending national sovereignty, harm the vital interests of citizens. And yet it is well known that the legitimacy of the EU project is based, above all, on a positive assessment of the effects of integration.

Although internal conflicts, such as over the EU’s core values, usually quieten down when an external threat emerges (such as the Covid-19 pandemic or Russia’s aggression against Ukraine), and the EU has proved each time that it was able to react in solidarity, each time the divisions have returned, if not stronger, then certainly more visibly. To strengthen the EU as a player on the international stage, but also to strengthen cohesion and restore credibility in the eyes of European citizens, progressive democrats need to come up with solutions that allow the EU to act swiftly, to effectively address the problems troubling citizens and to respond unequivocally to international challenges.



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Kaisa VATANEN

## **Can social democrats build a winning coalition of voters?**



**Abstract:** The rise of the radical right and continued fragmentation of the political landscapes in Europe have caused some to argue that the social democratic parties are losing their traditional voter bases to the radical right. Social democrats should realign themselves with less culturally progressive but more economically left platforms to attract these voters. The chapter looks at the different strategies social democrats have utilised in order to tackle the radical right, and their success as well as the potential voters' preferences to conclude that the path to victory does not lie in populism-light, but in progressive and economically left programme.

**Key words:** social democracy, populism, radical right, voter potential, progressive politics, political fragmentation



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When the FPÖ won 26.9% of the vote in the Austrian elections in 1999 and entered government, it caused international uproar. Other EU member states limited contact with the Austrian government and threatened sanctions. There were discussions of removing Union membership from Austria, as they allowed the far right to access power. This was not to be accepted in the EU.

Today, right-wing populists and the far right are in government, or support it from outside, in seven EU countries. The difference from the late 1990s is striking.

This fundamental change in the political landscape affects everything, from the ability to form coalitions at the national level to discussions on basic EU values and the future of the Union. The change has specifically affected social democratic parties in many of the member states, either by part of their traditional electorate having transferred to populist parties, making it increasingly difficult for social democrats to win elections at both national and EU levels, or by fragmenting the political landscape so much that coalition formation is made difficult. Yet parties or the political system still seem to be at a loss at how to respond to the change, and too often it has just been accepted. The assumption seems to be that the far right will turn into a respectable governing body that follows the same logic and rules as the mainstream parties once in office.

There are many different analyses of both the reasons for the rise of populist parties and how to respond to it. Most agree that it is a complex issue intertwined with the rise of inequality economically and regionally; the lack of prospects for a brighter future; wealth concentration; and reduced trust in society, institutions and politics. The origins of the rise and stability of the popularity of the populists and far right are widely researched and understood.

Support for the far right often correlates with increased regional inequality, which brings about reduced future prospects, lower em-

ployment and/or worsening public services in areas outside prosperous city areas.<sup>1</sup> Put another way, the populist right feeds on insecurities and fears of a worse future (for oneself and one's children). They are complex and deep-rooted issues, rather than simply a question of xenophobia or nationalism. Populist parties gain support from fear, desperation and uncertainty. Issues that have mobilised people to protest and demand change throughout history.

Yet the strategies of many of the parties on the left seem to rely on the assumption that these voters will return if only they fine-tune rhetoric or seem credible enough on some specific policy areas. These policies, strategies and debates ignore the complexity behind the rise of the populist right, or oversimplify it to a few issues like migration or multiculturalism. In the worst case, the fear of losing to the extreme right and the expectation of voters returning paralyse parties and prevent them from reforming and renewing.

In the early 20th century, the same desperation that now feeds the extreme right found hope in social democratic movements. The same uncertainty, inequality and lack of hope still exists today; the disadvantaged majority just looks somewhat different. It can be those feeling left behind in rural areas, with fewer jobs and worsening services, as much as youth in inner cities with failing schools and low future expectations. Now, in too many places, populist parties use the same fears and frustration as fuel for success, only replacing progress and hope with hatred. They have replaced the leftist parties as a means to destabilise the status quo and gain power for the forgotten or left-behind groups.

At the same time, too often, social democratic movements have grown into cautious conservers of past achievements, rather than the champions of progress. This point is eloquently made by Konstantin Vössing in this book.

Therefore, the important question for the future is whether social democrats can still form coalitions of voters that win elections. What

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would that mean as a coalition of voters? And can they do that by being the positive counterforce to populism?

In this chapter, I look at some of the challenges in the social democrats' path to election victory. I first identify some of the different strategies tried and look at their success. Then, I look at the actual voters themselves to see if there is a coalition of voters that social democrats should rely on and the implications this has for policy programs. Finally, I try to form a conclusion of what the path to victory could look like for a social democratic party.

