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a Guide for the Perplexed**

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Statehood Today: a Dynamic,
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INTERNATIONAL QUARTERLY EDITION

INHALT

1 Editorial

Roland Benedikter

**2 Eurozilla? Europe Casting its Shadow
over the U.S. Presidential Elections**

Lewis Hinchman

5 Campaign Finance in America: a Guide for the Perplexed

Niels Annen

**8 Reset the Reset: Searching for Mitt Romney's
foreign policy ideas**

Axel Striebeck

**10 America's Pacific Century? Rebalancing
U.S. foreign policy in the Asia-Pacific region**

A conversation with Sergei Stanishev

13 »There are no half measures here«

Klaus Hänsch

**15 The Crooked and the Straight: A look at Jürgen Habermas'
Essay on the European constitution**

Erhard Eppler

17 Talking about Taxes is no longer Taboo

Jennifer Gronau/Henning Schmidtke

22 Democracy in the Age of Global Governance

A conversation with Stephan Leibfried

24 Statehood Today: a Dynamic, Multilevel Network

Thomas Meyer

29 State, Market, and Civil Society

The most recent disasters precipitated by self-regulating financial markets should have taught us some long overdue lessons – lessons which are in fact applicable all across the globe. There needs to be a renaissance of the state and a rehabilitation of the taxes without which the state cannot carry out its public responsibilities. It is not easy to put this teaching into practice, however, as long as the economic interests that precipitated the crisis in the first place keep making the decisions about what is going to be discussed and practiced. We are experiencing this in especially drastic fashion in the American elections. The Republicans are acting as if the drama of the global financial crisis had never happened, and as if the state – which after all bailed out the banks with taxpayers' money – were the true villain of the piece. But what else besides a competent state would ever be able to defend the interests not just of this or that particular society but of global society as a whole by reining in the out-of-control poker game run by the financial markets?



Who could offer any plausible counterarguments against the points made by Sigmar Gabriel, chairman of the German Social Democratic Party, when he said of the current banking system: »Banks are blackmailing the state.« »Banks pay outlandish salaries.« »Banks dictate to politics.« Societies now stuck with the bills for the hybris of financial markets are beginning to understand all this more and more clearly.

One of the crucial topics of this volume concerns the state and its responsibility to influence markets in the interest of society as a whole. What can and must the state do, assuming that the general welfare, justice, and human well-being are supposed to take priority over his majesty, the market? The state's priorities in such cases are just as they should be in a democracy and certainly one wedded to a self-styled social welfare state. We live in an age marked by the transformation of the state. In our post-national arrangements, the functions traditionally associated with statehood are being redistributed among the national, regional, and global levels. But, as the great European crisis reveals, these functions do not need to be abandoned completely or even watered down. If the political elites really wanted to, they could re-focus such functions in the state and make them effective once more. Rarely has the wisdom of the left been more obviously confirmed than in the last few years. The market makes a good servant but a poor master. Only competent statehood can make sure that this insight is taken to heart in actual practice. The world is now a fascinated spectator, waiting to see whether American voters also take it to heart in the upcoming November elections.

Thomas Meyer

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Roland Benedikter
Eurozilla?

Europe Casting its Shadow over the U.S. Presidential Elections

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According to the rhetoric of the Republican candidates – both those who have given up in the meantime and those who remain –, contemporary Europe is on the wrong path in every sense: economically, politically and culturally, not to speak of technology and demography. And Barack Obama is depicted as Europe's (willing or unwilling) agent in America, trying to import the failures of the Old World into the New.

Indeed, in their desperate fight against a foe superior in basically everything that American voters usually reward: achievement, leadership, youth, rhetoric, image, education, intellect, fluency, family and wit, the Republican candidates are trying to play what they consider one of their few potentially winning – and at the same time quite easy and cheap – rhetorical cards: anti-Europeanism. They are trying everything to create a new popular myth based on a simple identification: Obama is Europe, not America. And Europe is doom. Equals: Obama is doom, of course.

This extremely reductive caricature, or, euphemistically speaking, rough outline of a negative comic-strip about Europe for use in U.S. popular culture (and propaganda), is not really new. Even during the last presidential elections in 2008, a spectre was made of the »old world« primarily by the Republicans, although the ghost of Europe seemed

to work well even with some Democrats. Europe has always been accused of what seems now to have become a reality, as allegedly shown by the debt and euro crisis, the crisis of the welfare state and of the European health care system, the crisis of European institutions and politics, and not least the deep rifts between the U.K. and Continental Europe, exemplified and broadened by the debt crisis. Last but not least, there has been the failure of Continental European leaders, mainly Angela Merkel and Nikolas Sarkozy, to implement their envisaged transnational financial transaction tax and a globally harmonized tax system, as well as to internationalize aspects of the reforms of the banking system in February and March 2012. All that contributed to further discrediting European policies in the view of many U.S. voters.

In the view of the current Republican presidential candidates, Europe (or better: the European spirit, and accordingly the »party of Europe«) must – and should – be blamed for all the failures that led to the present crises, and also for potential ones in a possible future. Europe, being the colonial predecessor of America, must have laid the foundations of everything that eventually went wrong in current America. Given that America in its core represents the invincible spirit of the future, there must be some kind of a hidden inbuilt mechanism that is subverting it from its inside, and you call it »the old European fault mechanism.«

This is it at least what the Republican candidates want to make the American public believe these days, thus subtly reviving old anti-colonial feelings, and playing on the still deeply inbuilt spirit of »revenge« in parts of the American public against the old continent.

Four paradoxes

But already at first glance, there are – at least – four paradoxes, if not clear contradictions inbuilt in this (old and new) Republican view of Europe.

First, the Republicans claim to be *the* experts on the economy, deriding Europe for its behaviour in the financial and debt crises since 2007, and Obama for his purported incompetence in economic and financial issues in general. But they themselves apparently don't know that behind their backs their own major political and lobbying clients, i.e. the U.S. Money Market Mutual Funds (MMMF's), have started to massively re-invest in European governmental debt obligations as early as February, 2012. They obviously believe strongly in Europe's medium- and long-term soundness, infrastructure, safety, stability, growth, and future, just without telling it to their Republican representatives on Capitol Hill.

Second, Romney seems to favour very similar, if not identical, austerity politics for the U.S. that European countries are currently undertaking – i.e. less government, spending reviews, budget cuts, reduction of the federal deficits. How come they blame Europe for doing everything wrong to master the debt crisis? In the end they are criticizing core issues of their own austerity strategy. Or, as the even the conservative U.S. *Christian Science Monitor* asks: »Is Mitt Romney's Europe-bashing well placed?«

Third, the probably most accentuated paradox is that, while the Republicans are tirelessly »bashing« everything they can find about Europe, in the end their party is in many ways closer to future Atlantic lines and strategies than the current Obama administration and its counsellors. While George W. Bush was probably the last traditional »Atlanticist«, basing his foreign and global policy strategy and the respective vision of democratization very tradition-

ally on the »classical« ties between the U.S. and Europe, the new »Asia First«-strategy of President Obama is much more oriented towards the Pacific, openly downgrading (and downplaying) the importance of Europe on many occasions – to the point that the »loss of importance of Europe« has become kind of a mantra in Obama's government and its public echoes.

Given this background, it is just another paradox that Bush was the most derided and despised U.S. president in Europe since WW II, while Obama is the most beloved by Europeans, who indeed often seem to mirror or even recognize themselves in him quite unreservedly, and obviously without knowledge about his administration's conviction that the future of the U.S. lies in the Pacific, not in the Atlantic anymore. It is an open secret that Obama believes he can't invest much time in consultations with European leaders, because in the era of the new multi-polar world characterized by the rise of China, India and the rapid development of new »large« geopolitical spaces like South America and Africa, they rapidly lose importance and because they don't speak with one voice. It is no accident that Obama is snubbing Europeans in ostentatious ways, for example by breaking with tradition and not attending the EU-U.S. summit in Spain in May, 2010, asserting that he would »have no time« for »leaderless« and »decision-weak« consultations with European officials, the latter only finding out about Obama's last-minute snub through press reports. In this view, the Republicans who on the one hand propagate an openly cultural Anti-Europeanism, on the other hand seem to follow much more traditional power strategies in cooperation with Europe than large contingents of the current Washington Democrats.

These three paradoxes are eventually embedded in a *fourth*, overarching one which is not strictly Republican anymore: Obama's need to react repeatedly to the

portrait of him drawn by the Republicans as the »Europeanizer of America« by distancing himself from Europe, and thus sometimes by harshly criticizing, if not humiliating, Europe in his public statements on the state of the world.

The Costs of Downgrading Relations with Europe

In a nutshell, there might be some truth in noting the growing differences between the U.S. and Europe that have surfaced during the recent crises. Germany's »ordoliberalism« is indeed the contrary of the anticipative use of money by the U.S. economic and financial culture; and France's new, increasingly restrictive immigration politics could not be farther away from the essentially unbroken, open-minded American thinking (against the grain of Arizona laws and similar). It is also the case that, due to the new economic, political and demographic shifts, America is drifting towards the Pacific, and that Europe is becoming smaller in a rapidly multi-polar world. Additionally, despite the continued success of U.S. popular culture in Europe, there might be a sense of a growing cultural divide particularly in the dimensions of civil religion, social psychology and general perception of the greater societal good.

But let us not forget: Atlanticism decisively co-created the most open and individualistic society in the world – not the Pacific inclination. Who says that the U.S. as we know it might not be risking something important by tilting too far toward the Pacific – for example to lose aspects of its roots in Western culture, mind-set, history, political system and institutions? At the present moment, »Pacific« has become a cliché synonymous with »positive« and »future«; »Atlantic« with »negative« and »regressive.« But who says that this is the whole simple truth?

The real paradox with regard to the

way Europe is currently perceived in the USA is that, while the Obama administration in power doesn't lose any opportunities to demonstrate its new »Pacific« orientation at the expense of Europe in terms of political and strategic anticipation, the Republicans are using what they depict as a caricature of »Europe« as a negative cultural spectre in order to scare U.S. voters and to profile themselves in front of a negative mirror.

