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Rarely has global politics witnessed so much uncertainty and undergone so many transitions as it has during the last few months. And all this upheaval has been accompanied by unparalleled risks. In Egypt the jury is still out on the power struggle between the military and the Muslim Brotherhood despite Mohammed Morsi's victory in the recent presidential election. As a result we can expect protests to continue with no end in sight and the military eventually to crack down on the protesters.



In Rio the disappointing conclusion of the environmental summit failed to deliver any convincing solution to the overwhelming problems of global climate change and environmental protection. Meanwhile, our grace period is slipping away.

And in the United States a new president will be chosen this fall, who, when you consider the extent of his power and its repercussions in every corner of the world, will be a kind of planetary leader. Yet the rest of the world can only look on powerlessly as he is chosen in an electoral process dominated by big money. At the end of the day a candidate from the narrowest and most provincial background may have the fate of the world in his hands.

The E.U. is slipping and sliding through a swamp of crisis with no solid ground anywhere in sight, despite the favorable outcome of the recent Greek elections. It cannot find firm footing because its strongest members, fearing the wrath of domestic voters, stubbornly refuse to recognize that terra firma can be reached only by embracing genuine solidarity and abandoning the principle that nation-states must exercise final sovereignty. The top-echelon politicians who must act to resolve the crisis – headed by the German chancellor – are merely reacting to events instead of actively shaping a grand future for the European Union. But the very dynamic of the crisis together with its principle cause – that the E.U. is a monetary union without a common economic regime – is pushing them step by step in the right direction, no matter how much they resist. The proper direction can be recognized by three related way-stations: more solidarity, deeper political integration, and more effective democratic control.

If national egoism does not fritter away this historic opportunity at the last minute, the crisis will give rise to a new Europe. Not all member countries want to take the next big step right away, but momentum toward it has become unstoppable. Its success will motivate hesitant members to accede to political union in due course. Our articles will depict the outlines of such a union.

*Thomas Meyer*

Thomas Meyer  
Editor-in-Chief and Co-Publisher

Thomas Meyer

## Critiquing Capitalism

Do we need a Marx Renaissance?

Thomas Meyer



(\* 1943) is Professor emeritus of Political Science at the University of Dortmund and editor-in-chief of the journal *Neue Gesellschaft/Frankfurter Hefte*. His most recent books, published by VS Press, include: *Social Democracy: an Introduction and What is Fundamentalism?*

While its anxiety-plagued operatives may send billions of investment dollars speeding around the globe at the click of a mouse, capitalism itself is not a shy doe. It cannot be intimidated by a gust of discursive wind in scholarship, politics, or the media, nor even by a veritable revolution in the arts and culture pages of conservative newspapers. On the contrary: its birth in the late eighteenth century was accompanied by a baptism of fire, as it endured the harshest possible criticisms. And it has provoked massive theoretical and practical opposition in each phase of its development ever since. Indeed, we tend to forget that it has survived every crisis and even gained in stature and mettle as a result. Capitalism has learned how to feed off of critique: the more radical the critique, the better did capitalism respond, almost as if it were taking medicine. It emerged triumphant from the Great Depression, which many thought would seal its doom, after swallowing the Keynesian antidote. During the Cold War decades it easily vanquished its original and most dreaded adversary, communism, along with the latter's allegedly crisis-free planned economy. Not only did it win the struggle in practice; it also dispatched nearly every conceivable counter-theory. Nevertheless, the past two-and-a-half centuries of its existence have shown that capitalism does

not just have crises; it is itself *the* crisis. But it does live rather well from these waves of critique, which never seem to ebb away. They are sometimes fundamental, at other times pragmatic, but always accompanied by skepticism and mistrust, which of course capitalism honestly deserves, despite its brief phases of remorse and modesty. Although the detailed critique of capitalism, this myth of the present, had and has many names, there is only one figure in the world who has been without a peer in devising a truly fundamental critique of it: Karl Marx.

The most recent crisis of capitalism has been deeper, uglier, and in a way more insidious than most of its predecessors, which has given it an unparalleled power to evoke opposition and even revulsion. It is thus not surprising that the most recent crisis has served to reinvigorate a principled critique of capitalism in academia, journalism, and some parts of the political world, one that reaches even into arch-bourgeois editorial offices. Moreover, barely two decades after every model of the planned economy failed dismally, today's crisis is about to launch another renaissance of Marxism, as though the latter were the last source of hope for a social order fundamentally different from what we now have. If Terry Eagleton, the renowned British social scientist has his way, Marx would completely regain his right to intellectual pre-eminence as the diagnostician of our time, misunderstood to this very day. Marxism is almighty because it is true? It is quite possible that this way of thinking may end up once again on the agenda of our great debates.

There is no doubt about it: the theoretical and practical collapse of market fun-

damentalism, following the most recent crisis of finance capitalism, makes it clear that only a thoroughgoing critique of capitalism can indicate what we ought to do next. Critique will have to mean critical examination. What can Marx's theory contribute to that? During the last three decades there have been repeated attempts to recover the significance of Marx and Marxism for social-scientific, journalistic, and political debates about our current social conditions and the future of capitalism. But aside from the efforts of a few semi-esoteric and/or sectarian mini-groupings, all such attempts have come to naught, because they shared certain premises widely held in the social and scholarly mainstream. These include the following: that the capitalist economic system has fundamentally altered its character because it has been embedded in an encompassing social welfare state; that economic policy has spun an ever-denser web of regulation around it; and that the sharp class polarization of the past has been overcome. For those very reasons, the mainstream view had concluded that Marx's entire critique of capitalism, including his historical analyses and visions of future alternatives (however crudely sketched) necessarily misconstrued present-day economic, social, and political reality.

But by now these premises have turned out to be wrong. The Great Recession of 2008 revealed – as if we did not know it already – that the financial markets, which dominate the entire system of contemporary capitalism, slough off the containment fields, the checks, and most of the political embedding imposed on them, just like a snake shedding its too-tight skin. It was once thought that, in the wake of the Great Depression, capitalism had been domesticated, as it were turned into the harmless pet of a proud democracy. That was a mistake. The beast has broken loose from its collar. Wolfgang Streeck has drawn the conclusion that, if the reality of capi-

talism has once more intruded so rudely into the center of the democratic world, then we need to bring it back as an analytic concept into our scholarly and political discourses, so that we will again know what we are talking about. In 1944 Karl Polanyi described the perpetual oscillation between the expansive logic of capital and the logic of self-protection adopted by society against it. Today the pendulum has swung back so far toward the pole of dominant market and capital interests that the social welfare state, full employment, and democratic control have all been its victims. The price paid has been the loss of social participation and personal security that millions of people in the most hard-pressed regions of the world have experienced.

How has all this been possible? Evidently it owes to a conjunction of three factors, each potent in and of itself. First, the conflict between capitalist societies and »really existing socialism«, which had helped to tame the former, came to an end. Second, markets have become globalized, a phenomenon with powerful real-world consequences, but also one that served as a justification for many other undesirable phenomena. Finally, the social and political forces that had earlier constructed social bulwarks against the rising tide of untrammelled markets have been seriously weakened. Apropos of the first factor: once the agonal confrontation between democratic capitalism and »really existing socialism« over which system was historically more legitimate had reached its denouement, the »victors of history« lost the will to uphold seriously the social democratic compromise which had been the cornerstone of capitalistic democracies. Except in the United States the social democratic compromise had managed to gain the confidence of the majority of society in the value and utility of democracy. The tradeoff, at first made self-consciously and later tacitly, went something like this: the majority would get the social welfare state,

increased incomes, and security in exchange for reconciliation with the capitalist market economy and its inevitable inequalities. We might call this tradeoff the »paradox of Marxism.« Important segments of the political and economic elite in capitalist democracies feared that the revolutionary »overcoming« of capitalism – by means of or against democracy – prophesied by Marx might soon come to pass. And that concern contributed mightily to their willingness finally to accept the social democratic consensus. Thus, by a dialectical reversal, the radical critique of capitalism as personified ideal-typically by Marx brought about a result quite different from what was expected or intended. Yet that critique bequeathed two historical verdicts to the workers' movement, including even its democratic wing, which packed significant explosive force: that capitalism was not compatible with the social interests of labor, and that finding a principled alternative to it was a historically unavoidable task. In this respect the tone of Marxism even today differs appreciably from that struck by the motley assortment of other critiques of capitalism, even though over time there have been differences of emphasis and subtle variations of argument even in the Marxist camp.

### **The fall of the social democratic compromise**

It is no wonder that the contempt for the social democratic compromise evinced by its opponents nowadays has made so many people listen carefully once again to Marxist appeals. That compromise was first crafted in the 1920's, paradoxically under pressure from the Great Depression, at a time when the prospect of a principled alternative to the capitalist social order was quite realistic. Both wings of the labor movement, democratic socialists and communists alike, harbored hopes (albeit incom-

patible ones) that the movement to abolish capitalism would succeed. In Europe the birth certificate of democratic capitalism as a legitimate order assigns top billing to social citizenship. The market and private ownership of the means of production are also certified in principle, but with the proviso that they must also serve the general welfare. Of course that is not what the Marxist critique of capitalism intended, but that is essentially what it brought about. In this sense its legacy has become part and parcel of the modern understanding of social democracy. The threats and actual experiences of disaster that had originally forced both parties to accept this historical compromise continued to haunt them and their societies for decades afterward. But then the democratic revolution in Eastern Europe arrived to sweep away the wreckage of the supposed alternative to capitalism, which was in any case never really a plausible one. And so, as the augurs decreed, the search for alternatives finally seemed to be over: liberal democracy and capitalism waited at the end of history. It is also true that the simultaneous global deregulation of markets, an event willed and created by politicians, took the wind out of the sails of those who wanted to think about alternatives to the prevailing economic system. Market liberalization also continued to supply hard-edged arguments that intensified pressure on wages, working conditions, and on the social welfare state generally, while also sharply limiting the effectiveness of labor unions. In this way important, civilization-enhancing elements of the social and political embedding of capitalist markets have been dismantled piece by piece. Yet these alone have guaranteed that Western societies would continue to keep the peace with a well-contained capitalism in the decades after the Second World War. After all it did actually manage to keep most of its promises: a high standard of living, social security, and a reduction of inequality.

But as Tony Judt dramatically warned, this peace nourished historical oblivion and promoted the disastrous illusion that the social democratic compromise would endure in the absence of an obvious systematic alternative even once it had lost its socio-economic foundation – as though it could live on as a free-floating cultural chimera *faute de mieux*. To be sure, the social democratic critique of capitalism in academic and political settings never capitulated before its arrogant adversary, even when the success of capitalist growth policies made it seem both pampered and invulnerable. Social democrats continued to offer principled analyses of the destructive effects of unguided markets and means of production disengaged from all social controls. Ever since the days of Rudolf Hilferding, Eduard Heimann and Fritz Naphtali social democracy's foundational critique of capitalism – in the sense already indicated – has pestered the latter like a gadfly. But it has also helped shape the contours and define the path taken by capitalism for long stretches of time, both by infusing it with elements of Keynesianism, as well as by forcing it to accept codetermination and regulation, and to pay greater attention to public goods.