But before all this, I want to make a point about ideology and ideas. No social democratic party (or any other, for that matter) can win and maintain a position of power without vision and policies. Politics can be transactional at the level of any given moment, but any long-term government can only be built around vision. Therefore, the first and most important task for any social democratic party is to look inside, check on ideological and innovative processes, and make sure that there is a long-term vision that they can offer voters. Polling and surveys can help with finding potential voters and suitable messages, but the message only resonates properly if it is authentic. Governing is also hard work that demands quick reactions and compromises. Only by relying on principles and values can a party function coherently, sustainably and consistently in power.

## 1. Different social democratic strategies

In the elections that social democrats have done well in for the last few years, there were many similarities between the programmes, themes and campaigns. With much simplification, one could draw a few comparisons between these campaigns. Most, if not all of them, have concentrated on concrete and tangible deliverables for the wel-

fare of the people. Be it the “ordinary people’s turn” (Norway), “respect” (Germany) or “courage to be on your side” (Finland), the issues raised in the campaigns have been fairly traditionally social democratic, with fairly leftist economic policy and an emphasis on strong social and welfare services – in other words, supporting strong welfare states. They have also been very oriented towards national issues. Even in the elections in Sweden and Finland, which took place during the war in Ukraine and in the middle of NATO membership processes, the international or European aspects played a very small role. The path to success has therefore been found in traditional leftist welfare policies.

Different social democratic parties have responded to the issue of rising populist movements very differently. Different strategies have had different outcomes. Whereas some have managed to slow or even reverse the rise of the far right, others have even accelerated it.

The Danish strategy was to embrace some of the populist-right policies of strict migration rules, assimilation and limiting welfare for migrants, as well as supporting frugal EU policies. This was done at the same time as offering strong traditional social democratic welfare policies for Danish nationals. In fact, the strict migration policies directed at “non-Western migrants” were defended by the argument that it was the only way to guarantee the ability to continue to provide wide welfare services to the Danish people.<sup>2</sup>

This strategy has taken the wind out of the sails of populist and far-right parties by implementing the policies their support relied on. The obvious question is what it has done to the core social democratic values in the process. But from the realpolitik point of view, the strategy has worked. The nature of bloc politics has also ensured that the votes lost due to this strategy still mostly benefit the red-green coalition, and the red-green coalition has grown as a whole.

A similar strategy has been attempted in other Scandinavian countries with less success.<sup>3</sup> For example, the Swedish social democrats

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leaned very heavily on strict migration policies in the 2022 elections and lost. So what worked in Denmark is not a recipe that can necessarily be repeated elsewhere.

In other countries, there have been very different approaches. In Sweden and Germany, all the mainstream parties have long refused to work with the far right in parliaments or other administrative levels. Many of the issues raised by the extreme right were often avoided. This did not result in the far-right parties diminishing, quite the opposite. And more recently, the conservatives, in particular, have been tempted to cooperate with the far right. Currently, the Swedish conservative party Moderaterna rules with support from the far-right party.

In Finland, the populist party, The Finns, entered the centre-right government in 2015, after two landslide results in parliamentary elections. The widely shared idea was to force the party to take on the responsibility of government instead of continuing to grow its support in opposition. As anticipated, the party did not survive the pressure of governing and split in half in 2017. But that did not mean diminishing support for the extreme right. The part of the party that remained in government – The Blue Future – disappeared altogether from the political map in the 2019 elections. But the part that exited government shed the soft populism of previous leaders, became more openly extreme and won all of the seats that The Finns had won in 2015 plus an additional one, becoming the second-largest party in parliament and the largest party in opposition. In the 2023 general elections, they grew their support even further, with a very economically right-wing, anti-immigration and populist platform, winning seven more seats and entering government as the second-largest party.

The different strategies discussed above all have problems. When social democrats have opted for cautious strategies, on either culturally progressive or economically left issues, or have not tackled the questions of immigration or the EU, they created room for the popu-

lists on both the right and left to capitalise on these empty spaces left behind. When social democrats have adopted extreme-right policies, they have done so with the risk of losing a lot of traditionally social democratic ideology and values.

## **2. Inconsistent social democrats**

The examples given above show that fighting the far right successfully, whilst holding onto social democratic core values, is difficult for parties. The paths to victory for social democrats have narrowed with the rise of the populist and far-right movements. There is some disagreement about how this has happened. But whether this has happened through voters being lost directly from social democrats to populists, or through fragmentation of the party landscape and making it harder to form coalitions, doesn't really matter. The outcome remains the same. And the situation is the same at the European level.