Tragically, both are contributing to the loss of importance of Europe in the U.S. by pursuing different, even opposed goals. But both could be on a track where they don't know what they are doing. Both Democrats and Republicans could be wrong in downgrading Europe, because the resulting loss of influence ultimately could come at America's expense. Given that the U.S. future in the medium and long term is most probably not in using Europe as a dead pledge for strategic interests on the one hand and (simultaneously) for day-to-day gains in domestic politics on the other, but in keeping and strengthening the connections with its most important democratic ally, the Republicans would have the opportunity to gain in profile exactly by going for Europe, not against it. When will the Republican Party, driven by Tea Party bias as it is, understand this (if at all)?

If the Republicans continue with their – on many occasions – irresponsible and flat-rate rhetorical campaign against Europe, their largely artificially propagated cultural rift, and socio-political polarization within the West, that campaign could turn from electoral propaganda to self-fulfilling prophecy. That is something nobody on either side of the Atlantic can want to occur. After this in many ways disastrous U.S. presidential campaign of 2012, a better balanced mutual image of Europe and the U.S. will have to be re-established, or better: newly established between the Atlantic partners to meet the common future challenges. ■

Lewis Hinchman

Campaign Finance in America: a Guide for the Perplexed

In 1974 the U.S. Congress passed the most far-reaching legislation on campaign finance in American history. These reforms amended – and strengthened – an earlier law, the Federal Election Campaign Act of 1971 (FECA) in the aftermath of revelations about illegal contributions and «slush funds» offered by wealthy individuals and corporations to the Nixon campaign in 1972 («Watergate»). In 2002 the FECA was supplemented by the Bipartisan Campaign Reform Act (called «McCain-Feingold») to close loopholes in the earlier legislation. In short, lawmakers in the United States have made serious efforts to reform an undemocratic and corrupt system. But today the entire edifice of campaign legislation lies in ruins, as wealthy donors and big corporations dominate American elections once again. This essay explains how and why the reforms failed.

Consider first some examples of big-money campaign contributions in recent years. The far-right American Action Network received an anonymous donation of \$ 7 million to help defeat Democratic candidates in the 2010 elections. The Nevada casino king, Sheldon Adelson, has reportedly donated \$ 25 million over the past two years, much of it going first to the unsuccessful primary election campaign of Republican Newt Gingrich, and now to Mitt Romney's campaign. Crossroads GPS, another conservative group headed by Bush crony Karl Rove, raised nearly \$ 40 million in the first 3 months of 2012, all from anonymous donors. During 2011 Crossroads GPS raised \$ 76 million, including two donations of \$ 10 million each from anonymous wealthy individuals. Americans for Prosperity, a group tied to oil industry billionaires David and Charles



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Koch, has spent \$ 7 million so far on anti-Obama media advertising. Big money is also pouring into campaigns for the House of Representatives and the Senate. For example, outside groups have already spent over \$ 12 million to defeat Missouri's Democratic Senator, Claire McKaskill, most from Crossroads GPS and Americans for Prosperity. During the 2008 election cycle, total spending amounted to \$ 5 billion. Estimates are that this year it will exceed \$ 6 billion and conceivably reach \$ 10 billion.

What explains the enormous increase in large, often anonymous campaign contributions? And why are so many donations given to groups apparently unconnected to the parties' and candidates' campaign organizations? The story is complicated, but three factors stand out: decisions by the Supreme Court that ruled key portions of campaign finance laws unconstitutional; the failure of the Federal Election Commission, the agency that is supposed to enforce campaign finance laws, to do its job; and the decision of one political party, the Republicans, to oppose most campaign finance reform.

The Federal Election Campaign Act, as amended in 1974, attempted to control campaign costs by limiting both campaign contributions and expenditures, insuring that they would be disclosed fully to the public, and instituting a system of (volun-

tary) public financing for Presidential elections. Corporations and labor unions were allowed to contribute to campaigns, but only via registered Political Action Committees (PAC's), which would collect the funds, while keeping records of all donations. Corporations and unions could not divert funds from their general treasuries into political campaigns, but could solicit contributions. Individuals were limited both in how much they could give to any one candidate and to all candidates or parties in the aggregate. However, Congress later rewrote that rule, decreeing that unlimited »soft money« could be contributed to political parties for broad »party-building« purposes such as registering voters. Stringent limits were also placed on total spending by candidates for the all of the federal offices as well as how much of their own money they could put into their campaigns. All these rules would be overseen by the Federal Election Commission (FEC), whose six members were chosen by the President, with no more than three from one political party.

The constitutionality of the new regulations was soon tested in the courts in a case called *Buckley v. Valeo* (1976). The Court upheld virtually all the limits on contributions, but invalidated most of those concerning expenditures. Notably, the justices ruled that candidates could spend as much of their own money as they pleased on their own campaigns. They also held that the First Amendment, which grants freedom of speech to all citizens, does not permit restrictions on total expenditures in a campaign or on spending by citizens to publicize their views on certain issues (»issue advocacy«). That is, I might not be able to contribute more than \$ 1000 to the campaign of Senator X, but I could spend unlimited funds on TV ads to attack or support positions that Senator X had taken, as long as I did not explicitly say: »vote for – or against – Senator X.« The same First Amendment

exemption applied to political committees that operated independently of the candidates and parties. They could spend as much as they pleased. Thus, freedom of speech was protected, but not necessarily equality of speech. Congress had passed the FECA in part to establish greater equality of political influence among citizens, regardless of their wealth, hoping that many small contributions would balance off a few big ones. But the Court, in its decision, observed: »The concept that government may restrict the speech of some elements of our society in order to enhance the relative voice of others is wholly foreign to the First Amendment.« In other words, the Court implied, the United States was never intended to be a democracy in which all citizens would have roughly equal influence on political outcomes; if wealthy citizens or groups had a greater voice, then so be it!

The Supreme Court had created some gaping loopholes that would eventually be exploited by those who wanted to sluice large sums into American elections. By 2000 rich individuals and groups were pouring »soft money« into party coffers, with the tacit understanding that it would be used to help elect specific candidates, thus circumventing the FECA contribution limits. And »issue advocacy« ads, which were little more than disguised campaign ads, proliferated. The Republican members of the Federal Election Commission blocked all serious attempts to change those practices. They claimed that every ad was mere issue advocacy unless it used the »magic words,« »elect X!« or »vote for Y!« And they narrowed the meaning of »corruption« to cover only those cases in which specific campaign expenditures had »paid for« later favors by a politician: a so-called quid pro quo arrangement.

In response, Congress passed the Bipartisan Campaign Reform Act of 2002, which banned soft money contributions to

national party committees and tightened rules governing all »electioneering communications« just prior to elections that were not subject to the FECA contribution limits noted above.

However, wealthy Americans, groups and corporations, had been dreaming up new ways to avoid campaign contribution limits. They created a variety of organizations they believed would avoid FEC scrutiny by registering them as non-profits under various sections of the American tax code: some, like Crossroads GPS mentioned earlier, were supposed to be »social welfare organizations« and did not even have to disclose the names of their donors (the 501(c)(4) groups); others, the once-notorious 527 organizations, were blatantly political bodies that nonetheless did not have to register as Political Action Committees, but which could accept unlimited contributions (while disclosing the names of donors), and make unlimited expenditures. They were accountable only to the U.S. tax authorities, not the FEC. 527 groups are losing favor now as the big money is flowing into the 501(c)'s which do not have to disclose the sources of their contributions.

But then the Supreme Court knocked another large hole in the campaign finance system approved by Congress in a case called *Citizens United v. Federal Election Commission* (2010). In its decision, the Court's Republican justices decided by a 5-4 majority that the BPCA had violated the First Amendment by prohibiting corporations and unions from spending money on »electioneering communications« prior to elections. The Court decided that, if individuals were entitled to make unrestricted »independent« expenditures during political campaigns, then corporations should enjoy the same rights, since they were merely associations of individuals acting jointly. A later decision by a lower court expanded the new post-Citizens United regime by adding that

individuals or corporations making such independent expenditures did not have to do so themselves; they could give the money to a new breed of political committees which would actually spend it. Thus were created the 500 or so Super-PAC's, such as Romney's Restore our Future, that have been so prominent in the 2012 elections thus far. They are allowed to accept and spend unlimited funds, including from corporations, as long as they remain »independent«, i.e., do not »coordinate« their spending with the candidate or his staff. But the FEC has a very narrow criterion for coordination: it means that the candidate and his Super-PAC must actually confer about strategy and select the content of advertisements. As long as they do not do that, they can work together: the candidate can appear at fund-raising rallies of his Super-PAC and ask supporters to contribute money to it.

In effect Super PAC's have taken over many of the functions of political parties in running campaigns, but with few of the funding/disclosure restrictions that Congress has imposed on the latter. Together with the almost unregulated 527 and 501(c)(4) groups described already, they constitute a shadow world of political fund-raising and spending that has allowed wealthy individuals and corporations to dominate the campaign of 2012. The Supreme Court achieved what it (or at least its ultra-conservative Republican justices) wanted: a system in which ordinary people, even if they made many small contributions, could never hope to equal the influence of the country's billionaires and corporations. They have protected freedom of speech at the cost of allowing American democracy to be auctioned off to the highest bidders. ■

Niels Annen

Reset the Reset

Searching for Mitt Romney's foreign policy ideas

How does Mitt Romney see America's future role in the world? His previous declarations on foreign policy have been stereotypical and simplistic. So far the GOP presidential candidate has not articulated any foreign policy vision at all. Nevertheless, the pressure on him to take clear positions is only going to intensify.

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Long before Mitt Romney managed to secure the presidential nomination of the Republican Party in an exhausting campaign, he tried to polish his credentials as a spokesman for American power politics. Romney found his opening in the initiatives undertaken by the newly elected president to repair America's standing in the world, so badly tarnished by the previous administration. According to Romney, America has no reason to apologize. The president, he said, was being naive if he thought that anyone could put America's enemies in a more conciliatory mood by offering them concessions. The reverse was true: the more concessions you offered America's adversaries, the more you encouraged them to keep up their struggle. Those statements offered a preview of the line of argument that the candidate would follow from then on.