Is this period of history at an end? Is capitalism now immune to the social democratic critique, perhaps as a result of having overdosed on permanent critique? One might suspect as much considering that its neo-liberal glorification somehow has defied the overwhelmingly superior argumentative power of all the contrary experiences and insights accumulated since the global financial crisis began. True enough, up until now the historical reception of Marx's work has mostly been – as Terry Eagleton rightly insists – a story of misunderstandings, distortions, and complaisant instrumentalization. Yet this flawed, prejudiced reception has been applied to a body of work that itself is not free of contradictions and tactical twists for political ends.

Until now Marx's work has had two especially prominent influences on its readers. First, it possesses an enormous power to seduce them into adopting a kind of theological mind-set, in which they engage in the most nit-picking textual hermeneutics, always believing they have discovered the right interpretation, and then declare the texts to be »sacred.« Second, Marx's readers often seem to dismiss sophisticated analysis and critique as mere misunderstanding. For years, these factors have blocked any fruitful reception of Marx's works, even in the academic debates of Western societies, and made it hard to sort out what is of enduring worth in Marx from what is obsolete. It has always seemed as though one either had to accept or reject the whole package. So in the end most people were relieved to get rid of such debates by studiously ignoring their subject matter. Nevertheless, assuming that these tendencies could be avoided, a debate about Marx in the middle of the current crisis of capitalism could indeed be a worthwhile undertaking.

What has remained living in Marx's critique of capitalism is its utility as a heuristic guide to analyzing crises. We can still learn a great deal from Marx about the causes and effects of the capitalist logic of exploitation, which is oriented almost entirely to the dictates of private property and markets. But his critique is also valuable when applied to a different and rather post-modern claim (derived from a »soft« reading of Marx) that the relations of production possess a pervasive power to shape and transform politics, society, and culture. Of course both of these heuristic threads, the analysis of capitalistic crises and the »materialistic« exegesis of societal relationships, will enlighten only if one resists their conversion into dogma right from the start. It is reasonable to doubt whether that will happen. On the other side of the ledger, there is little to be salvaged from two of the traditionally weakest



components of Marxian theory: namely, politics and the great historical alternative to capitalism, the »riddle of history solved« – i.e., what is supposed to emerge from the overcoming of capitalism. On the subjects of the state, class, revolution, and reform, the great destroyer of capitalism produced little more than occasional bits and pieces in the course of analyzing cases of his day, and even these cannot be assembled into any kind of consistent picture. And it is certainly not by chance that he took to his grave the secret of how the »rational metabolic process« of society and nature (alias economic planning free from crises) could be squared with the »overcoming of alienation« (alias self-directed labor in complex economic worlds).

The failure of his self-proclaimed political acolytes to put these incongruous elements into some kind of order could not have been avoided, whether we think of anarcho-syndicalism and its obsession with

self-determination, or of Leninism with its euphoria over planning. The first group threw out the baby with the bathwater and eventually disappeared without a trace because it lacked internal complexity. The second could never work in complex societies and, gradually going mad, mutated into a monster. Ironically, it was the social democrats who finally undertook the tedious business of gradually reconciling the two poles of humanity's riddle. At least they were loyal followers of Marxism in its democratic version for decades. They made tireless efforts to combine as much planning as necessary with as much economic democracy as possible. And at the same time, in order to make all this possible, they carefully structured domesticated markets to serve those two objectives. That approach worked rather well for a couple of decades. Who, if not these same social democrats, could do the same thing once again? ■

*Björn Hacker*

## **Merkel's European Policy in Crisis**

**Is the system of conditional solidarity really sustainable?**

*In this, the third year of the crisis, the deficiencies and miscalculations of European crisis management – determined mainly by Berlin – have become apparent. No one should be deceived by the short-term success of the Merkel government's brand of power politics. The price paid for the course they have chosen will be high indeed. They refuse to compromise and persist in pursuing outmoded economic philosophies, which may fan the flames of discontent – precisely the outcome they wished to prevent.*

**Björn Hacker**

(\* 1980) is a consultant on European economic and social policy in the international policy analysis department of the Friedrich Ebert Foundation.

[bjorn.hacker@fes.de](mailto:bjorn.hacker@fes.de)



**T**he German government's crisis management under Chancellor Angela Merkel may be divided into three recursive phases: ignoring it, reacting too late, and marching in the wrong direction. Phase one began after the newly elected Greek government under Prime Minister George Papandreou made public the country's high



government deficit. Political discourse in Germany paid no heed at all to the possible risks posed by Greek deficits for the euro zone. As late as the beginning of March, 2010, when her Greek counterpart was in Berlin on a state visit, the Chancellor preferred to talk to him about deepening cooperation in environmental and research policy, as well as about initiatives to strengthen cultural exchanges. As financial markets grew increasingly nervous and the risk premium on Greek government bonds kept climbing, all we heard were expressions of solidarity, which did nothing to calm investors' fears. The declaration that this was a »Greek problem« underestimated the catalyzing effect that the global financial and economic crisis was having on the constitutional deficits of the Maastricht monetary union.

In phase two even Germany felt constrained to react more forcefully to the incipient panic among creditors holding sovereign debt. However, domestic political considerations, notably the impending state elections in North Rhine-Westphalia on May 9, 2010, affected the German government's response. Mainly at the latter's insistence the bilateral rescue package for Greece was granted only on condition that the Greeks would agree to strict terms for rescheduling their debt; furthermore, it took much too long to set up a firewall protecting other European states.

A plan was finally agreed on to institute the provisional European Financial Stabilization Mechanism (EFSM), but by that time it was too late to prevent the crisis from infecting Ireland and Portugal as well. Furthermore, the terms and restrictions attached to this »conditioned solidarity« were too petty and detailed, while the volume of credit guarantees was not large enough.

The heads of state and government did not agree on a permanent stabilization mechanism (ESM) until December of 2010. Their accord indicated a de facto abandon-

ment of the so-called no-bailout clause in the Treaty of Lisbon and other pacts. The German side agreed to this trans-border aid only reluctantly and under pressure from rapidly rising risk premiums on government bonds issued by Ireland and Portugal. And – here again – panic on the financial markets was a step ahead of the solutions adopted by political leaders. Both countries had to take refuge under Europe's rescue umbrella, the bailout fund.

By the end of 2010 at the latest, there should have been some unmistakable message from political leadership circles to the markets, a clear commitment to the common currency. Luxembourg's Prime Minister Jean-Claude Juncker and Italian Finance Minister Giulio Tremonti had been preparing just such a signal in their proposal for a joint guarantee of sovereign debts. But the German federal government has categorically rejected, and continues to reject, the idea of Eurobonds.

In July of 2011 Germany set the conditions for a new Greek rescue package: a restructuring of Greek debt that would include the participation of the private sector. From the viewpoint of responsibility for market risk and norms of morality and justice, this might have been a proposal worth accepting. But in the midst of the euro zone's worst crisis ever, it undermined the already fragile confidence of actors in the financial markets in the frequent expressions of transnational solidarity that they had begun to see as mere lip service. Events during the next few months proved that a wrong course had been set, the defining characteristic of phase three. These included rising interest rates charged when basically solvent countries such as Spain and Italy tried to refinance, and a drying-up of the interbank market. In addition the German government insisted on and got an ever harsher policy of austerity in the crisis countries, which smothered economic growth there. Merkel was able to achieve her vision of strictly conditioned

solidarity by further measures as well: an even more rigorous stability agreement; strict budgetary supervision by the European Commission, and a consensus among the 25 EU member states concerning national debt brakes in the framework of the so-called fiscal compact.

### **Unloved but unchallenged**

Flanked by the media and a large contingent of German economists, the federal government placed the blame for the crisis in the European currency zone lopsidedly on the small states, recommended that they imitate its own export model, and declared its own regulatory («ordoliberal») principles to be sacrosanct. While the federal government insists on the separation of monetary from fiscal policy, the European Central Bank is forced to seek roundabout ways to provide the liquidity needed to overcome the acute crisis. In spite of all the contradictions and evident miscalculations in German crisis management, the Chancellor's strategy seems so far to be working out well. She is the uncrowned head in European leadership circles, because Germany is booming economically – especially relative to other economies that are facing crises – and because it contributes the lion's share of refinancing aid. The populations of Greece, Ireland, Portugal, Spain and Italy realize that it is actually Berlin rather than Brussels that is responsible for the hesitant and strictly limited support policies now in effect, and for the high costs that they entail for the recipients. In those countries Merkel is unloved, but she is unchallenged on the European stage. In the early stages of the crisis she had to accommodate the wishes of her important partner, Nicolas Sarkozy, but once the bond ratings agencies had downgraded France, she could be certain of his approval for her policies. Sometimes the European Commission annoys the German federal

government by suggesting alternatives to the dominant crisis-course, as it did for example with its Green Book on jointly issued bonds. But at the end of the day the Commission backs Merkel up, as it did when monitoring procedures for macro-economic disequilibria were being worked out. In defiance of all economic rationality, the procedures affected countries asymmetrically, with the deficit countries being hit the hardest while Germany was given a break. Except for Great Britain's Prime Minister, David Cameron, no one has spoken out recently in opposition to Merkel's European policy. And the concerns the British have about the fiscal compact follow from reasons that lead the rest of the European actors to close ranks behind her. Only the newly elected French President, François Hollande, may now change the game with his insistence on implementing an alternative form of crisis management. Yet the privilege of conducting the concert of European politics is not just a matter of «freestyle» policymaking; there is also a compulsory routine which in Germany's case has to be taken especially seriously. Europe's leading figure has a duty to look beyond national interests and short-term success. Merkel gets her way, but she pays a very high price for it over the medium term:

- When a politically induced loss of confidence occurs in the financial markets because the leadership clings to economic philosophies unsuited to mastering crises, there is not merely collateral damage; it makes the entire situation worse.

- When the austerity mantra drives a social and economic wedge between the crisis-prone states on Europe's periphery and the continent's core states, there is real danger of a split in the EU.

- The burning of German flags in Athens dramatizes, in one moment of escalation, the increasingly frosty relationship between Europe and its unloved hegemon.