The Progressive Alliance of Socialists and Democrats (S&D) group has been a clear underdog in the few last elections. There has not been a clear path to victory. From current seat projections,<sup>4</sup> the whole progressive side (S&D, Greens and the Left) of the European Parliament (EP) would achieve fewer than 250 seats.

The path for the S&D to become the largest group would demand significant victories in most member states. This seems even more difficult than victories at the national level, as in several countries the extreme right outperforms itself at European elections.

This suggests that the social democratic platform is not similarly appealing in national and European elections. There are obviously multiple explanations for this. One less discussed is the discrepancy between policy solutions and the discourse at the national and European levels. Generally, political parties lose credibility if they are not consistent from forum to forum, from one administrative level to another.

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The centre-right parties remain consistent in their policy proposals from the national to the European level. As do the extreme right. Be it on the pro-austerity agenda, the role of the Union as a minimalist economic union of limited social dimension or anti-immigration, these movements are consistent not only from one policy level to the next, but also from country to country. Regardless of the context, you know what you will get when you vote for the conservative or extreme-right parties.

With socialists and social democrats, it is not the same. They are often anti-austerity at the national level, pro-austerity in their EU policies for the national party and anti-austerity at the EP level. Most of the most frugal states demanding tighter rules and slower integration have been led by social democrats, at the same time as the S&D group is promoting deepening the Union and strengthening economic and financial policies. There is barely consistency and very limited predictability for the average voter on the left. If you are a left-leaning federalist in Nordic countries, your options seem conflicting.

This is a difficult challenge to overcome for social democratic parties. It is not made any easier by the challenges set by an ageing traditional voter base, which I look at a little more closely in the next section.

### 3. The changing voter base

Social democratic parties have long been written off as sunset movements for many reasons, but perhaps most prominently because of the ageing voter base. The argument is that these parties have failed to renew the support of new generations of blue-collar workers, who have instead moved to the populists and extreme right.

Ageing voters, who no longer include many working-age, blue-collar workers, are believed hold very different voting preferences from what the social democratic electorates held in the previous decades.

The ageing voter base is believed to demand more conservative policies on a number of issues, especially on culturally progressive themes like migration, climate policies or social liberalism. The same is often argued for traditional (lower educated) working-class voters.

And at the same time, the younger, educated new potential voters are culturally progressive, interested more in human rights, LGBTQ-issues or climate change than traditional economic policy. Creating an electoral problem for the social democratic parties of having to risk alienating one of the potential voter groups while pleasing the other. This also creates a tension between short- and long-term electoral goals. Winning in the short term demands support from older voters, whereas any long-term strategy would need to include the more culturally progressive younger generations in addition to the more traditional working-class voter base.

Yet this is not fully backed up by data. In their research on the potential voter bases for social democratic parties in six European countries, Abou-Chadi and Häusermann found that it was rather the opposite. They conclude that the “new left” electorate, that is younger, more educated and culturally progressive and the “old left” economically left working class both prefer economically left and culturally progressive programmes over centrist or left-nationalist programmes.

“Those that have economically left-wing attitudes also want socio-culturally more progressive policies. Those that are more culturally progressive prefer programs that are economically left. Hence, there is little empirical evidence in support of a material/post-material dilemma on the Left. Progressive parties have the potential to form an electoral coalition based on economically left as well as culturally progressive positions.”<sup>5</sup>

When we surveyed the Finnish social democratic voter potential, we reached somewhat similar conclusions. When asked about cultur-



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ally progressive policy issues and their significance to voting intentions, the youngest and older voters do differ (Figure 1). The importance of credible climate policy is clear for the youngest voters, whereas the balance of the public economy is more important for the older generations. That said, the differences are limited, and larger-scale issues close to the core of traditional social democratic ideals, like access to public services, equality and employment rights, are most important to both age groups. The more conservative narrative of balanced budgets is far less important for both groups. It can be argued that none of the cultural issues, or their combination, imply that age is a significant factor in pushing older generations away. Interestingly, in the Finnish case, the older age group in this data set finds the issue of racism even more important in their voting decision than the youngest generation. Instead, the populist wording of putting Finnish nationals first in decision-making decreases the voting intention in both groups significantly.