In this vein Romney called for the renunciation of the new START treaty and published a special guest editorial (full of errors) to that effect in the *Washington Post*. His tactics were hardly surprising, since, after all, Republicans have been accusing Democrats of being weak on national de-

fense ever since the 1950s. Yet President Obama has proved almost invulnerable on the security policy front. From Guantánamo to the deployment of drones, Obama has continued the policies of the Bush administration and even authorized the killing of an American citizen who had been planning attacks against Americans. At least since the spectacular assassination of Osama bin Laden, Republican criticisms of the President have had a hollow ring to them, so the GOP has shifted its attacks to the domestic policy field.

The epic battle for the Republican nomination did not generate much enlightenment about foreign policy. The candidates tried to outdo one another in taking hardline positions, with the exception of the libertarian Ron Paul, whose isolationist stance remained clearly in the minority. No serious foreign policy debate ever emerged during the primaries.

The few comments Romney has made about the principles of America's role in the world have stuck to the usual clichés («the United States is good»). Commitment to American «exceptionalism» is central to his policy views, but then that is a theme which has been standard fare in both parties' repertoire since the founding of the republic. But there are deeper reasons for his pointed emphasis on America's exceptional position. There has been much discussion of late about «American decline», especially since new books by Tom Friedman and Michael Mandelbaum have given it unprecedented exposure. Rom-

ney's advisors recognized early in the game that the GOP had an opportunity to link Barack Obama to the discourse of decline. The idea was to present every conciliatory gesture he made – for example the olive branch offered to Iran early in his presidency – as a proof of weakness. Robert Kagan, who has meanwhile become one of Romney's most prominent foreign-policy advisors, provides clues to this strategy. In his polemic *The World America Made* he vehemently rejects the hypothesis of decline, while again dredging up all the old arguments in favor of America's special mission (incidentally, Barack Obama's advisors have spread the word that their boss enjoyed the book).

Formulaic compromise or personal conviction?

Romney's previous statements have been remarkably simplistic. He promises to end both Iran's nuclear program and China's currency manipulations. He wants to defeat the Taliban and disarm North Korea. Furthermore, Romney wants to make his Middle East policy dependent on Israel's consent (Netanyahu has been one of his friends for many years). In the sole speech of foreign policy that he has delivered since winning the primary elections, he has played variations on the theme of American greatness and has criticized planned cuts in the defense budget, which he would like to fix permanently at 4 % of GDP. Even a so-called »white paper« prepared by the Romney campaign has shed little light on his intentions. To be sure, the language of the white paper is more diplomatic on some issues than it has been in Romney's previous statements, but it has not brought any further clarity to the course he intends to follow. However, his personnel choices are more illuminating. Most of them are essentially hardliners from the Bush administration such as John Bolton, former

UN ambassador. As David Sanger correctly observed in the *New York Times*, prominent representatives of the realist wing of the Republican elite, e.g., Henry Kissinger or Brent Scowcroft, are conspicuously absent. What remains murky is whether Romney's »white paper« really represents his own convictions, or whether it merely reflects compromises reached by his advisors on the appropriate formulas for public consumption (the advisors, as rumor has it, are not advocating any clear foreign policy line).

As far as Romney is concerned, Europe does not even merit a footnote; the old continent is almost entirely missing from the Public statements of the Romney campaign. On the other hand, the candidate has been far more candid about Russia than one might prefer. Evidently, his advisors have not informed him about the premature demise of the Soviet Union 21 years ago. He wants to put a stop to Russia's imperial ambitions and reverse the so-called »reset«, the symbolic new beginning, in U.S.-Russian relations (»reset the reset«). Moreover, Romney considers the modifications in missile defense policy wrought by Obama to have been a mistake. Indeed, for Romney, Russia remains America's number one geopolitical foe. Remains the question of what sort of foreign policy Europe really might expect from a president Romney. So far there has been the familiar blend of naivety and ignorance, coupled with reports issued by an experienced staff of advisors. None of this enables us to draw any conclusions about the true convictions of a candidate who has already taken just about every imaginable position in just about every field of policy. However, for most observers this is no reason for concern. David Miller, in his article *Foreign Policy*, was ultimately unable to discern any fundamental differences between Romney and Obama.

Since Romney has so far not been able to score any points against Obama in for-

foreign policy, his reticence is understandable. Nevertheless, now that he has the nomination in the bag, the candidate will come under increasing pressure to state his views more concretely. Moreover, Romney will soon have to make up his mind whether to take a high-profile trip before the election to strengthen his foreign policy credentials. A trip of that kind could clear away some irritations, since it is so far not clear what precise position Romney might take, e.g., toward Afghanistan. Contrary to his campaign rhetoric, Governor Romney will quickly realize that America's

allies do not at all feel abandoned by the Obama administration; instead, they are more likely to be irked by Romney's grandiose pronouncements. Still, one of Romney's positions could find a receptive audience in Europe: his commitment to maintain defense expenditures at current levels for the foreseeable future. Quite a few European countries may hear this as an invitation to make even deeper cuts in their own defense budgets. But it is not likely that such a move would really be in the best interests of Governor Romney. ■

Axel Striebeck

America's Pacific Century?

Rebalancing U.S. foreign policy in the Asia-Pacific region

In November of 2011 U.S. Secretary of State Hilary Clinton published an article entitled »America's Pacific Century« in the journal Foreign Policy. Ever since then – and in some cases even earlier – Europeans have been discussing how much importance to attribute to the rebalancing of U.S. foreign policy. What, exactly, will it look like? What are its causes and what are the intentions behind it? What are the consequences likely to be for the Asia-Pacific region and for Europeans?

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The United States' pivot toward the Asia-Pacific is not a revolutionary idea originating in the Obama administration; rather, it is a long-term adjustment of existing strategies and capacities in light of the current situation in the region. President Obama and his foreign policy team have been signaling ever since the beginning of his term in office that Asia and the

Pacific will occupy a more significant place in U.S. foreign policy. Accordingly, Hilary Clinton's first official foreign trip took her to Japan, Indonesia, South Korea, and China. Members of the administration keep emphasizing the United States' willingness and ability to become the leading power in the Asia-Pacific region, and to maintain that pre-eminence for the long haul.

However, besides these declarations and symbolic acts, there have also been some tangible new steps: in 2011 the United States and Australia concluded a pact that would allow up to 2,500 U.S. Marines to be stationed in Darwin. In addition, beginning in 2012 four U.S. littoral combat ships will be stationed in Singapore, and the harbor in that city-state will be expan-

ded to accommodate aircraft carriers. Also planned are joint exercises with the navies of several countries in the region, agreements with the Philippines to train their special forces, and a reorganization of existing troop contingents in South Korea and Japan.

The United States now has a multifaceted military presence in the area, if we tally together the U.S. reconnaissance planes that take off from the Philippines, the Marines who were shifted from Japan to Guam, as well as the armed forces stationed in Japan and South Korea. The goal of this military presence is to have sufficient deterrence potential available at any time against any possible adversary, and, in case a crisis should arise, to intervene quickly and effectively.

What has caused the adjustment?

The most important reason for the rebalancing envisaged by the United States in Asia is the growing economic, political, and military strength of the People's Republic of China. Many countries in the region are skeptical about this new great power. Japan, South Korea, and Taiwan are asking themselves whether, and to what extent, the United States will be prepared to guarantee their security in the future. At the same time, there are numerous border disputes between China and its neighbors, especially in the South China Sea, that harbor considerable potential for escalation.

Against this backdrop an arms race has already been set in motion which could further destabilize the region as a whole. However, instability and the risk of military hostilities run counter to the U.S. interest in security for the important sea lanes. Hence, the United States has attempted to maintain its longstanding security guarantees in order to put a damper on the arms race. The U.S. government is likewise trying

to limit Chinese influence on the region's governments without getting into a direct confrontation with China.

While the above-described strategic situation in the Asia-Pacific accounts for America's policy adjustments, the United States' budget woes set severe limits to the leeway Washington has in making new plans for its role in the region. Over the long term, military expenditures must be trimmed so the U.S. can get a handle on its debt problem. The end of the war in Iraq and the impending withdrawal from Afghanistan even provide an opportunity for the Pentagon to cut costs as well as initiate the long-term redeployment of troops whom it had previously planned to send to Europe. Experts are now assuming that there will be no radical withdrawal of troops from Europe; however, troops stationed abroad will, in the future, be distributed differently, with some 60 % going to Asia and 40 % to Europe. Only by redistributing available troop resources in this way can the U.S. assure a greater troop presence in Europe while simultaneously cutting expenses.

Impact of the adjustments

It remains to be seen whether the strategy that the Obama administration has selected will actually produce greater stability in the Asia-Pacific region. On one hand, the beefed-up presence of U.S. troops might guarantee greater security for America's partners and in that respect help to restrain the arms race among nations in the region. On the other hand, fear of U.S. containment may increase even more in China, which in turn might provoke an accelerated and more aggressive arms build-up in the People's Republic.

Still, with an eye to its economic growth potential, China is mainly interested in the stability and security of sea lanes in the region. For that reason it will prefer not to

attack the United States directly, but will instead choose to reap the benefits of keeping America engaged as an enforcer of order. Thus, in the foreseeable future there appears to be little danger of a military confrontation. Nevertheless, when one considers Korea and the territorial disputes in the South China Sea, one can certainly appreciate the potential for unexpected and unintended escalation. With that in mind, it seems that the American effort to launch military confidence-building measures in the region is not only the right thing to do; it is essential.

Having answered some of our original questions about the prospects for stability in the Asia-Pacific, we may now turn our attention to another issue. Will Obama's strategy lead to more institutionalized, multilateral cooperation, or will bilateral agreements and partnerships continue to set the tone? Critics of multilateral solutions in the United States object that this form of cooperation makes Washington too dependent on its partners, needlessly reduces its room for maneuver, and gets the United States entangled in conflicts that do not touch vital American interests.

On a less pessimistic interpretation, multilateral institutions provide for fuller engagement of America's partners. Over the long haul that should enable the United States to redistribute the burden of security costs in the region onto more shoulders, without reducing Washington's influence in the Asia-Pacific. Considering how severe the budget crisis is in the U.S., this second argument seems for now to be the more persuasive, and that is reflected in the rhetoric and initiatives taken by the Obama administration. Building on the previously existing network of bilateral alliances, small »minilateral frameworks« are now taking shape around concrete issues that will be mutually complementary. For the European partners of the United States, the rebalancing strategy means that in the

future they will have to assume more of the responsibility and costs of defense and stability in neighboring regions. Within NATO there seems to be a clear understanding of and unanimity about what needs to be done. Intensive discussions about the ways and means to meet this challenge are already being conducted. At the same time, Europeans realize that it is in their interest for the U.S. to play a stabilizing role in the Asia-Pacific, since their own trade is jeopardized by the same risks that America faces.

