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Global Inequality Exposed

INTERNATIONAL QUARTERLY EDITION

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Editorial

Inequality around the world, whether we are talking about the United States, Europe, or the planet as a whole, has assumed frightening dimensions. A tiny percentage of the super-rich have cornered the lion's share of wealth. In effect, they have appropriated the collective labor of entire societies, as the incomes of the bottom half stagnate or even fall. Not only does excessive inequality, democracy's great malady, undermine social cohesion, social trust, and the conviction among many people that the political and social elite is honest and fair; it also signals a flagrant breach of the promise of democracy: that everyone who works hard and plays by the rules has an equal chance to succeed. Exorbitant inequality is the bane of democratic culture, sapping its effectiveness and vitiating belief in its superiority. It slows economic growth and innovation, while degrading the precious social capital that is the lifeblood of civil society. Yet scholarly research confirms again and again that this profound evil is proceeding apace despite its harmful consequences. It is moving the social structure farther and farther away from its meritocratic foundations, in which differences of income and wealth should reflect the extent to which work and achievement serve the common interest rather than merely testifying to a person's skill at financial legerdemain. Today managers and financial wizards pay themselves salaries or bonuses that amount to 1,000 times as much as the average income of their ordinary employees. They do so despite the fact that, at the end of the day, their supposed achievements turn out to harm many other people. Under those circumstances capitalism evidently has cast aside the socially and democratically imposed restraints that have enabled it to appear, on the whole, a beneficial institution.



Prominent authors now talk about »feudal capitalism« – an alarm bell for all democrats. It is time for social democratic forces to rethink their positions and – as they once did during Europe's postwar golden years – reform themselves in order to turn those trends in the direction of greater justice and moral responsibility. In addition to some hardy perennial topics such as the dilemma of the EU, the articles in this volume will consider the challenges posed by inequality from a variety of perspectives.

Thomas Meyer

Thomas Meyer
Editor-in-Chief and Co-Publisher

A Conversation with Axel Schäfer

We will not get »another« Europe, but the one we have will be changed

In an interview with Thomas Meyer, Axel Schäfer, an SPD deputy in the Bundestag and expert on Europe, explains how the refugee question might affect the cohesion of the European Union and what role the European Neighborhood Policy (ENP) could play in this context.

NG/FH: Are the current refugee crisis and the way the EU is handling it causing the Union to disintegrate, fragment, or drift apart? Isn't too much trust being lost in this process, and aren't we frittering away too much solidarity, assuming that there was ever very much of it? Have things reached the point at which we can't easily imagine how the Union could ever come together again in the aftermath of the crisis?

Axel Schäfer: This is certainly the worst crisis since 1951, and it is occurring in the symbolically important year in which the European Coal and Steel Community turns 65. But two things speak against a breakup. For one, the European Union and the process of European integration are sustained by the regular collaboration of some 50,000 officials in the Community's institutions: parliamentary deputies, members of the Commission, members of the Council, the European Court of Justice, the Court of Auditors, all working together on a daily basis.

In addition, there is already an awareness that globalization is forcing us to relinquish some of our national sovereignty and share it with other member states if we expect to get anything accomplished. And I hope that, in light of the myriad decisions that must be made over and over again – from the TTIP to issues involving the European Neighborhood Policy – cohesion will be recreated at the same time as the community's values are being displayed.

But I certainly would not deny that the scenario you conjure up could become a reality, especially if we take as examples the upcoming referendum in Great Britain or the plebiscite scheduled to take place in Hungary. The central issue will be this: In case of a conflict, can the nation-state prevail against the community to which it belongs, or would it be better to look for compromises within the community?

NG/FH: But in your opinion no irreparable damage has been inflicted?

Schäfer: No, not yet. But if people do not see us moving forward on joint European solutions and of course putting them into practice within a fairly short period of time, then it is possible that we will be reduced once more to a strictly economic association, or that we will aspire to cooperation rather than integration.

NG/FH: In the wake of the crisis, most people have the impression that the EU will end up as a very different association than it was before, even if it does survive. The old spirit is gone, replaced by mistrust. Circumstances in the Union, for example in

Hungary and Poland, are moving in a direction that would have been almost impossible to imagine even just a few years ago.

Schäfer: Unfortunately, that is true. Nationalism has made a breakthrough in almost every EU country today, not to mention important neighboring countries such as Switzerland. The challenge now is to overcome this new nationalism not only by fine words, but by practical deeds done in a spirit of solidarity.