The system of conditioned solidarity is

slowly but steadily digging its own grave. This is true in an economic sense, as the cases of Spain and Italy illustrate. They were offered more favorable refinancing terms as a follow-up to the injections of liquidity provided in December, 2011 and February, 2012 by the European Central Bank through the intermediary of private banks. But that has done little to alleviate the deepening recessions in those countries, which have been aggravated by an overemphasis on forced budget-cutting. The third point also holds true in a political sense, because both the donor and the recipient countries of European credits and guarantees are growing increasingly disillusioned with the European project as a whole, since they cannot see any end to the crisis situation in which the monetary

union is trapped. No one should rule out the possibility that radical voices – either in Greece or in Germany – will demand a »terrifying end« to all this (rather than endure terror without end) regardless of the costly denouement. If Merkel's European policy draws no lessons from the sequence of events unleashed in her experimental laboratory (aka crisis management), then what may happen is exactly what the German federal government always wanted to avoid. Either the euro zone or even the EU itself may implode or take the next step toward the unpopular transfer union. Or both things could happen. After a period in which European nations drift apart, there might be some new effort to reunite them under the different auspices of internal European solidarity. ■

*Johano Strasser*

## **A Contrarian Comment: The End of European Democracy**

**N**o one could plausibly argue that the European Union and its member states have a consistent position with regard to democracy and human rights. Europeans have always liked speaking out in favor of the principles of peace and freedom, while at the same time supplying weapons to bloody dictators. Furthermore, they have often ignored serious human rights violations in order to preserve their economic advantages. Far too often they have left movements of democratic resistance in the lurch because the stability of the status quo and profitable business ties with dictatorial regimes mattered more to them than the struggle for freedom and the rule of law. Of course, this double standard has been noticed outside of Europe and helps explain why the Europeans' human rights rhetoric has stirred mistrust abroad. It is a general trend, not an exception



**Johano Strasser**

(\* 1939) is a political scientist, journalist, and writer who has also been president of Germany's PEN Center since 2002. His latest works include *Die Schönste Zeit des Lebens* from Langen/Müller and *Transformation 3.0* (with Michael Müller), published by vorwärtsbuch Verlag, both 2011.  
johano.strasser@t-online.de

Traditionally, Europe's voice in matters of democracy and human rights has carried weight in the world, largely because European states were functioning democracies. Yet that voice has been rapidly losing its persuasiveness, not merely because of the well-known double standard mentioned already, but also on account of the striking rise in antidemocratic and racist attitudes and the hard-to-ignore erosion of democratic rights in many of the E.U. member states. Hitherto this has nearly always been

treated as a problem peculiar to certain countries such as Italy, Hungary, and – where the Roma are concerned – Slovakia and France. But by now one can no longer ignore the fact that we are dealing with a far-reaching trend toward the weakening of democracy in Europe. That phenomenon, in turn, is linked to the unchallenged dominance of the global financial system which, in spite of the world's recent financial crisis, has managed to escape every form of democratic supervision.

Today, for better or worse, the fate of entire nations hinges on the decisions of a small number of speculators in big banks and hedge funds. In this respect we are no longer facing technical or political issues of finance; rather we are dealing with an urgent problem of freedom. Even in a country like Germany, which is still in pretty good shape, it will not be possible to evade a problem of this magnitude forever. Its harsh reality will begin showing up soon enough. Of course, those in the more fortunate countries may smugly insist that their adherence to the rule of law and democracy qualifies them as role models for everyone else. However, their complacency runs the risk of looking ridiculous when the powers and processes which frequently turn democracy into a farce are downplayed or ignored. The minister of finance says that everything depends on regaining the »confidence of the financial markets,« while simultaneously expecting the governments of Greece, Portugal and Italy not to worry about their own citizens' confidence in democracy. Every night on the evening news we see a perspiring reporter on the floor of the stock exchange assuring us that »the markets remain distrustful,« because the Greek, Italian, and Portuguese governments have not done their »homework.« Everyone talks about »bailouts« and »firewalls« whenever new multi-billion euro funds are made available to insure that banks and speculators hold onto their profits. Yet

when brutal, coercive measures are in on the table, talk turns to »adjustment« and »recovery,« which means that people who have barely enough to survive will be expected to accept still more austerity.

When speech conceals and obfuscates in this way, it almost always signals that we are dealing with an ideologically charged construct. Anybody who wishes to understand the ghostly, unreal assumptions behind equilibrium theory should read Joseph Vogl's brilliant essay, *Das Gespenst des Kapitals (The Ghost of Capital)* which explains how the ruinous behavior of the global financial markets has been sanctified as an emanation of higher rationality. And, as with other demagogic ideologies, the human catastrophes associated with the sanctification of financial markets are trivialized as mere »transitional problems« on the road to a bright future.

»If the euro fails, the European Union will fail.« This statement, which at first glance seems so plausible, serves primarily to justify the primacy of economics, since it is mainly the financial experts who declare that they are responsible for the euro. In their view, the current economic environment is so perilous that we cannot afford to entrust our fate to the cumbersome procedures and unpredictable outcomes of the democratic decision-making process. When Greek Prime Minister George Papandreou hit on the idea of having the Greek people vote in a plebiscite on the forced savings requirements imposed by the EU, he was immediately declared to be a non-person by German, French, Dutch, and Finnish politicians. He was subsequently replaced by a non-partisan and thus presumably neutral expert: the former vice president of the European Central Bank, Lukas Papadimos.

Europe's internal political arrangements have long suffered from a pre-democratic preponderance of executive power embodied in the Commission in Brussels and the European Council. Nowadays, these

structures are ever more shamelessly exploited by Europe's dominant countries, Germany and France, in order to uproot democracy in the economically weaker member states. The most recent example is the »European Fiscal Pact,« which grants the European executive a de facto veto power over budget decisions made by national parliaments.

In the current situation certain corrective measures would clearly be beneficial such as strengthening the powers of the European Parliament to place EU politics on a firmer basis of legitimation, and finally passing the transaction tax as a way to quell speculation within the Euro zone, at least to some small degree. But instead of these reforms we are witnessing the blatant dismantling of democracy all over Europe, but now camouflaged as economic rationality.

It doesn't take much imagination to foresee that the policy of assiduous adjustment to the guidelines of the financial markets will quite frequently lead to nationalistic and chauvinistic backlashes. What we have been observing in Hungary for some time now gives a foretaste of what is to come. Those who claim to be saving Europe by their management of the euro crisis are actually the continent's gravediggers.

Their neo-liberal schemes are breeding increasing inequality, misery, and hopelessness in more and more countries. The European project, the hope of many people after two sanguinary wars, is on the verge of losing its last shreds of legitimation. It has fallen into the hands of a »eurocracy« that cynically overrides the vital interests of human beings. On account of their decisions, the European project appears ready to shrivel into a culturally barren, antisocial, neoliberal construct.

Amid all these dangers everyone should realize that »going it alone« will only lead nations into a blind alley. Europeans can only be successful in the long run when they stick together, cultivate solidarity, and mutually respect one another. For that to happen what is urgently needed is the kind of European policymaking that would free the continent from the narrowly economic thinking that currently predominates.

Only a truly democratic Europe, one devoted to cultural diversity, social solidarity, and ecological rationality, can continue to play an important role in the world as a reliable champion of peace, while being confident of the enduring consent of its own people. ■

*A Conversation with Wolfgang Streeck*

## **»Society is not going to put up with this«**

*Wolfgang Streeck is the managing director of the Max Planck Institute for Social Research in Cologne and professor of sociology in the Faculty of Economic and Social Sciences at the University of Cologne. His main research interest concerns the tension between democratic politics and a capitalist economy. His book »Re-Forming Capitalism« analyzes the continuing efforts by the market and market actors to undo the achievements of social democracy as well as the reaction of society to these efforts. Thomas Meyer conducted the interview.*

**NG/FH:** You have recently presented two distinct conceptual analyses that evidently exhibit two sides of the same coin. Together

they cast previous debates on the themes of »capitalist democracy« and »financial crisis« in a new light. One strand explores

the ways in which regulated capitalism in Germany is gradually being deregulated and re-liberalized. The other one tries to show that the current financial crisis has exhausted the economic options available for preserving the social democratic compromise that underlies capitalist democracy. Let's begin with your analysis of the disorganization of the once supremely organized Rhenish capitalism<sup>1</sup>. What is the crux of this analysis, and to what extent have recent developments brought Rhenish capitalism to the brink of collapse? Are we talking about gradual change or a qualitative shift that moves us beyond the previous system?

**Wolfgang Streeck:** In one well-known theoretical tradition, gradual transformations at some point bring about a qualitative shift. And that is what we are looking at here. By the 1970's everybody thought that postwar capitalism had been tamed by the inclusion of labor unions and social democrats, that it had become »modern capitalism« or a »mixed economy.« But during that same period a »profit squeeze« afflicted the entire developed capitalist world. The patience of the capitalist »beast of prey« with its social democratic »cage« was exhausted, and it has been trying to escape the cage ever since. This has been happening gradually, but by now more and more of the postwar promises and guarantees made to the once-powerful working class have been abrogated. Those had been premised on the notion that capitalism was a kind of automated prosperity-generating machine, but that is clearly no longer the case.

What were those promises? There were not supposed to be any more boom-and-bust cycles or economic crises. It was assumed that Keynes had shown how to avoid these. Keynesianism also implied guaranteed full employment, not least because most people believed that unemployment of more than 1 or 2 % would

spell the end of democracy and social peace. Another item in the package was job protection and security, which would be insured by granting all employees across-the-board representation by strong unions empowered to participate jointly in decisions made by large firms (»co-determination«). In addition there was a large public sector with its many secure jobs that could function as a model for the private sector. The state likewise instituted a social policy that insulated people's life chances as much as possible against the vicissitudes of the market while insuring a high degree of social equality. And we should not overlook the final guarantee: steady economic growth that offered the next generation sure prospects of advancement. With allowances for national modifications, this was the program that prevailed not only in Germany, but all over Europe and – let us not forget – in the United States as well. All this has been slowly, gradually reversed in the decades since the 1970's, in principle on a worldwide scale. In my book, *Re-Forming Capitalism*, I describe five developing patterns of institutional change in the German Federal Republic that, taken together, have launched processes of self-reinforcing economic liberalization that are becoming ever more dominant.

**NG/FH:** Could one say that the same thing has happened, with differences of degree and nuance, in every variant of regulated capitalism? And if so, does this mean that the theory of »varieties of capitalism«, according to which there are quite distinct types of capitalism, is no longer valid?

**Streeck:** In that sense the theory was always wrong. Back in the 1980's I myself was involved in working out that line of argument, as countries were responding differently to the restructuring of capitalist economies that was going on at the time. In those days Germany for a while became the model for a kind of response that we



called »diversified quality production.« It included high wages, broad industrial skills, occupational stability, and co-determination, together with a specifically German engineering tradition that made it possible to defend Germany's high level of industrialization through success in exporting. Initially the restructured industrial core areas financed a high degree of social adjustment, which was reflected in an extraordinarily low level of social inequality, comparatively speaking. But subsequently these core areas shrank and were unwilling or unable to bear the cost of social equalization any longer. Nowadays we talk about a profound dualism, a bifurcation of German society into a shrinking core and growing fringe. Nowhere else in the OECD countries has inequality increased more than it has in Germany during the past few years. In respect to poverty levels we have dropped back to the average of OECD countries.