An opportunity for Europe?

The adjustments being made in U.S. foreign policy to the changes and challenges in the Asia-Pacific do not signify a sudden abandonment of Europe; instead, they embody a robust shift of attention and military presence based on long-term planning. This rebalancing will serve not only American interests but also those of Germany. Europeans should not interpret these adjustments as implying that they have become less important. Rather, they should seize the opportunity to advance their own growing interests in the region. In the Asia-Pacific they could do their part, mainly through diplomacy, to enable the adjustments to succeed as well as back up their ally by taking upon themselves some of the burdens the U.S. has borne in other regions and on other issues.

It is still too early to say how successful American foreign policy will be in this region. However, one can cite some of the important factors that will influence its likelihood of success: a China policy that acknowledges that country's sensitivities; responsiveness to partners in the region; as well as continuity and stability in the implementation of the strategy. Only under these conditions will »America's Pacific Century« turn out to be a successful and peaceful one. ■

A conversation with Sergei Stanishev

»There are no half measures here«

NG/FH: What is the Vision of your Party for the European Union?

Sergei Stanishev: Our vision is to build progressive societies based on universal values and strong democracy. I am talking about values like freedom, equity, solidarity and justice – values that, now more than ever, are being deeply challenged. Market forces are currently concentrating more and more power into a few rich hands and away from democratic control. Conservatives and neo-liberals, far from battling economic excesses, merely toe the line of this deregulated globalization. This has led us to the worst economic crisis in modern times.

In short, we can say that the current political and economic travails have been fueled by greed and short-term gain. The Party of European Socialists articulates a new and better way. During the last century, Socialism and Social Democracy achieved the welfare state, universal access to education and to health care, and secured fundamental rights for all. Now, in the new millennium, our movement continues to defend our past achievements while striving for progressive societies and further social rights. Our goals: strong democracy, true freedom, decent work and values-driven growth. That means lasting justice and solidarity between states and generations. That means a better future for all.

NG/FH: Do you think that a truly Political Union is feasible in the near future, is it desirable?

Stanishev: What we need, what European citizens demand, is an accountable union. The problem is that, for the last two years, Conservatives have systematically eroded the democratic legitimacy of the EU by



Sergei Stanishev

(*1966) was Prime Minister of Bulgaria from 2005 to 2009. He is Chairman of the Bulgarian Socialist Party and President of the PES (Party of European Socialists).

creating a rhetorical smokescreen of »economy versus democracy«. The brutal austerity-only measures imposed by the Troika in Greece are a good example of uncontrolled, unelected power that is affecting people's lives in a dramatic way.

As I see it, there has been a growing resentment by the ordinary citizens, and rightly so – no one wants to pay twice for a crisis they didn't cause. But fortunately, Hollande's victory in France is a game-changer. It not only gives voice at last to the people but it says in these times of crisis: »Europe can be part of the solution again«. Logically, there is no way that the EU can provide a solution to the crisis without a sound compromise that truly engages the citizens in the decision-making process.

This is why the PES is committed to cultivating democratic accountability at European level. For example, in our last Council we defined the process that will lead to a democratically mandated candidate for European Commission President. This transparency, this accountability, is pivotal if we want to gain the citizen's trust. After all, we are talking about the very essence of democracy.

NG/FH: What is the shape of an Economic and Social Union your party is aiming at?

Stanishev: The Party of European Socialists will always defend an economy that

fosters social progress and raises living standards, secures homes and creates jobs. This is not only a fundamental and unshakable principle of ours; it is also our way out of the crisis. Some people define the current crisis with a certain English saying: ›feast today, fast tomorrow‹. We all know the results of austerity-only measures in Greece, and further tax increases for the ordinary citizens and spending cuts on education and health care are constantly worsening the situation across Europe. They are just not the right solution to the crisis.

The PES has insisted for years that the way out of the crisis must be more jobs and more growth, and the fruits of our labour begin to emerge. With Denmark, Belgium, and now France going left, 2012 is indeed becoming a year of progress for Europe. We have to focus on public and private investment, on financial regulation and tools like the Eurobonds and a Financial Transaction Tax. If we continue fighting and defending our proposals, I strongly believe that the ›Eurostarvation‹ will be over soon.

NG/FH: Which are the necessary and possible next steps towards this aim?

Stanishev: One of the preconditions to find the way out of the crisis is ›producing‹ our way out. We need to improve Europe's competitiveness by boosting innovation, developing education and strengthening infrastructure – all this while ensuring decent working conditions. This means that, by no means, economic freedoms can be prioritised over fundamental social rights. Creating sustainable jobs and bridging the social divide must be a top priority for the European Union.

Of course, these steps need not be done at the expense of the long-term sustainability of public finances. That is why we have defined a wide set of policies to provide more revenue: maximizing public

spending at EU and national level, issuing Eurobonds tied to investment, implementing a fair European carbon tax and a European tax on financial transactions, as well as unused EU funds. None of these measures imply cuts in spending, and they are pivotal resources in order to promote growth, jobs and solidarity across the EU. After all, this is not about escaping from the crisis: it is about Europe emerging stronger from it.

NG/FH: Can the European Social Democrats act as a unified force in that sense or what hinders them to do so?

Stanishev: In my opinion, we are already unified in policy. You only have to take a look at our common positions on the Financial Transaction Tax or the European Youth Guarantee. In fact, before officially launching in May our campaign ›Your Future is My Future – A European Youth Guarantee Now!‹, we already had the support of our parties in Luxembourg, the United Kingdom and Romania, where they announced a youth guarantee as part of their policy platform. I think that this is a clear triumph of our European Social-Democratic family as a whole.

Another example is the conference in Tunis that gathered together European socialists and progressives from the Arab world. Since the beginning of the Arab Spring, we have openly supported all the inspiring men and women who peacefully fight for democracy in countries like Tunisia and Egypt. I was in that conference and I must say that I am very proud that we are building a common progressive agenda across the Mediterranean region.

Lastly, the rise of the far-right in Europe has become a cause of big concern over the last years. From the totalitarian measures taken by the governments of Hungary and Bulgaria, to the worrying results of the last elections in Greece, it looks like some political groups close to

the far-right are having a hard time using Europe and democracy in the same sentence. In the Social Democratic family we are committed to defend our democratic values inside and outside our borders and

we will always reject any language of hate, pessimism and despotism. There are no half measures here: the unified goal of all Social Democrats is and will always be a better future for all. ■

Klaus Hänsch

The Crooked and the Straight

A look at Jürgen Habermas' essay on the European constitution

So things like this are still going on? People like Jürgen Habermas dare to look at European unification as the prelude to a world society complete with its own political constitution. And the European Union is supposed to take its proper place smoothly in this new world order without asserting its own economic and political interests in the process. A world parliament will then impose a democratically legitimated orientation on the global »powers«: financial markets, the internet, climate change, and the distribution of resources. It will impose rules and limits on the latter while »paying attention to the time factor, which is relevant in matters of justice.« One does not have to reach the North Star to take one's bearings from it here on earth. Habermas deserves a vote of thanks for having recalled to mind an old and very European utopia.

I am reminded of the intense debates we held in 2002/2003 on the Presidium of the European Constitutional Convention when I read what Habermas has to say on a variety of topics: the structural defects of monetary union without political union; ways to establish some democratic balance to offset the institutions and procedures of Brussels; the need to create economic governance, etc. None of this is new, but neither is it passé. For practical politics it is an encouraging essay, because it repeats themes – albeit in updated and highly



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concentrated form – at just the right time.

Habermas extracts the brilliant, shimmering essence from a not-especially-narrow range of thought derived from sociology, jurisprudence, and political science. These sources are all »post-classical« in going beyond traditional constitutional and international law doctrines concerning the legitimate ways in which sovereign power can be exercised and the normative foundations laid for democracy in the European Union. I have picked out two especially noteworthy proposals from among the many concrete suggestions he makes: the Union as a transnational democracy and the crisis as a caesura which makes a new treaty assigning greater powers to the Union both possible and necessary.

The E.U. and democracy

The European Union has no future without democracy. But one could just as well turn that statement on its head. Demo-

cracy in Europe has no future without the European Union. Faced with new global challenges, nation-states are trying to make up for the substantial loss of their problem-solving capabilities by shifting economically and socially important decisions onto international organizations. Among the latter, the E.U. is the only one that: offers its citizens the chance to participate in decision-making and puts checks on power via a directly elected parliament; calibrates the influence of its member states in accordance with their respective populations, and involves national parliaments in the making of Union policy. So far it is the world's only experiment in a form of democracy that transcends nation-states.

Habermas' essay finds the Union on course toward an »arrangement for the exercise of post-democratic/bureaucratic authority.« Although it was actually supposed to represent an extension of democracy as practiced within nation-states, it has in fact featured »increasing inter-governmentalism and declining levels of democratic legitimation.« The first charge is correct, but the second one isn't entirely so. The institutions in Brussels and Strasbourg are not the only foci of Union democracy. The member states also play their part with elections and plebiscites.

The fiscal pact strengthens the inter-governmental elements of the Union. That is something we should regret, accept temporarily, and change later. I prefer to allow governments that have been legitimized democratically to decide about the Union's welfare and its woes rather than leave it to a hundred or so insolent, faceless, and un-legitimated financial wheeler-dealers who play monopoly with the fates of entire nations. When we endeavor to save Union democracy from national governments, we should not be too overzealous lest we hand it over to the new »world powers« such as the financial markets, climate change, etc.

Habermas presents a wealth of challenging analytical arguments to show that Union democracy still lags far behind what it could and should have achieved: the division of sovereignty between citizens and the body politic rather than between member states and the European Union; a new role for nation-states as the guarantors of liberty; the »correct« ratio between intergovernmental elements and those to be »communalized,« (i.e., those in which certain policymaking areas are transferred from the member states to the European community).