NG/FH: The March edition of *Frankfurter Hefte/Neue Gesellschaft* carried an article by the renowned historian Jürgen Kocka, who argued that Angela Merkel has put Germany on a »special path« (*Sonderweg*) with her refugee policy. And, he continues, history should have taught us that a special path leads to isolation and ruin. Kocka claims that this special path should be terminated immediately; otherwise, Germany's leadership role in Europe will suffer permanent damage.

Schäfer: In my view, a »special path« is the wrong concept to invoke here, considering the background of already-achieved European integration. As I see it, that term describes a situation in which Germany simply is not incorporated into Europe, understood as representing »the West.« So we have to be rather careful in our use of terminology. Therefore, I would prefer to say that Germany is in a situation in which it must take care not to become isolated.

This is a different approach from the one implied by the term »special path,« because problems in Germany automatically have an immediate impact on all of our neighbors and even beyond, due to the tight integration of Europe. But for now that is not the way in which the affected countries look at it. They think: if Germany manages to get matters arranged somehow, then that is the way things are going to be, and we don't have anything more to do with it. But that is not the case, since the problems Germany is addressing will catch up with the other countries eventually.

NG/FH: Aren't many of our neighbors already saying: »This is no longer leadership; it is more like paternalism, and we here in Europe will not put up with it anymore?«

Schäfer: In respect to the way the Greek debacle was handled, there really were many elements of paternalism. But now we are facing a different situation. No one is attempting to dictate anything to other countries. In contrast to the Greek crisis, we are trying to implement a policy that lacks effective instruments.

NG/FH: To have a forward-looking European refugee policy, it is crucial for us to counteract effectively the pressures that cause people to flee their countries of origin in the first place. As early as 2004 the EU adopted a European Neighborhood Policy (ENP). Is that going to help here? Or what is the meaning and purpose of this instrument?

Schäfer: The idea was to agree upon specific forms of cooperation on two fronts: namely, with six countries in Eastern and (in part) Central Europe and with ten others

in the Mediterranean region. So in all we are negotiating with 16 countries. And the ENP has advanced pretty far, although with reservations in the case of Libya. But meanwhile Mauritania has been brought on board as well. The goal was to find a particular form of cooperation, both in respect to government action and at the parliamentary level.

The background of the ENP involved both the fact that the Mediterranean region has long held a special position, and that there are countries on the territory of the former Soviet Union and in Eastern Europe of which one cannot say for sure whether they can, should, or even would want to join the EU. The EU is offering a special kind of cooperation to those countries. By doing so, the EU also wants to show that cooperation with these countries is not just a matter for their respective neighbors in the EU, but rather for all of Europe. The same is true, of course, for the Mediterranean area.

NG/FH: But another aspect of the policy was an effort to stabilize these countries. The European Union would help them to develop economically, but would also cooperate with them on projects involving culture and society, i.e. on the level of civil society. Is it working? What has been achieved?

Schäfer: In the Mediterranean Union so far, projects worth 500 million euros have been launched. That is certainly not much. But the limited scope of the projects does not primarily reflect any reluctance on the part of the EU. Rather it is a function of the situation in those neighboring countries: the limitations of their state capacity and capabilities of organization and action.

NG/FH: On the list of ENP states, one also finds countries such as Syria, Lebanon, and those of the Maghreb, all having a high refugee potential. If we could help stabilize them, that would be at least a step in the right direction of resolving the refugee problem. Are there any projects that offer promise of some palpable success on this front?

Schäfer: No, unfortunately not. But all of these countries are included in the EU strategy that is focused on combatting the causes of flight on one hand, and working toward stabilization of the refugees' countries of origin, on the other.

NG/FH: But isn't it already part of the EU's strategy to cooperate with these countries so as to foster stability and economic-social development, thereby reducing or eliminating the causes of flight?

Schäfer: Indeed, that is one of the central tasks of EU policy. It is also the rationale behind the special efforts we are making in Tunisia and Egypt. But in all of this there is of course the question of what programs we can set in motion that the governments there would want to participate in. There is just no other way to do it, and that remains a major obstacle.

NG/FH: So then what are the principal sources of resistance in these countries?