**NG/FH:** You are relying of course on the conceptual scheme of Karl Polanyi. It holds that there are pendulum-like swings: when capitalism has done enough damage, society defends itself by instituting constraints and adjustment factors, thereby imbedding capitalism both politically and economically. Once this imbedding has reached a certain point, capitalist actors begin rattling the bars of their »cage.« And so the pendulum swings back toward disorganization and re-liberalization. But what are the deeper reasons that might explain why the pendulum movement has swung so far back this time? Three causes certainly come to mind: the »exhaustion« of the forces favoring social imbedding; the end of the east-west polarization and the pressure it used to put on capitalism to legitimize itself; and the process of globalization.

**Streeck:** Every important historical trend is overdetermined: there are always several factors at work. The disintegration of the

postwar compromise between labor and capital began quite early and passed through different phases in which various means were tried to find interim solutions and to give the system a respite, if one can put it that way. In the seventies, shortly after the reconstruction phase ended, the working class in advanced capitalist societies was still strong enough to negotiate wage settlements that exceeded productivity growth, all in an effort not to give up the redistributive element in wage policy. Governments, feeling compelled to prevent unemployment at all costs, subsequently resorted to a policy of easy money. That led to high inflation, although less so in Germany than elsewhere, because the Bundesbank reacted to the 10 % wage increases granted at the end of the Brandt era by embracing monetarism half a decade before Thatcher and Reagan did.

In the eighties attempts were then made to reduce inflation, driven by the United States, where Paul Volcker, who had earlier been picked by Jimmy Carter to head the Federal Reserve Bank, had pushed interest rates up to astronomic levels. In the United States this policy led to massive deindustrialization, accompanied by immense budget deficits and rapid growth in government debt. This too had parallels to what was happening in other countries, where governments assumed new debts rather than just printing more money. Yet that strategy too could not be maintained forever, and so the nineties witnessed a first – again worldwide – wave of efforts to consolidate public finances. But of course here again some way had to be found to compensate for economic stagnation, increasing social inequality and declining real wages. Many countries compensated by expanding opportunities for private households to go into debt as a substitute for taking on more public debt. That diverted the process of accumulation away from industry, especially in the United States. As a result the financial sector



burgeoned and eventually went global. When that sector also collapsed in 2008, governments had to socialize the non-performing loans that they had been tolerating in order to keep the citizenry quiet. And so the \$ 64,000 question is: what can be done in the future to compensate for capitalism's failure to deliver the democratic goods? What can replace growth, once inflation, government debt, and private indebtedness have all been exhausted as remedies?

**NG/FH:** Now we have arrived at the second thread of your analysis. The first one culminates in the rather radical diagnosis that capitalism is back in reality, so we need

**» The theory that there are quite distinct varieties of capitalism was in a sense always wrong. «**

to bring it back in our theoretical debates as well. In the second strand you examine the conditions of the social democratic compromise: how can a working class be induced to accept this kind of capitalism? Of course the historic social-democratic compromise says: we accept the market economy, private property, and parliamentary democracy. In return we get the security of social welfare, high wages, and a certain degree of participation. One after another, each of these aspects has lapsed into crisis since the seventies. And now, given the crisis of sovereign debt and the state's dependence on financial markets, capitalism seems to have exhausted its stock of solutions. The voters have to prop up financial markets with their own money, while latitude for redistributive policies narrows. It is really hard to imagine what new kind of compromise might be in the offing. We have indeed reached a dead end. Isn't it true that both of your lines of argument taken together lead to the conclusion that we are in a cul-de-sac on every front and have no way out?

**Streeck:** We can begin with your inter-

pretation and then see what needs to be modified. First of all we have to recognize that, for quite some time now, traditional social democratic parties have been at a loss to do anything about what has been happening. It does not seem to me as though anyone has come up with a constructive idea.

**NG/FH:** Since when?

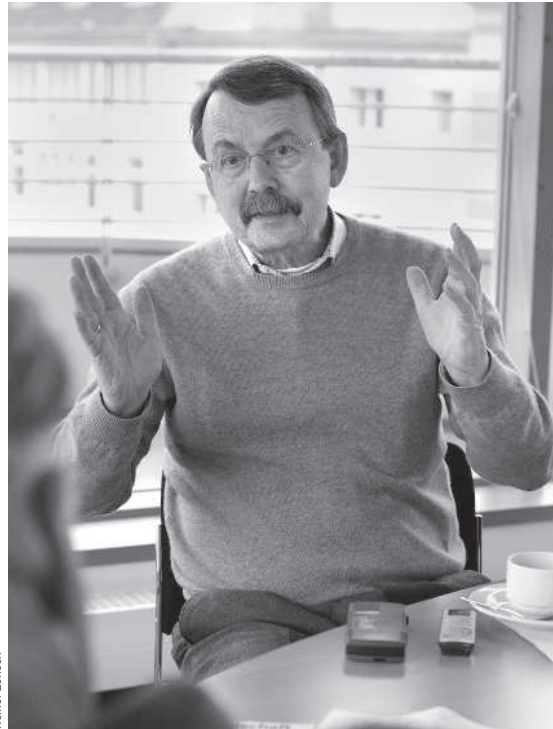
**Streeck:** The experience of the Blair government is very important in this context, because they tried unsuccessfully to ride the tiger with their »third way.« Great Britain under Blair was the only major country

in the nineties in which expenditures on social policy increased – and here we mean social policy involving large – scale investments, a model that others tried to imitate. Yet at the same time the proportion of the »globalized« British economy subject to taxation was dwindling, which led to increased sovereign debt. In order to raise money, the Blair government had to cater to the powerful financial sector, which eventually dragged the entire country into the abyss. England needs this financial sector, because it is just as de-industrialized as the United States, if not even more so. That sector furnished the taxes, the profits, and the good life in London. By this time we know: the bigger the financial sector is in a given country, the worse will be the fiscal crises that follow a financial crisis. As far as I am concerned, the Blair government made the final attempt to inject a social democratic component into a previously liberalized version of capitalism. The failure of this experiment has paradigmatic significance for the remainder of the social democratic parties.

**NG/FH:** Is that also true of Sweden?

**Streeck:** Sweden is a very interesting case. In 1995 the country went through a gigantic financial and fiscal crisis, in which sovereign indebtedness exceeded even that in America. But then conservative and social democratic governments reorganized the finances. Meanwhile, tax rates in Sweden have been in continuous decline; today they are just slightly higher than those in France. Unemployment has increased; structural unemployment in Sweden is now around 7-8%. The gap between the incomes of those at the »top« and »bottom« is about to reach central European levels. Private household debt, especially for real estate, is particularly high, somewhere close to U.S. levels. In the United States the federal government under George W. Bush – and even under Clinton when he was reducing sovereign debt – opened the floodgates of private household debt in order to make up for the shortfall: in short, we got private Keynesianism. You saw exactly the same thing in Sweden after 1995. The Swedes' special characteristics are fading, although they are obviously descending from a lofty altitude. Nevertheless, they are moving in the direction of the normal path taken in central Europe, which is a competition-oriented, liberalized capitalism. The utopia of social democracy is being abandoned. By that term I mean the attempt to detach a person's life prospects from market opportunities or to arrange market opportunities so as to create approximate equality at the starting line for all participants.

**NG/FH:** And in this way the new capitalism is hurting society more and more by breaking out of its »shackles.« The effects include poverty, inequality, and social insecurity. Yet in Polanyi's analysis that would be the point where the pendulum starts to swing back and social imbedding is restored. But today what are the factors and where are the agents that might give the pendulum a push back in the direction



Reiner Zensen

*Wolfgang Streeck*

of stronger social networks and regulations?

**Streeck:** That is the question! First of all we should notice that the battlefield upon which this struggle would have to be won is amazingly confusing. What I mean is that in the sixties and seventies, employees and their labor unions could if necessary throw some crumbs to their employers so they would pay better. In the sovereign debt phase there were parties from which one could withhold one's vote if they did not deliver the goods, even though those goods might have been provided on credit. In the private debt phase since the nineties the adversary has been the investment adviser, who could outmaneuver a person at an individual level. At most one could then ask for help from the consumer protection bureau. But even in the case of the Riester pension, that did not help many people<sup>2</sup>.

The people who now make the decisions about distributive policies are financial diplomats who negotiate all kinds of deals among the Central Bank, the European Commission, and the finance ministries, ones that are quite incomprehensible to the average person. The current slogan is a nation for a nation or a nation against a nation. Either the »lazy Greeks« must be brought to their senses, or else »we« have to practice international solidarity with »the Greeks,« or both at the same time. Yet everyone knows that some Greeks are incomparably richer than most Germans, while it is the latter who have to scrape up the money to enable these ultra-rich Greeks to avoid paying taxes back home. And although the average Slovenian has a lower per capita income than the average Irishman, he is nonetheless expected to bail out the latter. Here, we are witnessing a conflict over distribution in which the battle lines are quite bizarrely drawn, and which lends itself to every kind of demagogic oversimplification imaginable. Under these circumstances it is enormously difficult to find any launch points for a political counter-mobilization. At any rate it is much harder than it was just a few decades ago.

**NG/FH:** But there is still the state of affairs that Polanyi depicted: moral outrage (»capitalism robs us of our opportunity to earn a living.«) as well as political leverage to convert that outrage into practical action: a mobilized civil society and parties sensitized to its concerns. The parties see that something has to be done to hang onto their voter base and political support. Can't that also work even under the conditions of globalization?

**Streeck:** I don't know. I would be a lot happier if I could picture it all more clearly. Social democracy has always stood for responsible mobilization, but only on the assumption that power accrues to the

labor movement when it is able to carry out a project that both serves its own interests and also benefits the development of capitalist productive forces.

**NG/FH:** That was the social democratic compromise.

**Streeck:** And it was a successful strategy for a long time! The reason was that parties, unions, and labor organizations became indispensable to capital to the extent that it had an interest in further developing its own productive forces.