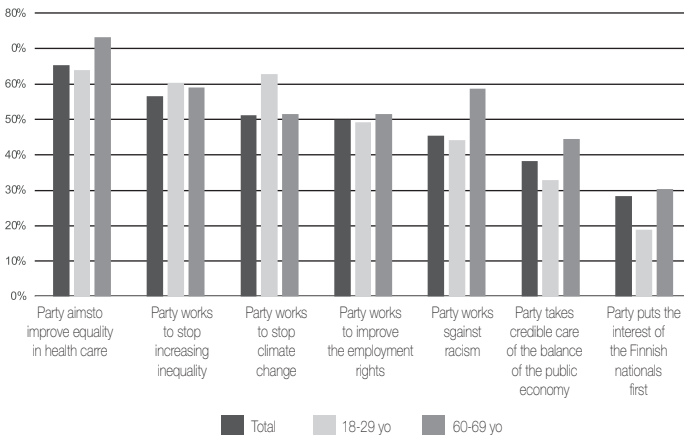


Figure 1. Reasons for potential voters of the Finnish SDP in different age groups to vote for a party based on specific issues (2021).

Figure 2 shows the answers to the same questions based on respondents' educational attainment. Again, healthcare is the most important issue for vocationally and highly educated voters. Climate change is more important for the highly educated, and employment rights for the vocationally educated, but again, both share the core left-leaning issues as being more significant in making the decision for whom to vote.

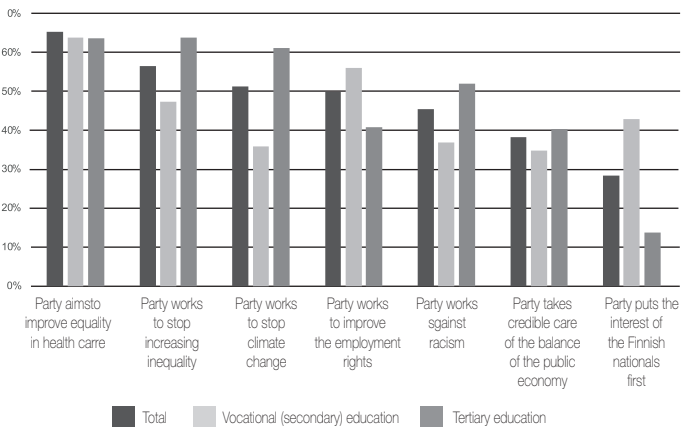


Figure 2. Reasons for potential voters of the Finnish SDP with different education levels to vote for a party based on specific issues.

These findings are repeated from one study to another. In another survey (Figure 3), we found that issues closer to the more progressive agenda, both economically and culturally, resonated more with potential voters of the social democrats than more centrist or careful messages. The importance of core progressive issues to voting preference would suggest that the further political centre parties move, the less motivated potential SDP voters will be to mobilise and vote

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for social democrats. As Figure 3 shows, the whole of potential SDP voters strongly agrees with both the need for more employment rights and stronger climate policy.

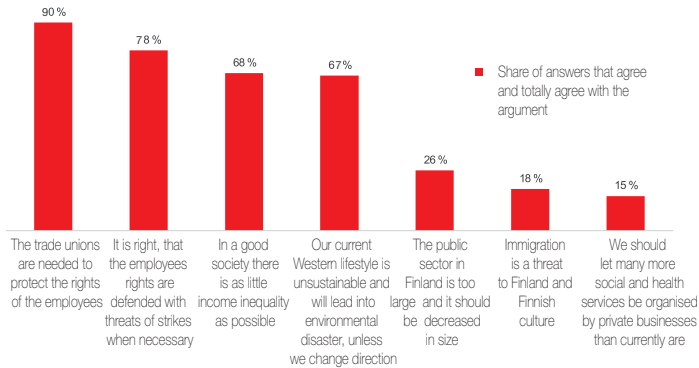


Figure 3. Views of potential SDP voters based on selected arguments (2022).

The answer then to the question of short- and long-term challenges to differentiate voter preferences does not seem to be as difficult as often argued. All of the groups looked at agree strongly about the importance of public services, tackling inequality and protecting workers' rights. But in addition, the more culturally progressive themes of climate or anti-racism are also important to both older and less-educated voter groups. Even if they are not *as important* as some of the other issues, they still play a significant part in forming voting decisions. At the same time, the rhetoric on immigration as a threat or setting Finns before others do not resonate strongly with potential social democratic voters. Having a serious and credible immigration policy is obviously necessary, but looking for credibility by adopting the populist extreme-right rhetoric is not going to increase social democratic support. There

simply are not many more voters available in that direction, and it would cause bigger losses from both the traditionally solidaristic voter base and the new, younger, highly educated potential.

Abou-Chadi and Häusemann conclude their paper by arguing that, "in sum, new left and old left programmatic strategies find the highest level of support among both economically left and culturally progressive voters."<sup>6</sup> In other words, working strategy for the social democratic parties would be to combine the two, and stay further from the nationalist-left or economically centrist programmes. The Finnish surveys support this conclusion.