Schäfer: They vary. Either there is no functioning government or – if we look at developments in Egypt – the government is interested in other kinds of projects. And the joint will is lacking. Compared to other regions of the world, we are at least 100 years ahead in integration. Countries in the ENP program attach much more importance to national sovereignty than we do.

NG/FH: The European Neighborhood Policy does not just take place at the inter-governmental level and in EU institutions. How is cooperation with local civil societies and economic interest groups going in each of these countries?

Schäfer: The picture is quite diverse. It is important for us to operate on the parliamentary level too, so there can be cooperation among deputies. When it comes to the development of civil societies, Germany has a special tradition – e.g., with foundations closely associated with political parties that have offices almost everywhere in the world. But Africa, including its northern part, is not as much of a focal point as it actually should be when one considers its history and geography.

NG/FH: So we should not expect any short- or medium term relief from the ENP as far as the refugee problem is concerned?

Schäfer: It is not far enough along yet, even though Nicolas Sarkozy pushed hard for it in respect to the Mediterranean Union. In the beginning it really was successful, but that success has not been perpetuated.

NG/FH: Will the European Neighborhood Policy experience another boom now that the refugee crisis is upon us?

Schäfer: The question is: What can we achieve with the resources we have available, especially the personnel? I am convinced that it has to become more important again.

NG/FH: More than 20 years ago Peter Glotz coined the phrase, »Europe is trickling away.« Paul Magnette, who chairs the Socialist Party in the French-speaking part of Belgium, says Europe's major problem is that there have been two entirely different philosophies among the member states from the very beginning. There were those who said: »The market is enough. Anything beyond that is in principle an evil.« Then there were others who said: »The main goal of integration is for the member countries to grow together and eventually form a federation.« And these two philosophies are not moving closer to one another; now, in the midst of crisis, they are drawing ever farther apart.

Schäfer: All those, including from the social democratic spectrum, who have taken a pessimistic view of the European Union's future have been mistaken. In general, there has been only a single situation in which something went fundamentally wrong, and that was a long time ago: the European Defense Community of 1954. Perhaps one might also want to include the Norwegian people's decision to turn down the offer of membership. In the last analysis, everything else in this process – progress, treaty revisions, expansions – has been a success. Yet we don't remember that.

NG/FH: But that is no guarantee.

Schäfer: True, but we have been having this discussion since 1979, intensified by elections for the European Parliament, where the Labour Party, of all things, kept raising the objection: »Yes, but ...« I on the other hand am a proponent of the attitude: »Yes, and that's why ...« The idea of European unification and its embodiment in the EU has been the most successful attempt anywhere in the world since 1848 to regulate public affairs by close cooperation between countries. If one considers other examples of cooperation in the world, there are still no common institutions, no parliamentarism, very little coordination on the issue of finance, no legal community. The political left always has had a problem appreciating what has been accomplished.

As early as 1951 it already had become a challenge for European cooperation to find a compromise between the social market economy in Germany (although it was not yet called that) and the peculiarly French understanding of the state. But that challenge was met in the treaties and in everything else that was cast into law.

And people also said: »We don't want to reach agreement about how we will justify Europe.« The different approaches continue to exist. As Jean Monnet once said, »What is at stake here is the solidarity of the deed.« It is not a matter of standardizing the justification of Europe.

NG/FH: If we take a close look at the current situation, we might come away with the

impression that the old saw, »Europe is moving forward« – perhaps with difficulties and through crises, but in the end always forward – is dubious at this moment. Think of the British, the Hungarians, and the Poles. Already, we actually have a different Europe, one dominated by the idea that a lot has already been achieved and if we can just manage to secure the status quo half-decently, that would be good enough. Maybe we should be playing defense instead of offense?

Schäfer: I must demur on one point. We are not yet in a different Europe, but we are in another phase of European unification. On one hand, accession negotiations are ongoing, for example those with Serbia. There, things are moving along fairly well. For Serbia's prospects – indeed for those of the entire West Balkans region (mainly the former Yugoslavia) – 2019 will have extraordinary significance. On the other hand, we encounter growing nationalism, which broke through in 2014 in European elections. In those polls 25 % of the voters signaled that they did not want a different European policy, but instead were pinning their hopes on the destruction of the EU. And this year we may watch the dam burst on account of the refugee issue. Maybe we will prove ourselves incapable of action for the first time, because so many are unwilling to act.