The clarity of ideas and principles here can at times be so dazzling that it blinds us to certain circumstances. The history of democracy has always featured distinct combinations of principles and procedures that were long held to be incompatible: democracy and monarchy, representative and direct democracy, freedom and equality, the division and fusion of powers, popular sovereignty and protection of minorities, just to name a few. It has always been the refractions of light, the nuances and shadings, which have lent color and depth to the image of nation-state democracy in Europe. It cannot be otherwise with the image of transnational democracy.

If the Union is going to take over new areas of responsibility, then, so Habermas, solidarity among its citizens must also increase. It is supposed to grow, of course, due to »communications that span many countries.« The »cunning of economic reason« is supposed to bring about a mutual opening of national public spheres »for one another.« Unfortunately, dull, unglamorous reality shows just how the German and the Greek public spheres open up to each other.

Time to roll up our sleeves!

Habermas calls for a more down-to-earth approach in the public discourse about

European policy. In that case the crucial issues would then be less about neo-liberalism or the parceling-out of areas of responsibility. We would have to raise the more basic question – at last – of whether to stay in the Union or leave it. The outcome could spell the end of the entire European project and, along with it, the demise of transnational democracy. Might it not be the case after all that the elites whom Habermas disdains will have to rescue democracy from the people... for the people? Yes, sleeves should be rolled up, but only to complete the appropriate outfit, not as a substitute for steadfastness of purpose.

Habermas refers to his own position as a »constructivist viewpoint«; from that angle the post-crisis Union is basically the same old one: it would continue to use treaty constructions to codify its regulations in a democratic manner. We Germans love straightforward ideas like this. In that regard Habermas really is one of us. But Europe is crooked wood, and we are only a part of the whole. No doubt about it:

the present crisis is a turning-point that Habermas wants to use to transfer more policy areas to Brussels and to garner support for a new treaty. But all that belongs to the finer points of tomorrow's negotiations. Nobody should imagine that Europeans are pining away waiting for Europe to launch a new treaty debate.

Up until now all of the crises that have accompanied European unification have been handled by shifting the problems and their solutions to the institutions of Brussels. Citizens did not need to be bothered much. For the first time a crisis demands effort and sacrifice from the citizens themselves. If they are ready for both, they will certify Europe's future more fully than any discourse about treaty constructions. Perhaps it would not be incompatible with reason, enlightenment, and citizen sovereignty if »more Europe« were to happen before it got constructed.

Jürgen Habermas: On the Constitution of Europe: an Essay. Suhrkamp, Berlin 2011, 140 pages. 14.00 Euros. ■

Erhard Eppler

Talking about Taxes is no longer Taboo

Every budget consists of both revenues and expenditures. So why then have we put up with the European Union's decades-long practice of being supremely interested in budgets, but saying nothing – absolutely nothing at all – about taxes?

Within the EU even today a single country, however small it may be, can prevent any decision from being made about taxes. For that reason all efforts to harmonize taxes in the EU have been stopped in their tracks before they could even get going, even those that intended merely to establish upper and lower limits. The EU



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Erhard Eppler

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has not succeeded in ending the scramble, even in its own backyard of Europe, to see who can set the lowest business tax rates. Indeed, this has never even been attempted. Market radicals actually wanted to maintain this competition, since – ac-

cording to one of their dogmas – the economy will grow faster the lower business taxes are.

Even when Ireland was forced to ask for help from the European bailout fund, it was impossible to increase the ridiculously low business taxes there. Solidarity is all well and good, but it seems to have been more important to make sure that this small country would continue to have the right to lure away investments from those who have helped it.

In order for a country to avoid incurring new debts that exceed 3 % of its GDP, it will just have to »save,« i.e., reduce its expenditures and therefore also the scope of its responsibilities. To raise taxes – unless it is the value added tax – is now thought to be old-fashioned and counter-productive. True, Europe does not have a Grover Norquist, who has cajoled mainly Republican Representatives and Senators in the U.S. to sign a pledge never to vote for a tax increase. Norquist even keeps a list in his briefcase of those few recalcitrant lawmakers who have not yet taken the oath. But up until today the rule has been: any party that wants to raise taxes will be branded immediately as the »party of tax increases.« Even one of our major parties accused the other of exactly that, even though both of them certainly knew that raising taxes was really the responsible thing to do, much more so than just to keep on »racking up debts.« Even the »Merkozy« fiscal pact does not include any binding commitments on taxes. As far as budgets are concerned, national parliaments are supposed to cede at least part of their budget-making authority to the Union, but the Union is in no position to exert any influence on taxes, even assuming that Merkel, Sarkozy, and Barroso ever really wanted to do so.

Historians looking back on all this will not fail to recognize that such bizarre illogic had a lot to do with the epoch of market-radicalism in which it came to

fruition. The lower taxes are, the more the economy will grow. Hence, we can only cut taxes, not raise them. And if one cuts taxes, then GDP will grow at such a rapid clip that the state will end up with more money in its treasury. Of course, this has never been true – not even close. In spite of that there has been and still is one party in Germany that demands massive tax cuts during every expansionary phase of the economy. If the expansionary phase is lagging, we have to cut taxes in order to make it boom. If it is going well, the state will have enough cash to reduce taxes. And if ever a government not run by this particular party did in fact cut taxes, it did not reduce them enough.

For market radicals every euro that somehow mistakenly ends up in the public coffers is »dead,« because it has been withdrawn from circulation. But market radicals simply suppress the evidence that the very same euro will soon be spent by a public employee or perhaps paid out to an electrician who is equipping a school with new wiring. In short, what is ignored here is the fact that the state's finances are part of the macro-economy. For market radicals the »state« is an insatiable Moloch that takes away what honest citizens have worked so hard to acquire. If a minister of finance should be so bold as to suggest that parliament enact a tax increase, we will hear and read everywhere that he is reaching his hand into the taxpayers' pockets. That is of course something that in ordinary circumstances only pick-pockets do. The verbal association between the two is exactly what was intended by those who circulated it. In fact, the slogan »Let's keep more net pay from our gross pay« is supposed to divert the attention of those who have only their labor to sell from fair wages to the supposedly high taxes that the greedy state is squeezing out of them. And so for many people tax avoidance or tax evasion seem to be reasonable responses.

The steering function of taxes

Up until the seventies there was a political consensus that, as a matter of fact, taxes could, must, and should be used to steer the entire economy. That was one of the few opportunities one had in a market economy, to use the means furnished by that same market economy to achieve what was deemed politically necessary or desirable. However, market radicals do not want to steer, since they imagine that the market is always wiser than politics.

But in fact taxes always steer whether we like it or not. The only question is: what are they steering toward? This is not always as obvious as it is in the case of tobacco taxes, which physicians perennially insist should be raised. Eco-taxes are intended to put a tax on things that are ecologically harmful, thus making other things relatively cheaper that are unproblematic or even valuable from an ecological standpoint. Ferdinand LaSalle was quite right when he argued that direct taxes, especially on the well-to-do, were more socially just than indirect consumption taxes, which had to be shelled out by those who were less well-off anyhow. That is still true today, by the way, even though the proportion of a worker's total income paid for life's absolute necessities such as food and drink has noticeably diminished compared to other spending. Of course we can promote – or neglect – greater social equality by adjusting income tax rates. And in all this it really does not matter what the government claims to be accomplishing with its tax rates. Every tax rate and every tax has a steering function. In this respect the market-radical claim that we should not use taxes to steer is not only a reflection of their special interests, it is also false, or more precisely, it is dishonest.

Of course the progressive income tax was intended from the very start to contri-

bute to social equalization. Indeed, it may even have been the most effective means to accomplish that goal. But, according to market radicals, taxes should not steer us in the direction of social justice, because in that case they would be falsifying market outcomes. That is the reason why they preach the »flat tax,« i.e., one single tax rate for everyone, regardless of whether their incomes are just a few euros above the basic exempt amount, or whether they are in the eight-figure range.

Of all places it was in the countries where communism had imploded that governments let the Chicago boys talk them into adopting the flat tax. Of course that was one way of steering – in favor of the rich. But it was always accompanied by assurances that no one wanted to steer or should try to, and that a tax of this kind would allegedly achieve the goal of equality in any case.

In Germany too, one goal of the market radicals has been to abolish the progressive income tax. It was in fact the right-wing liberal Prussian finance minister, Johannes von Miquel, who introduced it in Germany during the last decade of the nineteenth century (the German Empire still lived off of tariffs and indirect taxes). In the 20th century the progressive income tax was enacted almost everywhere in Europe. In the Federal Republic of Germany it was considered self-evident. The only thing that needed to be discussed was how steep the progression should be, especially since the computer made such calculations easier. Those who earned more should also be subject to a higher tax rate.

While market radicals in the United States were openly attacking progressive taxes, in Germany their abolition has been sold as a great simplification, and this at just the time when the gap between incomes has been increasing. Now, the average board member of a big company may earn 200 times as much as a worker, rather than 20 times as much, the previous norm.

The idea was to move ahead in two stages. First, progression was to be replaced by a tax with three – and later five – brackets. Then an epiphanous moment would arrive when it became obvious that one bracket would be simpler still. The attempt failed in 2005, when too many voters smelled a rat. Since then only the FDP has used this sort of tax policy to keep its clientele in line – and has even failed in that.

So the progressive tax is here to stay. Today, the top tax bracket is too low, but it takes effect too soon, i.e., at too low an income level. It would make sense, therefore, to leave the top tax bracket where it is, at 42 %, while perhaps raising the basic exemption or allowance (the amount below the threshold at which taxation begins). One could then allow the curve to continue upward toward a notably higher top tax bracket for incomes in the millions.

If what we are trying to do is pay down debt without neglecting important state responsibilities and choking off economic expansion through rigorous »saving,« then it makes sense also to consider a tax on financial transactions. Naturally, it would be ideal if the United States and Great Britain went along with this proposal. But even if one group of countries should forge ahead, their decision would not fail to affect public opinion in the rest.

Because taxes always steer, they always become questions of power as well. That is certainly true of the financial transaction tax. We should not imagine that a country dominated by market fundamentalists would ever enact such a tax. It is not likely that countries attempting to at least put a damper on speculation and hoping to clean up their balance sheets by introducing this tax would, for that reason alone, become less attractive to global capital.