## **4. Paths to election victories do exist**

The future success of social democratic parties, at both the national and European levels, depends on the ability to bring together voter groups of working-class, older voters loyal to the movement and younger, educated, urban voters, who share the value base. The data presented above suggest that there is a platform that these groups can all support. Namely, an economically relatively left program that safeguards the welfare state, but is also forward looking by being culturally progressive and socially and ecologically sustainable.

The challenge of the extreme right is a challenge for the entire political system and is not limited to social democrats. The fragmentation of the political system by entry of extreme forces limits the room to manoeuvre for all parties. The response from social democrats should not be the adoption of populist positions, but that of offering an understandable, sustainable and coherent program of their own, building on the core values of its own movement. Pivoting to populist positions might offer some short-term solutions but will be more harmful for the

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party's renewal, ideological development and eventual electoral success in the long term.

To succeed in both the national and European elections, social democrats must also be more consistent in their policies. Perhaps the answer lies in selecting fewer, but more concrete, policies connected to the core values to campaign on at the European level.

The credible social democratic platform should therefore be progressive, brave and concrete. It is not a question of finding populism-light policy options on migration or the EU, but of offering something that voters can believe in to improve their own living conditions and future prospects where they are living.

## Endnotes

- 1 For example, see: Fina, S., B. Heider, M. Mattila et al. (2021) *Unequal Finland: Regional Socio-economic Disparities in Finland* (Berlin: Friedrich-Ebert-Stiftung).
- 2 See, for example, the Danish Social Democrat 2018 immigration policy paper, "Fair and realistic": "Retfærdig og realistisk: Helhedsplan for Dansk udlændingepolitik". Socialdemokraterit.
- 3 For a good discussion on the policy shifts and their effect on the ideological core, see: Hinnfors, J. (2023) "Scandinavian social democracy: A paradigmatic shift towards 'tough on immigration'". *Renewal*, 4(31): 74-82.
- 4 Garscha, M. (2023) "EU parliamentary projection: Scare for S&D and ECR, treats for EPP". Europe Elects, 31 October.
- 5 Abou-Chadi, T. and Häusermann, S. (2024) "The myth of a divided Left", in *Research Brief Series 1: Rethinking Progressive Politics Based on Facts Rather than Myths*, Progressive Politics Research Network: p. 10
- 6 *ibid*, p. 10.



# PROGRESSIVE AMBITION:

HOW TO SHAPE  
EUROPE IN THE NEXT DECADE?

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Konstantin VÖSSING

## **Social democracy between progress and conservation**



**Abstract:** The article develops the argument that social democracy has changed from a party of progress to a party of conservation. I argue that this transformation has its roots in the 1970s, and that it intensified during the multiple crises of the past 15 years. Electoral appeals and policies of European social democratic parties during this time were by and large reactions to massive external change designed to conserve prior achievements under extreme pressure. Based on this analysis, I outline the suggestion that social democracy should become a party of progress again, and I show how this can be done by telling a story of progress through the image of building a house together. The article concludes with a discussion of what to keep in mind in different national contexts when switching gears from conservation to progress.



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Social democratic parties were born as harbingers of progress. To reform, improve, and move forward used to be the core of their political identity. The most apparent and lasting achievements of the social democratic drive for progress are perhaps the inclusion of workers into democratic institutions<sup>1</sup> and the expansion of the modern welfare state.<sup>2</sup> However, since the 1970s, social democratic parties have gone through a change, and the change has intensified under the pressure of multiple crises during the past 15 years. The change is clearly visible, but it has neither been fully appreciated nor called by its proper name.

Scholars, practitioners, and observers of social democracy talk about the changing socio-demographics of social democratic support, most importantly how the party has grown old.<sup>3</sup> They also talk about social democracy's resistance to embrace new issues, be it the post-materialist concerns of the 1970s or questions of identity in the 2010s.<sup>4</sup> And sometimes, commentators talk about the unwillingness of social democratic parties to engage with new economic developments, be it digitalisation, artificial intelligence, or universal income experiments.

I would argue that the choices social democratic parties have made since the 1970s (and their perception by citizens) are an expression of a broader change in party identity. *Social democracy, once a party of progress, has become a party of conservation.* The transformation of social democracy into a party of conservation has its roots in the 1970s, but it has intensified and reached new heights during the past 15 years. The development is not all-encompassing, of course, as social democrats continue to propose and implement a wide range of progressive policies. It is a dominant tendency, sometimes visible in policies of social democratic parties, often in their electoral appeal, and most often in their public perception (which can be unfair).