A »different« Europe would mean reducing integration to cooperation. But, with some qualifications, the countervailing forces are stronger. So it will be a »changed« Europe.

NG/FH: In several countries of the EU, right-wing populists are already in control or under certain circumstances soon could be. So, two questions are in order. The first is whether refugee policy, the way in which refugees have been treated and the great numbers of those who are coming, is a principal catalyst of growing right-wing populism. And the second is whether right-wing populism can be rolled back in the foreseeable future, or whether it is now an increasingly permanent feature of the European Union.

Schäfer: I can answer the first question with a clear »no.« The breakthrough of right-wing populism came in 2014, when the refugee issue was not central at all. Nevertheless, the question does enable us to spot the contradictions. On one hand there are these 25 % of enemies of Europe, now represented in the European Parliament. On the other hand, for the first time we have an elected President of the European Commission, who was chosen in an electoral campaign managed by party families in almost all of the member states. In other words he took office by virtue of a supranational mandate. Thus, he was something like a »prime minister,« drawing his legitimacy from the Parliament rather than from the heads of state and government!

The process is independent of the drama of the refugee issue. Behind the latter lurks nationalist politics, and that is a reason why I am a bit more cautious about right-wing populism. And, as distinct from patriotism, nationalism always entails hatred of others. When we think about the Hungarian plebiscite in April (or the Swiss plebiscite recently), we have to ask ourselves: Are we really still part of an international community under the rule of law, or has the national popular will come to domi-

nate everything else? Can we throw »foreigners« out, just because the populace wants to, or is the United Nations Charter still in force? Do we still have a European Court of Human Rights or not?

And that will be the decisive issue: Will our understanding regress, as it were, back toward Carl Schmitt, for whom national sovereignty means that the leader has the authority to declare a »state of exception?« Or will the judgment of Joschka Fischer prevail, that the most important national interest is European unification? Can we build a general consensus that we no longer can solve certain problems on our own, but we can solve them in and with the EU by sharing and jointly exercising sovereignty? Or will we witness the triumph of the nationalists who want us to believe that we are ceding sovereignty to an anonymous institution in Brussels?

NG/FH: Is it possible to imagine that Germany and Angela Merkel might again play a leading role in the unification process of the European Union after the last few months or even year of isolation into which Germany has fallen, and after all the controversy and barbed criticism that has been directed at this country? If not, then who should assume that role? This question is important because, if the 28 member states are not led in a credibly democratic and fiduciary spirit, it is hard to imagine how the European Union as a whole can be kept intact over time.

Schäfer: To be candid, I cannot rule anything out at this point, because Germany will not cease being important after all the summits are over, due to its central geographic position, as well as the size of its population, economic power, growth rates, and tax revenues. For that reason, the current situation is not fundamentally different. A part of it has to do with the debate over Greece, which was led by Mr. Schäuble, and in which the majority of the finance ministers favored a Grexit. For all intents and purposes they wanted to force a country out of the EU, a move that was stymied, thank God, by the European social democrats and Mrs. Merkel.

In the refugee crisis the other countries are needed in very different ways, and then the question arises of who could assume the leadership responsibility. Most people think it should be Germany-France. Maybe the best answer would be the Weimar Triangle of Germany-France-Poland. But who else could rise to the occasion? Great Britain is already halfway out; Italy does have a successful prime minister – a Christian Democrat in the bargain – but is not in shape to take on such a responsibility due to its economic situation. That country has been suffering through economic stagnation for too long already.

So in the end, leadership means that all participants come to an agreement. But on the other hand, leadership also means that EU Community institutions play a crucial role. So do Donald Tusk, Jean-Claude Juncker, and Martin Schulz – on account of the Community institutions they represent – have enough weight in their own right to be able to exercise political leadership in a way similar to what they did in the European elections? If not, then the election of the Commission President by the Parliament, in effect against the resistance of the heads of government, in hindsight would prove to be little more than a flash in the pan.

Sarah Wohlfeld

A Promise Not Kept

EU Expansion in the Western Balkans

After the breakup of Yugoslavia and the cessation of armed ethnic conflict there in the Nineties, hopes were high both in those war- and poverty-plagued nations and in the European Union and its member states that a rapid expansion of the EU would bring lasting stability to the region. In Council summit meetings of European heads of state and government held in Feira in 2000 and then in Thessaloniki in 2003, the principals made it abundantly clear that the »future of the »Western Balkans« should be with the EU.« The concept of the Western Balkans, invented by the EU to designate candidate-members in the region, includes the successor states of Yugoslavia minus Slovenia but plus Albania. Ever since then, international actors of every stripe have been repeating and reaffirming that promise each time an opportunity presents itself.