**NG/FH:** But today, of course, transnational coordination would have to be added to the mix.

**Streeck:** We are now asking ourselves: is there an equivalent to all this today? Is a responsible opposition still possible? I don't see it at all right now, partly on account of internationalization, and partly because of changes in the structure of production, the so-called service society. This is actually composed of two societies: there are the 30,000 employees of Goldman Sachs in the south end of Manhattan who earn on average \$ 500,000 a year, then there are the cleaning ladies and temps who earn 400 euros a month. These two groups actually have nothing in common with each other. How could we ever bring the weak and the strong together, in such a way that the weak would benefit from the power of the stronger? That raises the question: if responsible opposition is no longer of any use, then what about irresponsible opposition? Maybe something will happen if people just keep throwing stones? If the reasonable and responsible thing to do is simply to pay off a bunch of debts to someone, incurred by others on my behalf, then maybe the most responsible thing would be to behave irresponsibly. So what happens next? Will those who are trying to maintain the system start paying more attention

to those people who have had the bottom knocked out of their labor market as a result of two decades of neo-liberalism? The minute you start to think about these outcomes from the point of view of responsibility ethics, you run the risk of being entrapped by the logic of finance diplomacy with its austerity constraints. The little guy and the little lady have nothing to gain from any of this.

**NG/FH:** Your book, *Re-Forming Capitalism*, has an almost romantic ending: we don't have any answers, so the next generation has to figure it all out. Are we going to pass through a phase of irregular, irresponsible protests, and then have actors minding the store who say: now something has to be done; we need to have regulation again?

**Streeck:** One can learn a kind of minimalist optimism from Polanyi: society is not going to put up with its own demise. In that respect I am confident that something is going to happen, but I can't say what organizational form this will assume. Take our labor unions. Their first thought as

they confront the European financial and fiscal crises is that we have to keep the Greeks in the euro zone so they cannot engage in competitive devaluation at our expense. What is more, they will help keep the euro's value against other currencies lower than the deutsche mark's value would have been. And so we can keep on exporting marvelously well. Maybe they have to make such calculations. But that makes them incapable of doing anything about those crises, as the logic of democracy is now subordinate to the logic of capital. What you called »romantic« is when people are unwilling to put up with all this any longer and sense that this absurd situation is affecting their very dignity. One Greek woman on TV offered the following comment about the reduction of her salary by 20 %: »it means nothing to me. It's been a year since I got paid a salary anyway.« When situations like this continue to accumulate, then perhaps – as occurred in the 19<sup>th</sup> century – the kernels of new forms of organization might emerge from movements that were initially little more than aimless, radical protests. ■

*Gesine Schwan*

## Appeal for a new Beginning in our European Policy

**W**e don't notice epochal changes when we are in the midst of them. They only begin to crystallize when there is some temporal distance between them and us. Many observers date the onset of the era of deregulation and market radicalism to the tenures in office of conservative politicians like Ronald Reagan and Margaret Thatcher. But in fact some significant, radically pro-market episodes of deregulation in the banking sector, ones that laid the groundwork for the financial crisis and the current European crisis, did not occur until the Democrat Bill Clinton



**Gesine Schwan**

(\* 1943) was president of Viadrina European University in Frankfurt an der Oder from 1999 until 2008. Today she is the president of the Humboldt-Viadrina School of Governance in Berlin. She has twice been chosen as the SPD's candidate for the position of President of the Federal Republic.

[Gesine.schwan@governance-school.de](mailto:Gesine.schwan@governance-school.de)

came into office. And in Germany it was on the watch of the Social Democrats and Greens (the »red-green« coalition) that drastic tax reductions and the deregulation of Germany's unemployment and social

insurance schemes came about. Under the pressure of stubbornly high unemployment, low balances in the social welfare accounts, and the relentless media drum-beat attacking the Schroeder government for entrenching Germany's incapacity to enact reforms, Gerhard Schroeder finally announced Agenda 2010 in March of 2003.<sup>3</sup> This reform project followed the »supply-side« recipe for deregulation that prevailed at that time.

A crucial component in this recipe was the call for Germany, allegedly the »sick man« of Europe and a laggard in the renewed advance of globalization, to become more competitive by reducing wage and production costs. Lurking behind this call was a slogan that had begun to influence Europe ever more deeply: that its member states are engaged in a competition to become the most business-friendly location. At least since the 1992 Maastricht Treaty, economic globalization had turned that slogan into a guideline for economic policy-making even across party lines. To be sure, the red-green coalition in office around the turn of the century was not happy about the low tax and social insurance rates in neighboring Poland, because they threatened to divert capital away from Germany. But then that was exactly the paradigm of how radical pro-market »location competition« was supposed to work: you create favorable investment opportunities for capital, particularly on the supply side, in part by inducing labor unions to back off of their wage demands. The destructive »no bailout« principle, which has dramatically worsened the present crisis, does not follow logically from the basic design of the European Union as a union of states. Rather, it derives most of its persuasiveness from the principle of »location competition« that has been forced on Europe by the Maastricht Treaty as well as by broader, radically pro-market trends.

In light of the increasing global competition that Europe was facing, a majority

of the SPD opted not to oppose that principle, although everyone could readily see its potential to undermine European cohesion. From now on it was to be competition, not cooperation, that more than ever before would define the relationship among the member states of the EU. In the 1970's Helmut Schmidt had touted a »German model« that was built on cooperation between labor and capital as well as co-determination. But the pressure of radical, pro-market media campaigns in favor of a »new social market economy« and, with it, the location model led to the abandonment of Schmidt's vision. Instead, the new model markedly reduced the cooperative and social-security-oriented elements of traditional social democratic policy in order to make the country more attractive to global investment capital and thus – so its sponsors hoped – create jobs and spur growth. At one time the word »reform« was associated with notions like expanded participation and social security, but in this instance it was perverted into its opposite, since it aimed to make »location Germany« more competitive by cutting taxes, lowering wage demands, decreasing the fringe benefit costs associated with wages, and deregulating just about everything.

If the present crisis in the European Union is to be overcome, we should bid farewell to the radically pro-market location competition of the past twenty years. We urgently need a renewed, *but much more intensive intra-European cooperation*, not just among states (inter-government cooperation) in the traditional way, but on a transnational level: in the European Parliament, the European Commission, and above all among European civil societies and civic organizations.

That kind of cooperation would not eliminate nation-states. But it has to be farsighted and courageous enough, especially in Germany, to draw the proper conclusions in a publicly transparent manner. It must be recognized that loca-

tion competition is inappropriate, because the European Union has long since become a union of joint liability and transfer due to its having a common currency. The financial crisis brought to light the deepened bonds of the EU and showed that location competition had led ultimately to devastating consequences. If export-dependent Germany, in particular, understood its own national interests more clearly, it would see that it cannot afford to let its European neighbors go broke or leave the European alliance, for if these things happened, the entire alliance would be in danger of breaking up.

The Merkel government has been reluctant to recognize this fact, and her reticence has nourished illusions about the possibility of Germany going it alone in Europe. Certainly, it would be an epoch-making policy shift, comparable in its implications to the recognition of the Oder-Neisse line, for which Willy Brandt fought. In those days some Social Democrats rejected Brandt's initiative as an improper give-away of German »interests« and renunciation of long-established territorial rights. But Brandt, as a visionary, courageous politician, realized that German policy had reached a dead end by insisting on narrow national interests. Without recognition of the Oder-Neisse line, there would be no chance for an active German reunification policy. And the latter required a tight integration of German and pan-European policies (including reconciliation with the East), that relinquish all purely national schemes and traditional territorial claims. Today we have to relearn the lessons that inspired Brandt's Eastern Policy in those days: the future of Germany's national interests and still more that of the Social Democrats in peace with justice is inseparably tied to an active policy of European unification. That, in turn, demands a policy of inclusion for the social strata that have been neglected in the age of radical free-market ideology, and who

are now on the verge of being left behind entirely. This kind of solidarity, a core concern of the SPD, cannot succeed as a purely German affair; instead it has to be pursued in Germany and Europe simultaneously, as a matter of European cooperation.

We can only escape from the dead end into which a narrowly national definition of Germany's European policy has led us by *affirming, openly and courageously, the de facto European liability and transfer union brought about by the monetary union*. Only thus can we shape such a policy imaginatively, decisively, and sustainably in a spirit of cooperation with the rest of Europe. Many European neighbors have asked Germany to assume the mantle of leadership, and this is what they had in mind – European cooperation –, not the imposition of German formulas. It is correct that the Germans were prepared to give up their strong D-Mark only after the Maastricht Treaty included a strict prohibition of bailouts. Germany did not want to be liable for the potential debts of its European neighbors.

But time has rendered this caveat moot because of the normative force exerted by events. Democratic politics cannot do without the binding force of law, but politics has to allow the law to evolve, even in its early stages; otherwise, there is a risk that the latter will lose contact with reality. As it did in the sixties, the present black-gold government<sup>4</sup> in Germany has chosen to close its eyes to realities, and is trying to impose its own blindness on its European neighbors as the only true view of things, which jeopardizes the future prospects of the Germans.

The choice is clear. Do we wish to continue the current bungling with its ever more widely extended euro bailout funds under the old radically pro-market paradigm, including the location competition and the bailout prohibition? Under those circumstances the German federal government will preach to the highly indebted



countries (though not to their economies!) about the virtues of becoming more competitive, but it will also deny and obfuscate what has long since become an established fact: joint liability. It will impose on our European neighbors an austerity policy that is both unimaginative and hopeless, which the European Court is then supposed to finalize. And – mistrustful as always – it will deny that debtor nations even have the ability to initiate politically responsible schemes.

As a better alternative Germany should use the responsibility it has assumed over national European budgets to move them towards deficit reduction that satisfies the criteria both of solidarity and of sound political economy. That policy would genuinely calm the markets, because it would be capable of warding off the danger of recession and even a looming depression, while enabling the debt-ridden states to meet their obligations. In this context the necessary retrenchments would be imbedded in a matrix of growth, stability, and social welfare policies, which would give European citizens enough of a political stake to expand the prospects and supply the motives for increased economic productivity. At the same time this preferred policy option would overcome the technocratic, antidemocratic elements of the black-gold European policy, which threatens to keep European democracy in limbo by subjecting it to permanent emergency rule.

German Social Democracy has the »right stuff« and the opportunity to shape, advocate, and achieve this second option by political means. There are already valuable elements of it in many agreements, although they are scattered, indeterminate, and unconnected to any central theme. That is one reason why the German public has so far not had the impression that there is any coherent, clearly articulated, persuasive Social Democratic alternative to the European policy of the federal government presently in office.

### **Irresolute Social Democratic European policy**

Instead, what we have from the Social Democratic side in Germany is oscillation between harsh criticism of the government's policies and then acquiescence in the course it has staked out. It is an almost monthly occurrence that the gigantic euro-zone bailout funds that Chancellor Merkel promotes have to be enlarged. At first the federal government regularly resists, but then finally gives in to European pressure. Just as regularly, the Social Democrats criticize Angela Merkel's vacillating posture, but then they agree to her proposals after all, because they do not want to relinquish their responsibility to act »in support of the state.« For quite a while one could interpret government policy as a sophisticated strategy on the chancellor's part, which also put the SPD on the spot in the eyes of the public. Due to her previous refusals, she had allegedly compelled the indebted countries and their fundamentally irresponsible governments to follow at long last the German line of strict budget-cutting. Eventually everyone had to acquiesce in that line. The European Central Bank twice flooded European banks with enormous sums, which temporarily caused interest rates on southern European bonds to drop. But now they are increasing again, stirring fears that the euro bailout fund will have to be replenished once more to keep some European states solvent and prevent them from abandoning the euro. It is also becoming increasingly obvious that the policy of retrenchment alone offers no way out of the crisis.