With that disclaimer in mind, I will further develop the argument that social democratic parties have become forces of conservation in the following second part of this chapter. In part three, I suggest that social democracy should become a party of progress again, and I show how this can be done by telling a story of progress based on the image of building a house together. I conclude in part four with a discussion of what to keep in mind when switching gears from conservation to progress.

## **1. Social democracy has become a party of conservation**

During the late 19th and early 20th centuries, social democracy advocated for economic progress through socialism and political progress through democracy. All social democratic parties shared these goals as well as a notion of progress that borrowed heavily from the religious concept of salvation. Economic exploitation combined with less than full political inclusion in all (and heavy repression in most) industrialising countries explain the wide appeal of quasi-religious promises of *progress as a road to salvation* through socialism.<sup>5</sup>

One emblematic image of progress during this period is the rising sun, the promise of a bright future on the horizon that is there for the taking (see Figure 1). The extent to which social democratic parties used this image and emphasized salvation rhetoric varies between countries. The quasi-revolutionary type of social democracy (for instance, in Germany) used it more than the evolutionary type (for instance, in Britain). However, as Figure 2 illustrates, the quasi-religious notion of progress captured by the image of the rising sun was universal; it appears even in Canada, where social democrats pursued a pragmatic evolutionary approach in an environment that was more inclusive than most other industrialising countries.



Figure 1. Social democratic progress as quasi-religious salvation (Germany, 1919).

After their formative periods during the late 19th and early 20th centuries, social democratic parties increasingly embraced an earthlier vision of progress. The new vision was more policy-oriented, more evolutionary, more reformist, and more pragmatic. It entailed a *mechanical view of progress* that sustained and reflected the transformation of social democracy into an evolutionary<sup>6</sup> and reformist<sup>7</sup> political party. The visual epitome of mechanical progress is the cog wheel, which tirelessly moves machines forward (see Figure 3). By propelling

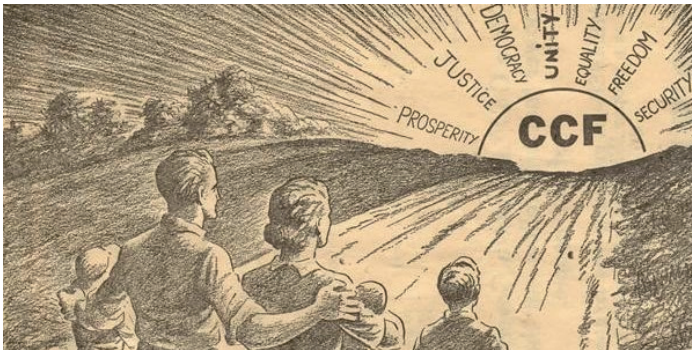


Figure 2. Social democratic progress as quasi-religious salvation (Canada, 1933).



Figure 3. The mechanical view of social democratic progress (Norway, 1949).

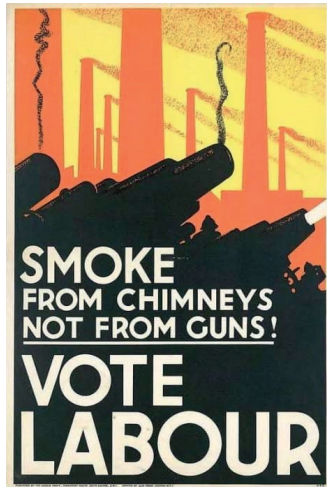


Figure 4. The mechanical view of social democratic progress (Britain, 1935).

machines, the cog wheel facilitates the satisfaction of human needs for work, income, sustenance, and consumption. It propels history in the direction of a better future, making it the perfect representation of the mechanical view of progress.

In social democratic images of mechanical progress, the cog wheel is accompanied by representations of chimneys (Figure 4) as well as integrated ensembles of factories, logistics, administration, transport, and production, in which one (metaphorical) cog wheel is perfectly aligned and integrated with the others (Figure 5). While the rising sun and the quasi-religious view of progress for which it stands are intertwined with the achievement of fundamental political and economic rights for workers during the late 19th and early 20th centuries, the mechanical view of progress is closely connected to the golden age

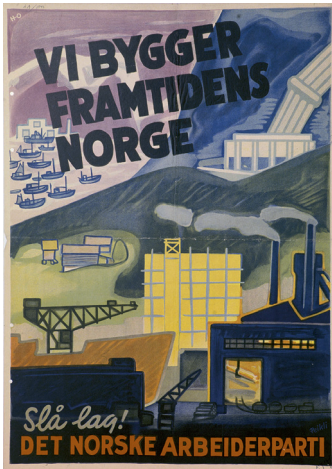


Figure 5. The mechanical view of social democratic progress (Norway, 1945).

of welfare capitalism from 1945 to the 1970s. It represents an image and the requisite policies of progress that emphasise the benefits of technology, the satisfaction of material needs, and the creation of insurance against risk and adversity. During this time, social democrats turned the idea of progress into practice by establishing (and expanding) the modern welfare state.