Few enthusiastic advocates of a new round of expansion

In fact, the process of expansion is sputtering. Through its Stabilization and Association Process (SAP), the EU has created an institutional framework that sets economic targets for the Western Balkan countries and evaluates their progress toward meeting them. Yet aside from the Western Balkans' supposedly »exceptional case,« Croatia, which followed Slovenia into the EU, the rest of the countries in the region have ended up in a seemingly interminable waiting line for accession. The EU's accession process and the conditionality associated with it long were viewed as a panacea for democratic consolidation and economic recovery in the immediate neighborhood. But at least since Romania and Bulgaria joined in 2007, if not before, expansion-weariness has begun to set in. As was previously the case in Romania and Bulgaria, much work remains to be done in combating corruption and establishing the rule of law. Moreover, the economies of both countries continue to lag behind EU levels nine years after their accession. Political considerations dominated the decision to allow those countries to join the Union. In hindsight many observers would consider their accession premature.

Even though critical commentary in the wake of Croatia's accession (a country that already had to meet stricter criteria) was less harsh, in the EU there are few enthusiastic advocates of a new round of expansion. In addition, anti-democratic trends may be seen in what were once deemed »model pupils« of European integration such as Hungary and, more recently, Poland. Democratization via European integration is looking much less sustainable and irrevocable than it once was thought to be. But above all, for some years now the EU has been a more inward-looking association than it once was. The financial, economic, and sovereign debt crises as well as the possible departures of member states (Brexit and Grexit) in the near future have taxed the resources and energy of the EU to the breaking point. In this situation, national governments have not seen much to be gained in domestic politics by pursuing a proactive expansion policy. As long as the Western Balkans remained more or less

peaceful and there was no reason to fear a flare-up of conflicts in the immediate future, the whole issue dropped toward the bottom of the EU's political agenda. However, without a tangible prospect of EU membership the region stands to become less stable, while the process of transformation loses its momentum. There are indications that several rather worrisome trends, such as the unrest in Macedonia in early 2015 or the political paralysis in Bosnia-Herzegovina, may stimulate deeper engagement on the part of the EU. Yet it took the European refugee crisis and the role of the Western Balkan nations as countries of origin and transit for migrants to refocus public attention on the region.

The role of the Western Balkans in the refugee crisis

Since the beginning of 2015 the countries of the Western Balkans have turned up in the headlines more frequently than before. Not only that: The EU and its member states once again have begun to pay more attention to the region, especially its role in managing the refugee crisis. Initial signs of a renewed focus on the Western Balkans came to light in the first six months of 2015, when concern about the rapidly rising numbers of asylum seekers from Kosovo, Albania, and Serbia dominated public debates, particularly in Germany. One immediate outcome of those events was that, last October, Albania, Montenegro, and Kosovo were added to the list of secure countries of origin, alongside Serbia, Bosnia-Herzegovina, and Macedonia. Since mid-2015 the number of asylum seekers from the Western Balkans has shown a marked decline, especially since information about the dim prospects for successful asylum decisions has quickly made the rounds in informal (social) networks in those countries. Currently, the region has been in the spotlight more as a transit route for those fleeing from Syria, Afghanistan, and Iraq than as a source of asylum seekers.

At first, the so-called Balkan route led from Greece via Macedonia to Serbia, Hungary, and then farther north. But this route was almost completely closed by the construction of Hungary's border fence in the autumn of 2015. As an alternative most refugees then opted to travel from Serbia through Croatia, with Germany as their final destination. However, Austria's decision to impose upper limits on refugee numbers as well as daily admission quotas has now practically blocked off this route as well. Slovenia, Croatia, Macedonia, and Serbia have followed Austria's example, thus leaving thousands of refugees stuck in crisis-ridden Greece. As a result professional people-smugglers have had a field day, as they seek out alternative routes. In Albania an increase in the number of refugees already has been noted. It is becoming clear that border closures can stem the tide of refugee movements only to a limited extent, and that the Western Balkan countries unquestionably will have to be included in any type of crisis management. Developments over the past few months have shown how quickly conflicts among nations in the region can flare up. The temporary closure by the Croatian government of its border with Serbia in October, 2015, provoked intense verbal sparring between the two countries, carried on partly in the media. Only intervention and mediation by the EU may have prevented an escalation of their war of words. The recently-orchestrated border closure

has led to a marked decrease in the number of refugees in Macedonia, Serbia, and Croatia and calmed the situation on the ground; nevertheless, conditions are far from stable. A number of questions remain unanswered, including the fate of refugees stranded in Greece and how more intensive use of the route via Albania will affect the region.