When an SPD party caucus back in 1970 set up a tax reform commission to work out a comprehensive scheme for the Federal Republic (which it did in fact accomplish), the commission did not have

to ask itself prior to every decision what neighboring countries or even far-away tax havens might think of their plans. When a finance minister today talks about »competitive business taxes,« s/he means those that, in comparison to other countries' tax levels, are more likely to attract investment than to discourage it. Globe-spanning corporations can take their time and figure out whether they would realize higher profits by investing in Brazil, Malaysia, South Africa, or Germany. Business taxes will only constitute one item among many that enter into their calculations, albeit not a trivial one.

A country offering ultra-modern infrastructure, highly trained personnel, high levels of labor discipline, and a functional administration can more easily afford to impose higher business taxes than a country lacking in all these assets. That is evident, for example, in Scandinavia. Nevertheless, no parliament today can be truly sovereign, i.e., make its decisions exclusively with an eye to justice within the nation-state.

It is therefore all the more important for the European Union to agree on a common taxation policy, and not just for the Eurozone. During a long transitional period, it would be sufficient to establish upper and lower limits for a range of levies, including the value-added tax, business and income taxes, wealth taxes, and especially the capital gains tax.

That could put an end to the ruinous competition among EU-states which has contributed more to over-indebtedness than have excessively generous social policies. Doing so would also pose a thorny dilemma for globe-spanning capital.

Can investors really afford passing up the opportunity to make profits in a huge market with great purchasing power, just because they don't like its taxes? Still, we can only maintain the primacy of politics over economics at the European level.

Taxes enhance everyone's quality of life

Many of us want to achieve certain public goals such as alleviating the financial crisis of local governments, creating a society that rewards everyone's best efforts but does not cold-heartedly worship success, treating solidarity as something more than the sentimental cant of do-gooders, and maintaining Germany as the lauded »republic of education.« In order to do all that we will have to have a tax rate that is about two percentage points higher than the present one.

All this must be justified and can be tackled head on by deliberately opposing the demands issued over the last few decades, more or less seriously, by interest groups claiming to represent the taxpayers. Taxpayers are also the parents of children who sometimes have to sit in classrooms where plaster rains down on their heads, or of university students who are happy if they can squeeze into the lecture hall and find a place to sit on the floor. And taxpayers are also the drivers of cars driving on streets that are getting bumpier every year, especially in municipalities.

We must say to these taxpayers, who are of course also citizens to whom the common good means something: »taxes are not a form of bullying dreamed up by bureaucrats. With our taxes we purchase together what we could never buy individually, by relying only on our own funds. These include well-maintained streets and sidewalks, a justice system that prevents a war of all against all by adjudicating laws that apply impartially to every person, police who are well trained and usually very polite, but who do enforce the law when necessary. With our taxes we also help build the schools – sometimes even attractive, bright, homey ones – that our children and grandchildren attend, as well as the kindergartens and day-care centers where our kids are well cared for. We pay

the care-givers and teachers whom we could never afford to hire on our own. And we are also paying for a form of insurance, the security that, if everything fell apart in our private lives, this state would not let us starve.«

We could also ask our fellow citizens to consider whether the things we cannot buy from our own personal resources alone might not sometimes be more important and necessary than what we load into our shopping carts at the supermarket.

34 years have passed since the American, Fred Hirsch, pointed out back in 1978 that there are social limits to private affluence. He argued that few people in suburbia can enjoy both the advantages of city and of country living. Millions of people cannot. So when suburbs expand farther and farther out, commuting via road into the city center becomes a longer and more arduous task. Forests and meadows are ever more remote. Hirsch reached the plausible conclusion that, »if everyone stands on tiptoes, no one sees better.« One might add that, »if everyone chips in to build a stadium, all will see better.« We will never all be able to afford our own private swimming pools; besides, we don't have enough water or space for that. But together, acting as a community, we can build and maintain a nice swimming pool. The things we cannot buy on the market are not those with less value, but rather those with more. Therefore, taxes never become superfluous in a relatively wealthy society. They become more important for our quality of life. ■

Jennifer Gronau/Henning Schmidtke

Democracy in the Age of Global Governance

Today, decision-makers at the transnational level frequently act independently, without securing the support of member states through a vote. They do this in order to enable their global organizations to act more effectively, and that often means intervening in policy areas that had previously been handled at the level of the nation-state. Indeed they now sometimes act directly upon individual persons without having to take a detour through the nation-state. Is this trend likely to jeopardize democracy?

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decisions with direct consequences for all citizens are now partly made by actors whose democratic legitimacy is shaky at best. This situation is increasingly being challenged: mass protests, reform debates, and critical media reports bear witness to an intensive contestation of politics going on outside of the state. Citizens appear to have become aware that they are losing democratic control of politics. Can democracy survive over the long run if this state of affairs continues? Let us first take a look at the challenges facing democracy in the age of global governance. We shall then examine some current approaches to democratization by reference to examples from the EU.

Ideally, a global democracy should both advance the common good of all citizens and enable them to participate in decision-making processes. In line with Abraham Lincoln's democratic triad, global governance should be of the people, by the people, and for the people.

The answer to the question as to whether this can be achieved turns out to have two components. On one hand, the new power-wielders are indeed doing their part to overcome problems that exceed the reach of individual states. Even if we assumed that the United States-still the great power of our time – had the will to do something about climate change, it would not be able to accomplish much on its own. Political challenges do not stop at territorial boundaries, and democratic

During the previous century the state dominated politics; by contrast, today we will have to come to terms with an entirely new set of circumstances. The political system of the 21st century is a multi-level system characterized by the plurality of global and regional organizations (e.g., the U.N., the European Union), bilateral cooperation, and the prominence of private or joint state and private decision-making. Although this network may be of some help in solving global problems such as climate change or the current crisis of the financial system, it does call into question the quality of democracy. To be effective, many policymakers of the new power elite act independently of their member states. As a result of this tendency, political

self-determination therefore requires the cooperation of many different actors. On the other hand, the chain of democratic legitimation by means of which political power is transferred from the citizen body to the political elite has grown rather long under the new order of things. And in places it has become quite fragile. The two-stage mechanism in which citizens elect national governments which in turn mediate between them and international politics is no longer working. The trouble is that national parliaments are no longer in any position to get a clear picture of what is happening in this complex multilevel system. On the whole, the growing demands for political problem-solving capability on one side coupled with democratic control on the other have created tensions that lead directly into the crucial, but unwelcome question: how do we arrange matters so that we get effective actions at the level of international politics consistent with the principles of democracy?

To strengthen the chain of legitimation and insert new links into it, the crucial move will be to give the appropriate design to international organizations such as the European Union (EU). Since the 70's the European Commission has been devoting considerable attention to the issue of how the process of European unification could be given more robust democratic legitimation. To be sure, up until now this process has not succeeded all along the line, nor can we consider it concluded. Nevertheless, the efforts of the EU can serve as guideposts for other organizations. Two aspects of the process deserve special mention. First, institutional rules for democratic participation have to be worked out. Second, there must be a transparent, public debate on international politics that does not avoid controversial topics.

The most obvious channel for democratic participation in the EU is through the European Parliament. Ever since 1979, the citizens of the EU have voted for members

of the Parliament every five years in free European elections featuring the secret ballot. Since then the EU Parliament has begun to assume many functions that national parliaments also perform. In addition to this link between populace and the EU, another has emerged. Starting in early 2012 Europe-wide citizens' initiatives will be permitted. By availing themselves of this tool, citizens will be able to direct the European Commission to propose a certain legal act. This form of participation seems more suited to projects of regional integration than to other contexts. Applied at the global level it would produce parliaments with unwieldy numbers of deputies, and it would also be difficult to manage citizens' initiatives.

Another way to encourage direct participation in the EU is to involve the organizations of civil society. However, in this case it is far less easy to formalize the frequency and type of participation than it is when one is simply electing a parliament. It is certainly true that the European Commission has come up with minimal standards for cooperation with actors from civil society. Still, most of the participation happens on an informal basis. But in spite of that fact, this avenue of democratization has been followed by many other actors and could succeed at the global level. For that to happen, however, much will depend on how the participation of civil society is implemented in day-to-day practice.

It is going to take a well-informed and critical public for all these mechanisms to take full effect. Only when citizens are informed about global and regional problems will they be able to develop well-considered opinions and take part in democratic processes. Europe has already made some strides in this area, too. Votes in the European Parliament are public, and all important committees of it are held accountable for their actions and must provide full reporting. Furthermore, the EU offers quite a bit of information about its activities and has gotten involved in the

process of political education. European topics are being mentioned more frequently in the media now. And ever since the financial crisis political parties have not been able to avoid taking clear positions on the EU. Although much remains to be done in this area (e.g., in regard to public votes on the Council), these approaches may be transferable to the global level. Transparency and public debates on controversial issues are possible even in global organizations given sufficient political will. they would signify a big step in the right direction.

These approaches could also contribute to improving the democratic quality of global governance. Yet they conceal a problem that of course cannot be resolved in this essay, but which should nevertheless be given its due. All these kinds of participation, regardless of the form they take – the establishment of supranational parliaments, other types of direct parti-

cipation, as well as public debates – are all still linked to the framework of the nation-state. In light of the changes taking place in the everyday lives and environments of citizens all over the world, it is not clear that this linkage is going to be completely sustainable. It is no longer possible to claim that political decisions concern only those who belong in a specific territory; that is only one of several criteria for determining who is affected by such decisions. Therefore, the discussion of global politics can only succeed if we disentangle democracy from the nation-state and remain attentive to subnational and global forms of organization. Democracy in the twenty-first century requires something more than just state-organized forms of participation. It also needs direct rights of co-determination that operate independently of territorial borders and makes it possible for mobile people to participate wherever they happen to be. ■

A conversation with Stephan Leibfried

Statehood Today: a Dynamic, Multilevel Network

Stephan Leibfried

(* 1944) directs a 2003-2014 Bremen Collaborative Research Center on Transformations of the State (Sonderforschungsbereich TranState) and co-directs a research center at Bremen University, the Centre for Social Policy Research (CeS).