For a party that was born under the banner of progress and that managed to transform the idea of progress into policies, social democracy has become curiously averse to progress since the 1970s. This is not to say that social democratic parties have abandoned progressive policies. In addition to a progressive socio-economic agenda, social democracy also promoted socio-cultural progress during the 1970s, 1980s, and 1990s by advancing democracy, inclusion, and tolerance for diverse lifestyles. Then, social democracy pioneered the integration of economic and ecological concerns during the 1980s and outlined an agenda of technocratic progress under the banner of the “third way” during the 1990s. Moreover, in many specific policy areas, even seemingly unlikely candidates such as digitalization, social democrats continue to develop, propose, and implement progressive policies.

However, already during the 1970s, internal opposition to socio-cultural change in some social democratic parties was indicative of a critical view of progress. Contestation of the idea of progress in-

tensified when social democrats developed first ecological and then technocratic agendas during the 1980s and 1990s. Eventually, the idea of progress was all but abandoned as the dominant party line. Social democrats became defenders of the welfare state and economic prosperity rather than purveyors of progress, and social democracy changed from a party of progress into a party of conservation. One reason for why this has happened is arguably the fact that the welfare state really has been under attack from different sides and another reason might be that defending the welfare state has become the one issue on which disparate party factions can still agree.

The transformation from party of progress to party of conservation has become particularly apparent under the crisis-ridden circumstances of the past 15 years. Politics and policies of European social democratic parties during this time were by and large reactions to massive external change, designed to conserve prior achievements under extreme pressure. First, the financial and economic crises of the 2010s threatened the architecture of private and public finance and the very core of the welfare state in the most strongly affected European countries. Social democratic parties responded by standing the middle ground between strict austerity and the populist backlash against it. While objectively convincing as a policy agenda, the social democratic response abstained from projecting positive improvement. It emphasised conservation of the status quo under difficult circumstances, and it led to electoral losses, the rise of populism, and stalled programmatic development.

Second, the covid crisis between 2020 and 2023 prompted the deployment of a massive amount of public resources to mitigate the negative impact of the pandemic on health and economic activity. Social democratic parties supported restrictive anti-covid measures. Whenever possible, they made efforts to protect the most physically and economically vulnerable and to apply principles of social justice to

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the covid response. This clearly made a difference in many people's lives. However, it only contributed marginally to clarifying the unique programmatic agenda of social democracy to the public, and by its very nature, the covid response was about preventing harm rather than pursuing progress.

Third, the crisis of physical integrity unleashed by the Russian invasion of Ukraine kills European citizens, and it threatens the very survival and security of many more across the European continent. Social democrats support and, in many cases, actively advance the military and political response of NATO and the EU and their member states, in some cases (most notably Germany, Finland, and Sweden) as a complete reversal of prior convictions and commitments. These policies are urgently necessary, and I would argue that they also contribute positively to programmatic development. However, by its very nature, the investment in defence, security, and reconstruction is designed to preserve the physical status quo and prevent future negative impact. It is not about improving peoples' lives compared to what they used to be before the war.

Fourth, the ongoing and intensifying climate crisis destroys people's livelihoods, and it threatens the mode of production entrenched in Western industrial societies. Social democratic parties endorse and pursue climate action while highlighting the needs of workers in carbon-dependent industries and the importance of socially balanced climate change policies. Their approach to climate change is consistent with their response to the financial crises and the covid emergency, but the political impact of this approach (on electoral politics and political competition) in connection with the climate change debate remains to be seen. What is clear already is the fact that climate mitigation as well, by its very nature, is not about improving people's lives. It is geared at preserving a physical status quo and preventing future harm and disruption.



## 2. A new story of progress

I believe that social democratic parties should emphasize their role as parties of progress again. Before discussing the intricacies of such decisions in different national circumstances, I would first like to make a suggestion for what a social democratic story of progress could look like, in broad strokes. The story that I think social democratic parties can tell is the story of *progress as building a house together*. I believe that this story and the image on which it is based have desirable properties as an electoral strategy, but most importantly, they stand for a story that I personally would like to hear from social democratic parties. Sebastian Jobelius and I previously argued that social democracy needs to become better at listening *and* more convinced of its mission.<sup>8</sup> Listening should be used to better understand the problems and ideas of neighbours and fellow citizens, but not as a tool for pandering. Instead, listening and learning allow social democrats to develop better policies and communicate their plans and ideas more effectively.