The heads of state and government in the Western Balkans understand their crucial role in the refugee crisis. Serbia, especially, tried to score points in Brussels with its constructive behavior when the initial wave of refugees began to overwhelm south-eastern Europe. Alluding to its neighbor, Hungary, Prime Minister Aleksandar Vucic declared repeatedly that Serbia's humane treatment of the refugees revealed a more »European« kind of conduct than that of some EU member states. Border closures in the Western Balkans and particularly Macedonia's rigid policies have provoked harsh criticism, not just from Greece – which has fraught relations with Macedonia on account of quarrels over its name – but even and especially from Germany. As far as the judgments about border closures are concerned, one can discern in them the rift that has divided Europe ever since the crisis began. At the same time it has become obvious that the Western Balkans – not on the periphery but in the middle of Europe – must be engaged in the ongoing negotiations to avoid destabilizing the region and prevent a deeper schism within Europe.

EU prospects as the key to democratic consolidation

Although the EU has started to pay more heed to developments in the Western Balkans, it is questionable whether that will breathe new life into the expansion process as well. For one thing, the EU as a whole lacks a uniform strategy for dealing with the refugee crisis. Internal differences concerning the basic thrust of asylum policy threaten to derail the entire project of European unification. Meanwhile, the threat of a Brexit has not yet been laid to rest. Because of such internal divisions in the EU, it seems unlikely that there will be sufficient political will among decision-makers in Brussels and the member states to usher new countries down the path to membership. In fact, the chaotic conditions in the region reflect indecisiveness and disagreement in the EU itself.

More importantly, in spite of the renewed attention paid to Western Balkan countries and their inclusion in talks intended to resolve the refugee crisis, one should not expect significant progress in the expansion process anytime soon. Since 2014 Albania has enjoyed EU-candidate status, yet the catalogue of reforms it must accomplish remains daunting, and still no date has been set for the beginning of accession talks. Bosnia-Herzegovina is widely held to be a »fragile state« with an uncertain future. The recent German-British initiative that led to the signing of a Pact of Stabilization and Association between it and the EU should not mislead anyone about the country's prospects. As before, Kosovo still is not considered an independent country by five of the EU states, and up to now that has provided a purely formal reason for keeping it out of the Union. Macedonia's candidacy is still blocked permanently by its quarrel with Greece over the country's name. Once the »tiger country« of the Western Balkans, Macedonia has endured ten years of semi-autocratic rule under

Premier Nikola Gruevski, which resulted in a government crisis last year and left Macedonia as Europe's problem child. To be sure, Montenegro and Serbia are negotiating their entry into the EU, but that is a highly technical process which will still take many years. That will be the case especially since Europe has had some negative experiences in the past concerning the rule of law in member countries and thus is determined to scrutinize the so-called »track records« of candidate members more closely. Henceforth it will not be enough for candidate countries just to pass laws demanded by the EU. The EU Commission will now observe and evaluate more carefully whether those laws have been successfully implemented. In line with the modified EU expansion strategy known by the motto »fundamentals first,« crucial problem-areas such as the fight against corruption and the consolidation of human rights and the rule of law will be put on the agenda at the very beginning of accession talks. Standards are quite strict in these areas, and the need for reforms is particularly pressing. No one should expect rapid breakthroughs here.