NG/FH: A great many crucial political debates continue to revolve around the concept and role of the state. Considering the results of the research you have been doing for so many years, do you think we can still use the notion of the state unselfconsciously, when issues of the social welfare state, economic steering, democratization and political sovereignty are at stake?

Stephan Leibfried: That depends on how you look at it. In disciplines that directly involve the state, such as jurisprudence, there has been a shift in the way the concept of the state is defined in Continental Europe. The state's power to influence social conditions has remained pretty much constant: as before, the typical OECD state still absorbs about 40 % of the gross domestic product and invests around half of that in the social welfare state. But the way in which the state operates, whether on its own, as part of the European flotilla, or in global markets, differs quite a bit from the way it used to behave in the 50's, 60's and 70's.

The scholarly debate reflects this in the phrase, »the state as...«; the state is defined

as »the institution that offers guarantees« or as »the manager of political power« and so on. Its *power of decision-making* has been intensely supra-nationalized or internationalized, whereas its power to execute or implement has been delegated downward, in some instances to private parties. Yet it continues to hold onto *ultimate responsibility*; no one wants to deprive it of that distinction. From the perspective of the scholarly disciplines, the frame of reference has again become more statist and more similar since 2008, because now so much does depend on ultimate responsibility, and because the power of decision-making has been de facto re-nationalized here and there, as the Euro crisis shows.

NG/FH: Does it make sense to continue having our traditional debates using the notion of the »state« with the usual attributes attached to it, or won't that take us in quite the wrong direction?

Leibfried: In terms of ultimate responsibility, the social scientific view comes closer to your second alternative. However, in ordinary language the traditional concept continues to influence the way these matters are viewed, i.e., the notion that the state bears ultimate responsibility for decision-making and implementation. Voting behavior confirms that again and again. Voters have so far been unwilling to relieve the state of this responsibility.

NG/FH: Since we are talking about the functions of the state, we should note that your research group often pictures them in the image of a braided rope. The various functional strands – law, legitimation, welfare, resources, and taxes – are intertwined. For some time now and as a result of various influences, the once densely interwoven, compact unity of state functions has been dissolved, and responsibility has been devolved to other levels. A few functions once exercised by the nation-state

have been transferred to the global or European level. Many others, especially those involving social welfare, have reverted to society itself. What are the implications of these changes for the way state functions are managed and carried out, especially when it comes to such crucial areas as welfare and economic development?

Leibfried: In our analyses we first describe the emergence of the cohesive nation-state, which dominated the post-WW II scene for two or three decades. It is important to recognize that the »rope of state« does not fray symmetrically. Instead, many of the »functional strands« such as law have become badly frayed, whereas others, for example welfare, have not. Law, in the form of global trade, European or international law, transcends the nation-state and creates a framework for it, although of course nation-states collectively still enact the law. However, in respect to democratic legitimation the nation-state still pretty much retains its old, compact form. It continues to be a braided rope. It is mainly still the nation-state, and not trans-national units, that is asked to provide the legitimation for the political arrangements that have been made.

NG/FH: In short, the state is getting frayed, and some of its functions, such as the creation of a legal framework, are being handled at an international level and other ones at the subnational level, e.g., the marketization of social security. So we need to ask: when areas of accountability are so diffuse, can there still be democratic legitimation and control by the citizens?

Leibfried: That pattern has worked pretty well in Europe for decades. Many of the items that have been frayed away, to continue the metaphor, are still hanging by a rubber band and can be retrieved by the nation-state in a crisis. Even the Euro-

pean crisis confirms this. In light of the current theories of integration, one would have expected that the crisis would have been addressed and ultimately contained principally by European institutions. But, besides the European Central Bank, of course, it has been primarily the re-invigorated nation-states such as France, Germany, and other northern European countries that have taken the lead in crisis management. Conversely, the question is now being asked: do we need to strengthen Europe again – i.e., have greater »political union« – so we can handle such problems better? The point is, functional strands that have frayed badly can be restored and in part recaptured by the nation-state.

NG/FH: So the state is being de-concentrated and disentwined. What does that mean in terms of its key functions such as the ability to implement policy, authority to issue rules, power to intervene in social and economic processes, and the capacity to maintain its primacy in setting policy? Is that primacy being vitiated or potentially even abrogated, or is it in some sense being reinforced?

Leibfried: In Germany and the Euro-zone the primacy of the political is being weakened in certain spheres. Certain mechanisms for regulating social conflicts, adjusting exchange rates and the like are no longer available to nation-states. From the point of view of sovereignty, nation-states have been weakened, since authority in some fields has been transferred to the level of joint EU regulation. If that were not the case, some states would not have the opportunity to extend their governing powers so strongly into other states' domain. You win some and you lose some. States have suffered total losses only in fields such as currency policy, which have been completely outsourced. But in light of the political calculations that prompted it, that decision was a sensible long-term

investment just because of the other advantages to be gained by standardization.

NG/FH: So the earlier elements of statehood such as the ability to impose or implement rules are not lost; they are simply being parceled out to different levels – regional, global, or transnational. What does that imply for the idea of democratic control over the state's powers?

Leibfried: To be sure, the state's spheres of authority are still almost all intact, some of them actually in a variety of forms. There are only a few areas in which authority has been completely shifted. In most cases partial authority or framework-setting authority is reorganized. It is always open to interpretation to say how much of a given sphere of authority has been delegated away or what happens when such a delegation does not work out well (as in the case of the European crisis). What a state is or is not authorized to do is less straightforward in such cases than in classical federalism. The only thing is, there is no functional equivalent for nation-state democracy at the global or European level. There, we will have to reinvent or invent it *ex post facto*. There have been a few initiatives in that direction: the European Parliament, the European Commission's decision to systematically consult NGOs and seek outside expertise. But, unlike in the 19th century, there is no uniform, fully-elaborated notion of what constitutes democracy – we lack a precision instrument.

NG/FH: Therefore, democracy has to be reinvented because so much of the state's authority has been disentwined or de-concentrated. In what direction should we go to accomplish this?

Leibfried: The challenge here is twofold. Transnational state-subsystems have to be reconnected to national democracies, while democracy must first be introduced

into freestanding transnational systems. This is especially true of the world's regions for several reasons. First, it is to be expected that things can be done more easily there. Also, especially in the EU, regional institutional fulcrums have already been created that do not yet exist globally.

NG/FH: It is surely still true that the power of the state offers the only guarantee for basic rights. Now that statehood has been de-concentrated and dispersed, it is getting increasingly difficult to talk about the »sovereign state.« As a result the notion of »governance« is playing a more prominent role. Given the »transformation of the state,« can we still distinguish clearly between the state and state action on one hand, and governance on the other, i.e., the more general processes that regulate society?

Leibfried: In our special research field we have investigated »fraying« on four levels: the rule of law in the state; democracy; welfare, and resources. We wanted to find out whether internationalization preserves the substance of these institutions; that is, whether the law-governed state at the EU level really constitutes a functional equivalent for the legal protections formerly provided by the nation-state, and whether it guarantees the same things. In most cases it can be observed that the forms of the rule of law are preserved more emphatically and across a broader range now, especially where they had previously not been so broadly ensured. The reason for this is that when some countries had already adopted clear standards on a given matter, their standards are often the ones to be internationalized. From a comparative point of view, we in the EU have the easiest path to internationalization, since the great majority of EU states can refer to a common tradition of Roman law and a notion of the legal subject supported

by their religious traditions. Likewise, most of them share common welfare-state traditions: on average each EU country invests nearly a quarter of its GDP in the welfare state. Consequently, it is easier within the EU to transfer what they have in common to a new, higher level of state functions and administer it there. Without these shared traditions it is considerably more difficult on the global level to internationalize legal standards.

NG/FH: do you think, then, that that the concept of the state continues to be a meaningful category for analysis?

Leibfried: As long as we – along with the majority of the electorate – continue to abide by the principle of public responsibility for the *common* good and ascribe it to a particular institution, then yes.

NG/FH: What do the transformations of statehood imply for the role of democracy in the EU?

Leibfried: We did not have much trouble Europeanizing the rule of law. Everything involving mobility, as of capital and labor, has been arranged in far-reaching ways. A fiscal and economic union would necessitate a social union. Otherwise, since the former would be a purely technocratic bailout for one currency, it would lack legitimacy and be untenable. In the final analysis what is at stake here is human security, not security for banks. What we are having trouble doing is Europeanizing legitimation and democracy. For an EU democracy a European public sphere is indispensable, but it is still in its infancy. A European welfare state in the traditional sense is still not in place, but we do have an EU state that insists on equal treatment.

NG/FH: The American political scientist Vivien A. Schmidt says that the EU is »a

regional state.« This claim has provoked lively debate. The antithesis between EU statehood and national statehood does seem to be blurring. Will an entirely new network of state functions finally emerge at the European and national levels?

Leibfried: Let's take the United States for contrast, a country with the distinct advantage of being more linguistically and culturally homogeneous. To be sure, the national bureaucratic elites of Europe are closely affiliated with one another and constitute the dawning of a kind of European political class. But it lacks deep roots in the whole internal environment of Europe. The great linguistic and cultural differences among its members and lack of pressure from below are two reasons for this. Today it is no longer so urgently necessary to cooperate as it was in the immediate postwar years or during the Cold War. Looked at historically, Europe was founded as a means to counter the Soviet Empire. But now that it no longer has an adversary, it is beginning to encounter problems with its structural integrity. At this time the factors mobilizing the EU are more economic and technocratic than social and moral. Europe can only be a true regional state when it stands on both legs.

NG/FH: Is an entity that intertwines crucial state functions in such a diffuse manner on the national and international levels still capable of generating solidarity among its citizens?

Leibfried: Solidarity is also a matter of having an opposite number with well-defined characteristics. Europe is a bit reminiscent of the unstable German Empire of 1871 and its financial system. The individual German states diverted funds to the Federation according to some code or other, but the latter had no taxing power of its own. Regardless of whether we are talking about the mobilization of resources

or about their distribution, we never see who is financing whom: roundabout financing leads to roundabout politics. If we find the strength to furnish Europe with its own resource base and to formulate clear principles of solidarity according to region and class – and stay the course with all of that – then Europe can develop solidarity among its citizens that transcends nationalities. It will not work if it is just going to rely on deceptive packaging.