That is why it is becoming abundantly clear that a radical step is needed in order not to lose the trust of the citizens once and for all, and to damp down anti-European sentiments in Germany. For that to happen it is of course not enough to attack the Chancellor for her frequent course changes. Social Democracy has to propose



a clear, straightforward alternative that promises to provide Germany and Europe with greater security and long-term cohesion. It is not sufficient to demand Eurobonds initially, then to vacillate about them, then finally to postpone the whole matter until later, reverting to a position that Mrs. Merkel, with clever prescience, had previously taken. Instead, the necessary paradigm shift has to be explained; then it must be made clear how growth can be financed and given a common European form. None of this can work without joint European liability, because the transaction tax (Tobin tax) alone would presumably not yield enough revenue.

### **Don't be afraid of the voters**

In order to distinguish their own European alternative from competing visions, the Social Democrats have to tell the German public in no uncertain terms that all the flip-flopping Angela Merkel has done over the last two years is not a matter of chance or even her personal indecisiveness. Rather, it has come about due to the fact that Germany has long since been part of a European liability and transfer union that it could not leave without incurring great disadvantages. The Chancellor would like to conceal this fact to avoid losing votes. For reasons of tactical advantage in elections, she has self-righteously attributed the »model« economic position of Germany to the Germans' hard work and the failures of their neighbors. In other words, she has told her clientele what it wants to hear in moralizing discourses that make no macro-economic sense. She has suggested that Germany could keep the problems of its European neighbors at arm's length. The moment that the Germans see through this illusion and look reality in the face could be the handwriting on the wall for her job as Chancellor. That is why she wants to keep the illusion going for as long as possible.

In place of this tactical maneuvering for electoral advantage, we need to introduce a politics of balancing or equalization among the states of Europe – just as we do among the states in our internal German federal system – based on a policy of realistic cooperation. Equalization certainly does not mean rewarding the lazy; rather, in the context of federal competition, it means finding the best solutions by addressing grave, deeply entrenched inequalities of opportunity that have arisen for many different reasons: mistakes, historical contingencies, and even different uses of one's freedom. *Social democrats count on the fact that human beings can »make new beginnings« and should not be left behind once and for all. Solidarity does not reward irresponsibility; rather, it helps people to act responsibly who would not be able to do so without solidarity.* These two principles are part and parcel of the timeless credo of Social Democracy, which naturally has to be given practical application time and again though political prudence. There is always the chance that those principles will be misapplied. But without these basic assumptions Social Democracy will betray its political message.

A message such as this one offers Europe an opportunity to take the necessary, radical steps toward a truly auspicious new beginning. But on the way it will have to clear two daunting hurdles. The first concerns trust: a majority of voters will have to go along with a realistic European policy that pledges solidarity. Second, there will have to be some express disavowal of »location competition.« Public opinion polls show weariness with Europe in Germany and elsewhere on the continent. Thus, at least on the surface it would seem dangerous to counter the Chancellor's tactic of flattering the German electorate with an alternative that is clearly committed to European solidarity. Up-to-date polls taken by Eurobarometer confirm that levels of commitment to Europe vary among mem-

ber states, but that they have been falling in recent years, especially among the Germans who had been considered strongly pro-Europe until 1990. They saw themselves as the winners from European integration, because it gave them greater international political influence as well as an expanded market from which they could benefit as an exporting nation. To be sure, they had also always placed a very high value on the stability of their D-Mark, and harbored a good deal of skepticism about the introduction of the euro, as well as fears about the inept budget management of their neighbors.

In light of the debt crisis of the last few years, many of them feel vindicated in their concerns, and these are the voters on whom Angela Merkel has concentrated and whom her public pronouncements encourage. Of course, that makes it all the more difficult for her to act in accord with Realpolitik by making a sharp course correction. The Germans' commitment to Europe has always been based on a calculation of the advantages and disadvantages of membership, so it is obvious that they will try to distance themselves from it when disadvantages or even risky loan guarantees seem to be on the horizon. And so now the Germans, as compared to other European countries, have turned most strongly against an expansion of the European Union. For the rest a more purely instrumental perspective on the Union has been increasing during the past few years even among the citizens of other European countries. On the other hand, the European Union enjoys greater confidence as an actor in the present financial crisis than the respective national governments do (the G20 and the IMF rank even lower). A solid majority – some 80 % – say that people are »stronger acting in common« than they would be if each country acted on its own, and advocate a more thoroughgoing political and economic integration (current Eurobarometer). In polls concerning the

future strategy »Europe 2020,« the principle, »support for poor and socially marginalized people to enable them to become active members of society once again,« achieved the highest level of agreement (79 %, Eurobarometer, winter 2011). And in May of 2011 Europeans looked on the future with confidence and thought that the EU was on the right path. A policy of European solidarity can build on those attitudes.

Today, as in Brandt's time, the SPD must be willing to fight and take risks for the values implicit in its European policy. There is still enough time before the next parliamentary elections to make the decision, mobilize, and finally win back the support of voters through a commitment to the cause of justice for Germany and Europe both. The SPD's chances of winning the necessary electoral majority for a clear alternative depend on how convincing their arguments are in favor of its successful implementation. In order to persuade the electorate, the SPD will have to set aside the fundamental premise of Merkel's policy: that European countries' indebtedness is a function of their unsound budget policies, rather than of the banking crisis which preceded it. However different the cases of Ireland, Greece, and the other countries may have been, all the data point to the banking crisis as the real reason why they got so deeply into debt. They were trying to rescue their banks and stimulate their economies just when tax revenues were declining. The German Council of Economic Advisers, which is certainly not made up of socialists, said in its annual report on economic trends in 2011-2012 all that needed to be said in this context. Their report removed the fulcrum of Merkel's unimaginative austerity policy, which would in fact resolve the banking and debt crises on the backs of the socially weakest members of society. By discrediting their democratic protest, she is weakening democracy itself. The way is thus clear to

demonstrate the realism and effectiveness of a project to establish the solidarity-based, continent-wide cooperation of the European Parliament, Commission, Council, and civil society. In such a cooperative venture it would be possible to negotiate the key points of a European growth policy as well as its solidarity-based financing. That would be the more realistic approach compared to proposals that see a European federal state as the solution. Cooperation with a socialist French President now offers encouraging prospects as well.

It is true that many Germans up to this point have felt pride in our trade surpluses. But of course these represent the flip side of the indebtedness of our neighboring states, a problem for which our own self-interest will force us to assume some responsibility. That is a fact which the federal government has concealed and which the Social Democrats have barely mentioned publicly. A coordinated economic policy vis-à-vis neighboring states would lead to some reduction in German trade surpluses, but those losses would be more than offset by pan-European stability. That would secure internal European outlets for Germany's exports and reduce the risk that Germany would end up being on the hook for its neighbors' debts. The question remains as to how economic growth induced by public actions could avoid the flash-in-the-pan effect and be put on a solid financial footing.

### **Adieu to the radically pro-market »reform« agenda**

There is a second hurdle that Social Democracy has to clear in order to make a new start in its European policy. To forestall precisely this flash-in-the-pan effect, the German federal government and mainstream economic analysts are asking the indebted states to use the breathing space given them by the bailout fund to institute

»reforms« characteristic of the era of market radicalism such as deregulating their economies and making their labor markets more flexible. This is what the Chancellor means when she talks about a growth policy through »structural reforms« without lavish financing. In order to judge those proposals, we cannot avoid a sober assessment of Agenda 2010 and especially the Hartz IV reforms.<sup>5</sup> It is unsurprising that the complex circumstances surrounding them have led to several different interpretations:

1. Agenda 2010 has restored Germany's ability to export as well as its competitiveness. It was the correct response to the situation at the turn of the century, though it entailed a painful break with previous policies. The proof is to be found in Germany's current comfortable economic situation. The indebted European nations now must make up for lost time in initiating parallel reforms.

2. The reason for the current German export miracle is not Agenda 2010; rather, it should be attributed mainly to the measures taken to encourage less-than-full-time work during the banking crisis, i.e., state-supported labor »hoarding« by business enterprises. Germany's advantage after the financial crisis lay in the markets it had opened up in Southeast Asia, its superior technological development, the prolongation of short-hours work, and co-determination, which has made possible a mutually trusting collaboration between social partners and the rapid resumption of production. It is evident that Germany will not succeed by competing on price and cutting wages; rather, its best chance is to compete on quality, by selling highly advanced products.

3. Low wage agreements, the expansion of the low-wage sector, and temporary employment may indeed have improved Germany's competitiveness vis-à-vis its European neighbors, but they also simultaneously aggravated current accounts

imbalances with those same neighbors. The latter have sometimes awarded excessive wage increases, which have boosted demand for German products. The end result has been an imbalance between imports and exports. Internal German demand has not been augmented by wage increases that would have allowed the Germans to purchase more abroad and eventually have evened out the current accounts balance. In Germany wage rates have actually fallen, which has led many neighboring countries to charge Germany with wage-dumping.

4. As a consequence of Agenda 2010 – whatever its impact on German competitiveness and export capacity may have been – the wage level of one quarter of employees has fallen to around the poverty level (part-time workers, minimum-wage and »mini-wage«-earners), which has broadened social gaps in Germany. The decline in unemployment numbers should not be attributed to an increase in the volume of labor, but to a »redistribution« of labor, though certainly not in the way that Social Democrats and labor unions had earlier proposed. There was generalized pressure on the wage-earning sector that forced even highly qualified employees into precarious labor contracts. It is on these points that Social Democrats and labor unions have for years tried to introduce correctives to the Hartz IV reforms, e.g., by passing a minimum wage and putting short-term and regular employment on an equal footing.

In light of the last point it does not appear that there is a persuasive case for recommending German-style reforms to indebted European countries. They would likely widen social gaps, as in Germany, but under far more explosive conditions than exist here. If we want to make up for lost time in achieving justice for Germany, we will have to work out a coordinated policy with the rest of Europe that puts justice at the top of the priorities list.

Moreover, a just, pan-European policy would also help to stabilize Germany's key markets. All this contrasts sharply with Merkel's »reform policy,« which recommends price competition to our European neighbors instead of the successful quality competition practiced by Germany itself.