Social democrats, both politicians reporting input from their constituency and political operatives citing the latest survey results, often talk about how something *must* be done (or something else *cannot* be done) because of public demand (and the allegedly unassailable evidence they have for it). Not only is the evidence necessarily selective, flawed, and to be treated with caution. Much more importantly, an approach that only panders to (one's own perception of) the latest trends can suppress the ability of social democrats to tell a story of what they want. Listening is critical, and social democrats need to become better at it, but they also need to tell more stories of what they want and fewer stories of what they think others want to hear.

The story of progress as building a house together is a story and an image that appeal to me and that I would like to hear from social democracy. In this story, people who have faced adversity work to-





Figure 6. Progress as building together (Denmark, 1947).

gether for a common goal. They cooperate for progress, not only for the better future it promises but also for the benefits of working together in the here and now. Building a house together creates value and satisfies fundamental social and economic human needs. It shows the benefits of work and the importance of it, but it also represents a different idea of how we want to work. The image of mechanical progress from the post-war period captured by the factory and interconnected logistics emphasises progress at

the system level, and it treats individuals as part of an integrated machinery. The image of building a house emphasises the individual level and the interaction of individuals in completing a critical task together. It conveys a positive view of technology, but one that submits technology to human needs.

There is precedent in the history of social democracy for using the image of collaboratively building something, as the examples from Denmark (image 6), Switzerland (image 7), and Norway (image 8) show. The new story of progress and the new image of building a house are similar but different. Not only do they emphasise more explicitly the intrinsic benefits of the process of working together (as explained above). They also highlight diversity and inclusiveness. Building a house is a project for everyone, not because some are forced to work with others, but more than that, because the project needs the skills and experiences of everyone. In this image, social democracy



Figure 7. Progress as building together (Switzerland, 1942).

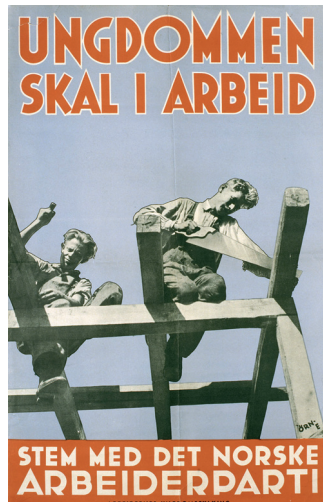


Image 8. Progress as building together (Norway, 1936).

does not have to make choices between old and young voters, conservation and progress, or security and future. Building a house leads to progress (and embodies progress), and it needs a diverse set of skills, dispositions, and experiences.

Typical social democratic appeals are often combinations of two stories for two disparate social groups (connected by little more than a grammatical conjunction and moral appeals to social cohesion), such as innovation (for the liberal middle classes) and social justice (for the traditional social democratic constituencies). However, when someone is telling two unrelated stories, often neither one of them is very memorable nor convincing, especially when they contradict one another. By contrast, the story of progress as building a house that I have in mind does not distinguish the dynamic people that want progress from the

with the United States. Additionally, his engagement for a progressive way forward brought him to being Co-Chair of the Progressive Forum and Chair of the FEPS Next Left Program.



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*"Cooperation of the socialist and social democratic parties in uniting Europe. From Liaison Bureau to PES. 1957 – 2007."* (also published in book format in 2010).

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opinions and the behaviour of citizens through mobilisation, persuasion, and information in different political environments, and how these processes relate to critical episodes of major political conflict, such as class politics, regional integration, the transformation of the welfare state, and the current challenge to democracy.



Progressive ambition: How to shape Europe in the next decade is the 15th volume of the renowned „Next Left” book series, which has proudly promoted new ideas for the future of social democracy since 2009. Consequently, the tome at hand, which opens with a foreword by Andreas Schieder, MEP and chair of Next Left, results from meticulous work by top scholars from across the EU and is an invitation to embark on an intellectual quest in three chapters. The first focuses on how to govern with progressive purpose in turbulent times by comparing innovations attempted elsewhere in the world (such as Bidenomics), posing the unavoidable question of financial means and exploring how to consolidate centre-left voices across different levels of representative democracy. The second chapter – Forging a resilient EU agenda – tackles how to manage the triple transformation, keep the principles of empowerment and democracy in the workplace, and strive for social progress through a Social Europe. The last chapter, Building viable coalitions for progress, examines the implications of tectonic shifts in voter attitudes, warns against becoming a force of preservation and defines strategies to halt the march of the radical right.