NG/FH: Is there any particular message that emerges from the results of your research?

Leibfried: The Treaty of Lisbon conveys the impression to many people that we are going to cooperate in a few »reserved areas« such as agricultural policy, but that in other matters nation-states will continue to be sovereign. The reality looks quite different: de facto we are much more deeply interdependent than ideological considerations would allow us to admit. It would be a much more obvious step to move toward greater integration of economic and social policy, which is now pending due to the crisis of the monetary union, than to dissolve the ties we already have, a vastly more troublesome and expensive operation. The countries presently in crisis in the south of the EU put the spotlight on four functional characteristics of the state which, more than any other, suddenly seem significant for Europe. These include: sensible budget management by nation-states, which would tolerate indebtedness only to a limited extent; a rational, Europe-based economic and investment policy; a social security policy to be re-insured by Europe; and a generally high level of capabilities on the part of national state-apparatuses. To help the countries in crisis get back on their feet, the EU needs to pursue a broad, multi-level therapy. A hit-or-miss policy will no longer be enough. ■

Thomas Meyer

State, Market, and Civil Society

The state, markets, and civil society form a kind of ideological troika, but one whose members are often irreconcilably hostile to one another. Although all three of them have their own justifications and strong points, none can be truly satisfactory all by itself. Social progress entails an ever-shifting, ever-renewed balance among all three of them.

The heritage of ideal types

For quite some time, the state, markets, and civil society offered ideal models for organizing and steering society. Each of them offered enticing prospects, but they were always at loggerheads with one another. And so they have remained for many people in the sciences, journalism, and politics, in spite of the sobering historical experiences we have assembled about each of them. Classical liberalism regarded the market as the ideal foundation for a free society, one which could therefore lay claim to nearly unlimited supremacy over the other two. By contrast, traditional social democracy considered the democratized state as the sole guarantor of the common good. Hence, as compared to the economy, the state counted as the higher-ranking institution, since it could set standards for the latter, create an orderly framework, and exert control over economic processes and outcomes. Although they have been weak in practice, cooperative organizations and syndicalist movements have been ever-present in theory and people's hopes over the past two centuries or so. Understood as the antipode of both the state and the market, a horizontally cooperating civil society of equals could claim to have the final say about what should happen in economic life.

The concrete interests which find expression in this ideological troika have at all times been concealed by fierce academic and ideological debates, frequently inextricably intermingled with one an-



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other. That was all the more likely to happen when the dominant social and economic interests behind these ideal models emerged into the clear light of history. What became apparent to all was the dominance of capitalist markets and the powerlessness of even democratically organized states to oppose them in the course of capitalist development.

The hallmark of libertarian theories of the state – and of their core element, neo-liberalism – has been their complete unwillingness to learn from experience, especially the enormous weight of evidence that self-regulating markets are prone to crises. Unimpressed by even the gravest of crises and sustained by powerful economic interests, libertarian theory still sees the market as the supreme organizational form of liberty. And, as such, it is supposedly entitled to claim the same sort of absolute pre-eminence in the economy as democracy does in the state. From Friedrich von Hayek to Robert Nozick, not to mention the journalistic and academic legions of their acolytes, the belief has persisted that the market is alone able to reconcile apparently opposed aims. It supposedly guarantees the harmony among

three elements: the unrestricted economic exercise of citizens' individual liberties, the greatest possible increase in prosperity for all, and the distribution of the fruits of affluence according to merit. That belief entails the conclusion that intervention by the state is always synonymous with an attack on civil liberty, no matter what crisis situations may be present. In this way, an ideology favored by those in power is able to immunize itself perfectly against all experience. Even when the market fails miserably and does grievous damage to some societal interests, it remains reliably protected by this formula of liberty, which is now granted the status of an absolute. It is also sustained by the unshakeable conviction that, even when it fails to live up to expectations, the market must have been the victim of others' misbehavior. Water-tight imperviousness to criticism such as we see here certainly deserves the label of market fundamentalism.

Market, State, and Civil society: the Pluses and Minuses

The fact that the market regularly suffers recurrent crises that bring about devastating social and political consequences demonstrates impressively that it will neither automatically operate in a harmonious fashion, nor produce miracles of perpetually successful self-regulation, as liberal theory promised it would. The scholar of culture, Joseph Vogl, has recently made a persuasive case (in *Das Gespenst des Kapitals*) that those powerful promises of liberal theory have never been anything but the hybris of teleological transcendence derived from doctrines of religious justification, now decked out in the garb of a supposedly precise science of national economy.

Of course neither experience nor arguments will serve to refute market fundamentalism as a public ideology, because

the will to believe in it flows from hard-boiled interests that are immune to both. It has gotten easier to maintain faith in market fundamentalism because one can always point to the collapse of its putative alternative, a planned, state-directed economy, and conclude that this unique – and notorious – oppositional scheme has vanished from history without a trace. In light of its disappearance, every attempt to promote the state's capacity to accomplish what the market cannot is brushed aside as not worthy of serious debate. That verdict is confirmed – albeit with somewhat better reasoning – in the case of the timid proposals tabled every now and then to dethrone king market by means of some sort of direct economic democracy complete with cooperative associations, a communal economy, and worker self-management.

In order to avoid slipping back into old, cherished illusions, we need to remind ourselves of the fact that, even into the 1980's, elements of European social democracy clung to their own brand of fundamentalism. It was a fundamentalism of the state, though one hedged in by democracy. It was an illusion that blithely survives in the Party of the Left and on the left fringe generally. Originally it consisted in the extravagant hope that a democratically legitimated state, continuously supervised by society and emancipated from all private interests, could not be anything but the embodiment of the common good, even in its role as director of the economy. Consequently, planning, public ownership, and public economy were seen as panaceas without any injurious side-effects upon sick markets.

The actors of social democracy paid a high price for the historical experiences and their implicit theoretical lessons, which taught them to know better. Step by step they cashed in their sanguine statism in favor of the recognition that each of the three available economic steering mecha-

nisms – state, market, and civil society – had its own potential advantages as well as unavoidable drawbacks. Hence, an undogmatic economic policy consistently attuned to the general welfare should offer a prudent combination of all three, open to revision through experience. In that way the deficiencies of each mechanism could be minimized and the socially desirable steering outcomes could be optimized.

Markets have powerful functional advantages, but serious drawbacks as well. This story has been told many times, but it keeps being forgotten. In light of their own functional logic, markets can only deliver what demand, i.e., effective purchasing power, asks them to. They are therefore blind to justice, the public goods that sustain the life of society, and the challenges of the future. And as long as they can rake in profits without being called to account, they are likewise deaf to their own externalities, especially the destruction of the ecological and social fabric that supports them. The logic of the market inevitably moves in destructive cycles, lurching from boom to bust. Left to its own self-regulation, the logic of the market tends to undermine the very principles upon which it is supposedly built: markets give way to monopolies and the accumulation of market power by oligopoly. In this way they overrule their own functional logic in the sectors where this occurs, either totally or partially. To this list of market failures, modern financial markets have added their own Dr. Caligari's cabinet of clever speculative instruments that have been unmasked as weapons of mass destruction by experts on financial markets.

Thus, self-regulating markets, the dream of neo-liberalism and its beneficiaries, turn out to be explosive charges laid at the foundations of civilization, at least if markets are left to their own devices. This is exactly how Karl Polanyi described them as he witnessed their historic failure du-

ring the economic crisis that began in the twenties of the previous century. Of course, it remains true that markets are far superior to either the state or civil society as institutions for satisfying private consumer preferences (at least ones generated autonomously) and ensuring the productive allocation of resources. But this is only the case as long as they remain imbedded in a dense matrix of social, cultural, and political correctives.

The State as Surety

We regularly underestimate how much of a contribution civil society makes to the optimal mix of economic steering mechanisms. Among the common misunderstandings here is the notion that the state has to be made responsible for everything and must arrange it all in accord with its own peculiar logic of action. In that case the state would act as a kind of surety or guarantor and be ultimately accountable for everything. However, when it comes to public goods, what really matters is whether they are actually available to all citizens or not. In fact, many of these goods can be provided by the activities of civil society or by a co-production between it and the state, especially in the social field.

Empirical studies have shown that the cooperation of state, market, and civil society elements in social service provision, e.g., for schools, culture, and elder care, has by now begun to play a significant role. The steering services of civil society become especially crucial in times of growing threats to our social and ecological lifeworlds, where they can help make economic activity more sustainable. That can be accomplished in a several ways. Civil society can sound an early warning when market effects threaten to damage the lifeworld; it can provide lobbying power against both the state and the market in favor of more effective controls on harm-

ful market forces; and it can act as a watchdog demanding that existing rules actually be followed and enforced. These are all services that can be provided in cooperation with the state and market rather than against them. Besides, civil society's agents are not omnipresent, nor can they always claim democratic legitimation. And we are here quite overlooking their »dark side« (the particular interests lurking behind them).

Only the democratic, law-governed state has a mandate from society to safeguard the common good as well as the obligation to secure the rights of all citizens. And it does have the means at hand to guarantee both. However, the state too has its own special functional drawbacks, and these set limits to what it can accomplish. These deficiencies lead to the recognition that even the state is not the best producer of everything that it has to guarantee.

Among its built-in defects we would have to include at least three. The state lacks the intrinsic complexity it would need to be able to steer a highly diversified economy and society in all its concrete particulars. Incentive structures are lacking

that would spur its actors to economize and invest in innovative ways. Finally, the state tends to pursue its own self-interest. The market and civil society can and must correct these deficiencies. Market coordination or solidarity-based civic action sometimes offers a better way to generate social, individual, or public goods. The optimal mix may indeed shift along with the times and the contexts. When this is the case the state's mandate from society actually requires it to step back and limit itself to creating frameworks and checking up on outcomes. These things it can do all the more effectively just because it has been conscientious about setting limits for itself.

What we need, then, is not more naive statism directed against markets. Instead we ought to favor a resourceful state able to carry out its ultimate surety function in favor of justice, social security, and ecological sustainability in cooperation with markets and civil society. This is the most effective alternative, not only to market fundamentalism, but also to the anarchists' dream of letting civil society seize power, although it is really the former that has spawned the latter all across the globe today. ■

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