In our future European policy we must abandon the rhetoric of market radicalism as well as the problematic sections of Agenda 2010. Among the latter should be included: the emphasis on »challenging« the jobless instead of »encouraging« them (the fatal assumption that the unemployed are lazy and have to be forced to look for work by keeping their unemployment support payments low); regulations concerning temporary employment, which de facto deprive employees of rights; and mini-jobs, which are a good predictor of poverty in old age, especially for women. Whereas the black-gold government, addicted to its radically pro-market paradigm, has graven the Schröder reforms in stone (something Gerhard Schröder himself refused to do), social democrats must learn from experience in light of their basic values and avoid repeating mistakes. The fact that they can learn from experience is attested by their demand for a Europe-wide minimum wage.

### **A cooperative European policy in the service of justice**

Which publicly supported growth stimuli could avoid the flash-in-the-pan effect, and how might they be financed? Among the top priorities would be various infrastructure schemes including investments in: education and research, which are both cost- and personnel-intensive; renewable energy; new networks; cultural and technological innovations; as well as measures to stabilize the climate and to cut back on the use of raw materials. The goal is to

invest in things that will increase productivity in the long run and thus create wealth without damaging the environment or undermining social cohesion. In other words, the objective is a sustainable policy of growth.

A common European growth strategy will have to be negotiated cooperatively. Among the key components might be the following: the »pact to promote growth rather than competition« approved by the SPD Presidium in March, 2011, i.e., a strategy to achieve stability, which would in turn favor growth and employment; and Klaus Busch's proposals for a »corridor« model of social security that would tie the scope of social welfare to the level of economic development attained by a given EU state. The latter plan would particularly cater to the interest of East-European countries in catching up with the West. Abandoning location competition of course does not mean that the differences among European countries and their economies will be leveled down overnight. The point is to set in motion a common »virtuous circle« instead of instigating cutthroat competition that drives less infrastructurally and technologically advanced countries out of Europe rather than helping them make up lost ground. Having a common set of political conditions would actually promote innovative competition among firms and industrial sectors, but would discourage competition among states as »locations«, when many of them simply cannot compete economically with one another.

Agreed-upon contours of a common wage, finance, and social policy could contribute to the balancing of the current accounts disequilibria that are today affecting Europe. Civil societies – and especially labor unions – should cooperate in working out the terms. In this context there is no real point in wage sacrifices limited to one country for the sake of that state's competitive advantage. But by the

same token there is no reason for wage increases uncoupled from productivity gains in a given economy and the anticipated inflation rate of the euro.

Once location competition has been laid to rest, it will be easier to carry out an urgently needed regulation of the framework within which the financial markets function. Up until now, such regulation has consistently been opposed by nation-states pursuing their respective interests. The engagement of transnational non-governmental organizations committed to the public interest would also give a powerful boost to European cooperation, for example by enhancing the European public sphere.

Several options ought to be on the table when it comes to financing projects such as an infrastructure program in the energy sector. The transaction tax is an obvious candidate, as is a wealth tax (assuming there is a European decision to impose it) on those who have profited from the financial crisis. Eurobonds in their many variants should also be considered. The latter would help keep the interest rates on bonds issued by the indebted states relatively low, while offering a realistic way to amortize them. They could also contribute in important ways to the financing of growth projects, which in turn would help bring prosperity and justice and make it easier to reduce deficits. One example of such financing would be European project-bonds. Perhaps incentives could be offered to banks, now flooded with liquidity but reluctant to trust each other, to acquire European project-bonds at low rates of interest instead of just parking their unused cash in the European Central Bank again.

The Merkel government objects that Eurobonds encourage a frivolous approach to debt. Here we see the mistrust of democratic politics typical of market radicalism. The pro-market forces evidently find the financial markets, with their

particular interests, more trustworthy than democratic politics, and expect the markets to force the latter to act responsibly. Democracy and justice fall by the wayside in this approach. Politicians may not always be reliable, because they have to negotiate compromises among various interests, the outcomes of which cannot be foreseen. But at least there is some chance that they will behave competently in the service of justice.

A Social Democratic politics of justice will either be European or it will be nothing at all. Instead of encouraging location competition among countries, it must promote competition among business cor-

porations and sectors, the kind of rivalry that benefits from social stability, education, and research, both in Europe and globally. This is the case because advanced industrial societies cannot compete on price; they must compete on quality. And the race for higher quality can only benefit from fair and dependable social and political »rules of the game.«

Will the SPD be able to regain the resolute courage, breadth of vision, and unstinting commitment in favor of its forthcoming European policy that once made it the formative power in Germany and Europe during Willy Brandt's tenure? Yes, it can! Yes, we should! ■

Ania Skrzypek

## European progressive values for the 21<sup>st</sup> century – Fundamental questions for an ideological debate

*The Foundation of European Progressive Studies (FEPS), established in 2008 with headquarters in Brussels, is a network of 43 think tanks from 25 countries. Its chief aspiration is to take up the challenges that social democracy in Europe is facing today. The focal point of pan-European debates should be an effort to achieve consensus about the basic values and goals shared by all social democratic parties and movements.*

**Ania Skrzypek**

(\* 1979) is Senior Research Fellow at FEPS (Foundation for European Progressive Studies) in charge of the Next Left Research Programme and Managing Editor of »Queries« – FEPS Scientific Magazine.

ania.skrzypek@feeps-europe.eu



**T**he relevance of the pan-European ideological debate on social democracy is three-fold. First of all it has to expose the deficiencies of »old fashioned« interpretations of our values, in order to indicate the most crucial questions that must be answered as we elaborate a modern, social democratic vision for our societies.

Secondly, it has to frame the *mission* of the movement. At a time when politics are apparently subordinated to the »financial sector,« this debate on ideology may prove crucial for restoring the »credibility of politics.« An open debate may give members, sympathizers, and voters a sense of identification and political participation once again. Therefore, this may be the only sustainable way to bridge the gap between the world of politics and the disenchanted citizenry and in that sense to prevent social democracy from being lumped together with the unpopular establishment of party politicians and politics. Finally, the debate offers the opportunity to clarify the movement's attitudes towards global challenges



and show what a distinctively *progressive agenda for Europe* would look like. The current »multi-layered crisis« could be an opportunity to pose fundamental questions that previously had been set aside as »too obvious« or »politically incorrect.«

These three aspects of the debate are at the heart of the pan-European renewal process that is taking place parallel to national parties' reform practices. That process is described in the Next Left Research Programme coordinated by the Foundation of European Progressive Studies (FEPS). Within this framework, over the past two years, scholars, theoreticians, journalists and politicians were invited to meet and exchange views. The results of their discussions have been published in the FEPS Next Left Book Series, volumes 1 to 3. The FEPS Next Left study »Progressive Values for the 21<sup>st</sup> Century,« published in the Next Left Book Series, vol. 4, provides a comparative study of the core political commitments of the PES (Party of European Socialists) member parties (in which they either indicate or stipulate what they consider their core values to be), the PES electoral manifestos from 1992 to 2009 and its recent Declaration of Principles. This research led to the current article and provides findings that indicate the major challenges for revitalizing social democracy in the modern age. It will initiate a long process that could eventually culminate in the »2<sup>nd</sup> Europeanization of social democracy.«

### **A new value system?**

A new *system of values* must become the ideological compass of the progressive movement on all levels. Next Left research shows that PES member parties vary in which values they recognise as their core ones; in how they express them; and in how they interpret them as they develop their political strategies. There are four types of

documents that the parties on the national level use: Declarations of values (most commonly seen in central and western European countries); political programmes and manifestos (more typical for parties of east-central and south-eastern Europe) and charters (characteristic of the Anglo-Saxon tradition). The number of values recognised as leading ones ranges from 3 to 10, while on the European level the PES Declaration recognises 4. Though the progressive family across the continent remains very diverse, commonalities can be extrapolated that could lead to a new, all-encompassing system of values. The four types of documents identified above may enable us to define those values more precisely and adapt them to their respective national contexts. In order to achieve this »shared value system,« it would be advisable to link national and European debates in order to create a meaningful ideological foundation for social democracy on all levels – from local to international. This quest may also revitalise the spirit of internationalism that, as research has shown, seems to be fading or even completely absent on the national levels

Next Left research has raised a fundamental question: to what extent do values determine the political principles that parties advocate and give those parties an unmistakable public profile? Though there are exceptions, usually the parties approach core values as though they were *universal truths*, describing them as relatively abstract concepts that nonetheless entail powerful moral claims. This makes it harder to assert that a progressive system of values differs from the ones presented by conservatives or liberals. This is especially the case on the European level, where the values recognised by social democrats seem to be just a reflection of those already included in European treaties. We therefore definitely need new interpretations, but also new ways of linking values with one another to generate a »complete« system, with which



people can identify. In that case, the process, in which all the relevant actors would participate and contribute to the elaboration of a new agenda, would be just as important as the product. It may also be crucial in creating a new basis for future coalitions between social democrats and both their traditional and potential allies. Only then can such alliances be long-lasting and provide legitimate support.

### **For a progressive society**

The member parties' documents evidently could not resist the temptation of trying to cover all possible topics and deliver answers to all the questions arising from them. On one hand, this mirrors the complexity of contemporary politics. On the other, it reflects an important shift in political loyalties within society. At one time parties could count on the support of »core electorates« – the party's political »base.« But these seem to be shrinking, which means that support for any given political movement becomes more volatile and less reliable. In response parties must compile long lists of issue-positions in search of potential voters. Therefore, among many fine and resolute policy recommendations it is very difficult to extract what the actual core values of social democracy are nowadays. Progressives desperately need to figure out what kind of society they are striving for, even if cynics claim that the times are no longer suited to visionary politics at all, but only to story-telling. The guiding idea of social democracy must be reformulated, especially on the European level. Since 1973, when the notion of *Social Europe* was used for the first time, it was a vision for a different Europe. Today, the term belongs to the regular EU jargon, leaving social democrats without a distinctive mission. Formulating a new agenda is thus necessary, if one is serious about politicising Europe.

### **Hope enshrined in a system of values?**

The way values and relations between them are interpreted must be modernised so that we can respond appropriately to the pressing societal questions of the new century. Values and interpretations must be realistic and pragmatic, while at the same time offering true hope for a better future. To give a handful of examples extracted from Next Left research, *freedom* must be reclaimed by social democrats and must entail the promise of security and emancipation that allows each and every person to thrive. It must likewise explain how people are supposed to live together as a community in times of fragmentation, individualisation and multicultural societies.

*Equality* must be redefined to mean something more than the notion of equal opportunity; for example, it could incorporate the dimension of equality within autonomy. Bridges must be built toward a different kind of social system and a new model of the labour market. And some adequate response must be found to the protests of the so called *squeezed* middle or the 99 %. Finally, we have to stop seeing solidarity as an expression of charity or empathy; we should make it the deepest obligation of all our political and socio-economic arrangements. All three concerns must become meaningful and tangible concepts, consequently interrelated on all the levels – from the local community to the global level.