The EU has to remain engaged

Despite or perhaps because of the fact that the situation has reached an impasse, the EU has to remain engaged. Initiatives such as the Berlin process are a step in the right direction. That process was launched in the German capital with an August, 2014, conference on the Western Balkans and then pursued in follow-up meetings in Vienna in 2015, with another scheduled for this year in Paris. The objective of these regular meetings is to bring together the heads of government of all the Western Balkan countries in order to strengthen regional cooperation and lay the groundwork for joint agreements about further progress toward membership in the EU. Moreover, the success of the talks between Serbia and Kosovo intended to normalize their relations may be attributed mainly to EU mediation. Both countries were intent on reaching agreement because they wished to remove any obstacles in the way of their rapprochement with the EU. The EU has a variety of means available for influencing affairs in the region that it should continue to employ. But it will have to tolerate often-protracted negotiations with national governments there. The important thing is that democratic consolidation should not be sacrificed for the sake of (superficial) stability. To counteract disappointment among the populace of the Western Balkan countries, the EU needs to step up efforts to communicate and explain clearly what is involved in the accession process, but without neglecting to enumerate the responsibilities of the national governments in the region. When all of the countries there can anticipate joining the EU, they are more likely to keep the peace in the Western Balkans. If that prospect loses too much of its luster, the consequences could be dire: a new wave of refugees from the Western Balkans driven by hopelessness and the likelihood of long-term fragile states in the middle of Europe.



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Joachim Poß

Many Questions Remain Unanswered

Justice and Growth through a crisis-proof Europe

We should not dismiss the possibility that Europe is in bad shape. Beneath the surface of the macroeconomic metrics supposed to indicate growth, the social and political difficulties introduced by the European debt crisis continue to simmer in many of the EU's member states. Populist forces are on the rise in a number of countries. We even have to worry that the next head of state in France might be named Marine Le Pen. Yet the leftist Greek party Syriza also caused a great deal of mischief in the first half of 2015. Although we have barely gotten over the European debt crisis, we are now about to face another, perhaps even tougher, test: how to deal with the many refugees who have come and continue to come to Europe.

Once again it has become apparent that European governments have trouble speaking with one voice. Nevertheless, although the refugee crisis has overshadowed everything else, economic issues have not lost their importance. Even now, we must continue to work on Europe's future and discuss the lessons that might be learned from last year's bailout in Greece. Furthermore, not long ago the International Monetary Fund emphatically reminded us that the risks to the global economy are multiplying. That is one of many reasons why we must do everything in our power to make our economic and currency union more crisis-proof. Considering how much ground populism has gained lately, it would be a mistake to take that movement lightly by neglecting overdue reforms. The EU's Five Presidents' Report should be our road map for doing so.

This paper presents a strategic approach with two phases. I think that, in order to regain the trust of the citizenry, we will first have to carry out some concrete measures. This is possible even within the current treaties. When citizens see that economic conditions are improving, and Europe shows that is dedicated to making things fairer, the trust-level of the populace will begin to rise.

As a first step, tax dumping in Europe must be opposed

A financial transactions tax is high on the list of the most vital tax policy measures awaiting enactment. Furthermore, I support the European Commission's plan to move forward with a consolidated, Europe-wide corporate tax. More concretely, it is high time to put an end to tax dumping in Europe. Therefore, we have to learn the proper lessons from the Luxleaks affair. We cannot have a »race to the bottom«-style competition among European countries vying to offer the lowest tax rates to big corporations. That would amount to a self-inflicted wound. The interpenetration of politics, administration, and the financial sector, as exemplified by the Luxleaks revelations, is unacceptable.

This is the reason that I was happy to see that the European Commission classified the tax practices of Belgium, Luxembourg, and the Netherlands as illegal government aid. In the future, it will no longer be possible to attract multinational corporations

like Fiat and Starbucks by offering them tax breaks in advance. To prevent that sort of thing, a decision was made to exchange information automatically about preliminary tax assessments. Let it be noted, though, that the Council watered down the Commission's proposal.

The next agenda item should be to implement the OECD project BEPS (Base Erosion Profit Shifting) in such a way that it does not encourage institutions such as so-called patent boxes (i.e., the option for a firm to have revenues from the distribution of licenses or use of patents taxed at a much lower rate than the regular one) that serve merely to facilitate tax evasion. The goal instead should be to curtail precisely these practices. Businesses and citizens must be taxed according to their economic capabilities. That principle must be honored if Europe is to be open to capital and people.

Confront inequality, strengthen investment, and improve the European Semester

The demand for a more »social« Europe is intertwined with the tax issue. But what does that imply? I would argue that, above all, we must confront growing inequality. Not only does inequality lead to social disruptions, it also vitiates the prospects for growth. It is socially and economically harmful and even dangerous. The first step in tackling inequality is to reinforce systems of social protection at the national level. And we must make sure that strong shoulders bear a heavier load than weaker ones, which will involve taking steps at the European level as well. By strengthening the eurozone and forestalling crises, we also combat associated phenomena such as unemployment and the loss of social services.