### **A system of values for modern day politics?**

A party's self-portrait remains an important aspect of its ideological and policy profile. On the national level social democratic parties describe themselves as movements with a long history, anchoring their tradi-

tions in grand European events such as the French Revolution. Even though they also insist on characterising themselves as *modern* and *open*, their strong attachment to the past places them among the well-established actors of the political system. This position, no matter how honourable, runs the risk of provoking disaffection that may be expressed in popular protests such as those of the *indignados*, increasing voter enthusiasm for *new* movements, or general abstentions. On the EU level on the other hand, social democrats avoid explaining how they see their own past and the role

they had in shaping it. This allows European conservatives to claim the position of leaders (e.g., as founding fathers of the EU and its central figures). Social democracy must redefine itself by answering questions such as: what kind of an organisation do we want to be? What should our mission be, and in what kind of a framework should it be pursued? It is crucial and timely to find answers to these dilemmas. By doing so social democrats would be well on their way to determining what ideal of modern democracy and political party system they ought to strive for. ■

Vivien A. Schmidt

## Challenges to Democracy from the Eurozone Crisis

*An earlier version of these comments was presented at the »Renaissance for Europe« forum of social democratic leaders at the Cirque d'Hiver in Paris (Mar. 17, 2012).*

»Democratic Europe« is in trouble – with the citizens as well as with regard to EU policies, processes, and politics. The Eurozone crisis, while not always the cause of these problems, has exacerbated them.

### Citizens

Pro-European views are in decline among citizens, while the EU itself remains remote from peoples' everyday knowledge and preoccupations. At the same time, Euro-skepticism is on the rise. On the political extremes, both far right and left wing parties have been gaining support by adding anti-EU views to their anti-immigrant ones. But even among moderates, the Eurozone crisis has split mainstream parties. There has also been a more general loss of trust

among citizens while the sense of belonging to one European entity has been fraying at the edges – along with solidarity. And as the socio-economic problems get worse, so does the rise in nationalism and populism.

Many of these problems result from a lack of leadership or, to be more precise, the wrong leadership, which has taken a politically conservative approach to attempting to solve the Eurozone crisis through unending budgetary austerity.



**Vivien A. Schmidt**

is Jean Monnet Professor of European Integration, Founding Director of the Center for the Study of Europe and Director of the Center for International Relations at Boston University. Last publication: *Democracy in Europe* (Oxford University Press).

[vschmidt@bu.edu](mailto:vschmidt@bu.edu)

## Policies

Most importantly, the EU needs to deliver, with policies that work. But for this, it needs to find ways to calm the markets by generating growth while building a more integrated and effective economic governance. A number of viable initiatives floated over the past couple of years could have solved the problem, such as making the ECB the lender of last resort, pooling debt through Eurobonds or promoting growth through project-bonds, providing the loan guarantee mechanisms (EFSF, ESM) with real firepower by turning these into a European Monetary Fund, or giving the European Investment Bank significant resources to invest in Europe's future. Instead of any of these, fiscal austerity with rapid deficit reduction has been the main recipe.

Certainly, fiscal consolidation should be pursued. But why at such a breakneck pace? Radical deficit reduction has pushed ailing economies, in particular in Southern Europe, back into recession. Why not allow countries in economic slow-down a longer time to bring their deficits down? And why not also calculate the deficit differently, say, by allowing growth-producing investment in education and training, R & D, infrastructure, and renewable energy to remain off the books. Structural reform alone cannot promote growth, since the effects may be seen in the medium term, but certainly not in the short term. It would be better to trade off a slower reduction of deficits with structural reforms that will be accepted and implemented.

If the EU is to win back hearts and minds in the Eurozone crisis, it needs to add carrots to the sticks. This also means that the EU needs to be given the means not just to solve the Eurozone crisis but also to be redistributive. It needs its own financial resources – a Tobin tax on financial transactions, a VAT on cross-border commercial transactions would be a start, or even a

solidarity tax – so that citizens need not worry about a »transfer union« – helping to build identity and solidarity along with redistributive potential, say, for the fight against poverty. That said, if these are not in the cards for the moment, at least distributing the money the EU does have would help, by actually disbursing the structural funds to the regions most in need – which often receive less than 10 % of that to which they are entitled.

But for the EU to have serious redistributive capacity or real taxing and spending capability, it needs more democracy and legitimacy. But this too is at issue, in particular with current decision-making processes related to the Eurozone crisis.

## Processes

The crux of the current problem for EU democracy lies in decision-making processes that have increasingly combined extreme intergovernmentalism with technocracy.

Excessive intergovernmentalism is a major problem for EU democracy, despite the fact that some EU leaders seem to think that this form of EU governance is more democratic than any other. Chancellor Merkel in her Nov 2010 Bruges speech praised this »European Union method« – although she more recently called for a more federal Europe – while President Sarkozy in his Toulon speech of Dec. 2011 claimed Council rule to be the most democratic. The fact that intergovernmentalism tends to reduce itself to the Franco-German couple – or only to Germany – makes the process even more problematic.

Most importantly, however, is the fact that the move to intergovernmentalism sidelines the European Parliament. This has been most pronounced with regard to the Eurozone crisis, in which the EP had no say, and was not even able to debate

the issues. And without political debates that clarify the issues, making the case for or against on the right or left, policies can neither be changed, nor fully legitimated.

The EU Commission, moreover, has become little more than a secretariat. In place of its past role as initiator in the joint decision-making of the »Community Method,« the EU Commission is increasingly condemned to technocracy through the administration of automatic rules decided by the Council. There seems to be an assumption that this ensures accountability, efficacy, and the trustworthiness of the process. But the EU Commission risks a loss of credibility if it is seen as oppressive (such as to Southern Europe), biased (because its policies benefit Northern Europe), or not even-handed because it treats countries differently, however appropriate the reasons (e.g., Spain vs. Hungary). Moreover, the EU Commission cannot really govern effectively or well if current inter-governmental decision-making decides both the rules and the mechanisms of implementation, thereby allowing no leeway for the EU Commission to govern.

What the EU needs is to rebalance its institutional processes, to enable the European Parliament and the Commission to return to their traditional positions in the decision-making process, as institutions largely on a par with the Council.

## Politics

Finally, politics is a major problem both at the national and EU levels. National governments need to find ways to bring citizens into the decision-making process. As it is, national governments generally express their preferences in the EU with relatively little direct citizen input and, in some cases, even without much indirect input through national parliaments. The only way citizens can therefore express their dissatisfaction

with the current policies is to throw their national governments out – something that has been proceeding apace lately.

Moreover, if national-level democracy can be seen increasingly as »politics without policy«, as more and more policy areas are removed to the EU level, then the EU can be cast as »policy without politics« – as EU leaders in the Council claim to focus on the national interest, the Commission on technocratic decision-making. But this is something of a masquerade, since the content of the policies coming out of the EU, especially on the Eurozone, are highly political. Despite being clothed in technocratic language, the policies are conservative and neo-liberal. And yet these are not subject to public debate, whether by the EP or the Council.

What the EU needs is »policy *with* politics.« The question is: how to politicize so as to legitimize. The experts are divided. Some worry that politicization will backfire without policy change coming first. But how can one change the policies without politicization?

The best way to politicize so as to promote citizen participation is through the election of the President of the Commission. Candidates would be selected by the different party groupings in the European Parliament, in consultation with their national parties, so as to ensure that the 2014 EP parliamentary elections would be preceded by major debates among the candidates in every member-state. The leader of the majority winning party in the elections would then become the natural nominee for EU Commission President. This would be a first step to ensuring that the Commission regains a kind of democratic legitimacy for its decision-making. It would also give it greater claim to legitimately engage in »economic governance,« opening up the possibility of recommending policies better tailored to the differing economic growth models of the member-states.

But even if the politicization does not go as far as this, at the very least it would help spur debate, inform and orient the public, as well as bring alternative ideas into the public arena. This has been missing for much of the past two years, as only EU member-state leaders have had a European platform from which to speak, and all fell in line behind Germany to support fiscal austerity. Contrary views, whether of the opposition in the member-states or opinion leaders in national media, struggled to be heard. Only very recently, beginning in November 2011, did growth enter the debate, introduced by Mario Monti, subsequently picked up by François Hollande in the French presidential election, and only now more widely echoed across European capitals and in Brussels.

## Conclusion

What Europe needs most is better leadership, one that returns the EU to fully democratic consultation, reduces technocracy, ensures a wider definition of solidarity focused on alleviating problems of poverty and inequality, that serves to rebuild citizen trust in the EU, while solving

the Eurozone crisis through growth, not endless austerity and decline.

As for the Eurozone crisis, if only Chancellor Merkel had at the very beginning pushed the German public to recognize that the crisis was not one pitting worthy Northern Europeans who save against profligate Southern Europeans, but one in which the Northern Europeans had gained tremendous benefits from their participation in the Eurozone. She could then have explained the crisis this way: Think of the Eurozone as a bar with an unending happy hour leading up to the economic crisis. It may very well be that the Greeks, Irish, and Spaniards were like drunks on a binge. But who were the bartenders? The French and German banks. In the terms of alcoholism, this is co-dependency. In the terms of economics, this is interdependence.

It is time for European leaders to recognize that what works in one country does not necessarily work for the EU as a whole. They need to explain this to their national publics as they work together with other EU level institutional actors – including a more legitimate Commission and a more politically defined EP – to resolve the Eurozone crisis once and for all and, thereby, also help solve the problems of democracy in Europe. ■

<sup>1</sup> The term »Rhenish capitalism« refers to the coordinated, regulated market economies found in Germany and some other northern European countries. This variety of capitalism typically assigns a larger role to banks than to stock markets, offers broad guarantees of social security, features strong labor unions, and tempers extremes of inequality.

<sup>2</sup> The Riemer pension is a government-subsidized private pension scheme introduced in Germany in 2002 as a way of inducing certain citizens to save more for their retirement.

<sup>3</sup> Agenda 2010 was a reform proposal presented to the German Parliament by then – SPD Chancellor Schroeder in 2003. It featured major cuts in taxes and spending, with the latter targeting pensions, unemployment compensation, and medical care.

<sup>4</sup> These are the colors of the CDU and FDP, respectively.

<sup>5</sup> Hartz IV, which went into effect in 2005 as part of the Agenda 2010 program, merged long-term unemployment assistance with welfare payments, albeit at a lower level than before. Wage-earners can still qualify for a certain category of unemployment subsidies if their income and assets are low enough.

## **PUBLISHER'S INFORMATION**

### **Editorial Department of NG/FH**

Friedrich Ebert Stiftung  
Hiroshimastrasse 17  
D-10785 Berlin

Tel: 0049 30 26935 7151, -52, -53

Fax: 0049 30 26935 9238

[www.ng-fh.de](http://www.ng-fh.de)

[ng-fh@fes.de](mailto:ng-fh@fes.de)

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### **To order individual copies contact**

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