Another problem that must be addressed is the investment gap in Europe. Demand is insufficient on the continent, and there is a lack of both public and private investment. The crisis-ridden countries are lagging behind and need to be brought up to scratch. I am counting on the likelihood that the Juncker Plan, coupled with an appropriately flexible interpretation of the Stabilization and Association Pact, will deliver a perceptible boost to investment.

Finally, there is a broad consensus that the »European Semester« – i.e., the cycle in which the fiscal and economic policies of the member states are coordinated – must continue to improve. Toward that end a joint proposal has been introduced by SPD Chair Sigmar Gabriel and Finance Minister Wolfgang Schäuble. One objective must be to tighten the country-specific recommendations and anchor them more firmly in the member states. It is of crucial importance that social partners cooperate in designing these proposals so that, instead of ending up with impractical schemes that fill the drawers in ministries and parliaments, we pass reforms that represent genuine progress.

Once trust has been reestablished, the next step is to enhance Europe's capabilities. When citizens become aware that Europe can get things done, solve problems, and attend to justice as well, we can then devote our energies to upgrading its institutional structure. It would be best to lay the groundwork for the necessary reforms now in political debates. Ultimately, we come face to face with the question of what lessons to

learn from the European debt crisis, which has laid bare some glaring blunders in the construction of the monetary union.

Those who pin their hopes exclusively on rules, sanctions, and the market see free riders and moral hazard everywhere they look. For conservatives, fiscal union means, first and foremost, budgetary controls and a prohibition on the incurring of debt, even in times of crisis. It is certainly true that some member states are in need of reform. But isn't it precisely the European debt crisis, in the aftermath of the global financial meltdown, that shows how naive it is to try to run a monetary union by a system of rules alone and to rely overly much on the market? The mixture of deflation, slow growth, and high unemployment, which we have endured for many years, speaks volumes. So if rules alone will not suffice, then we also need shared institutions.

The creation of the eurozone has deprived the member states of the option of responding to economic problems by adjusting their interest and currency-exchange rates. In addition, by virtue of the Stabilization Pact, the Euro-Plus Pact, and the European Fiscal Compact, we have severely restricted the latitude for fiscal policy-making. Countries were no longer supposed to be able to pursue an excessively loose budgetary policy at the expense of the others, thereby increasing the risks for the eurozone. But in that case how can we expect the member states to emerge from recessions without the tools to do so? That is precisely the reason why, from the social democratic perspective, we need greater »communitarization« in the middle- and long-term. In the coming months we should discuss which instruments we want to consider for that purpose.

The Five Presidents' Report, the Gabriel-Macron Paper, the Merkel-Hollande Paper and other such documents discuss the options of instituting a eurozone budget, a European commissioner, a European unemployment insurance system, a European deposit insurance scheme, and a European chamber in the European Parliament. All of these proposals are politically explosive and in many cases would entail a transfer of responsibilities from the national to the European Union level. Nevertheless, the eurozone will not have a future unless we can refashion it so as to make it crisis-proof.

Are we expecting too much of monetary policy when we ask it to promote economic growth?

Monetary policy is designed for the entire eurozone, yet the economic situations of the member states are quite diverse. In that context, I would like to bring up a debate that has preoccupied us for years, but that was re-opened recently by the American economist and former government advisor Lawrence Summers. The point at issue is whether we are expecting too much of monetary policy when we ask it to promote economic growth. While monetary policy in Europe bears the main burden of stimulating the economy, fiscal policy is fixated upon consolidation. And even though the economic outlook for Europe is relatively favorable, current conditions scarcely can be described as good.

In its most recent World Economic Outlook report, the International Monetary Fund warns of growing risks to the global economy. In this low-interest-rate environ-

ment, there is an increasing appetite for risk in the financial markets. For example, Germany, Europe's economic locomotive, had an inflation rate of 0 % as of September, 2015. The deflationary spiral makes it more difficult for formerly crisis-plagued countries to adjust. But since a cheap money policy jeopardizes financial security in the long run and cannot generate sufficient growth, we need to supplement it with a more expansive fiscal policy.

More effective coordination among fiscal policies

To achieve that goal, our monetary union provides the option of coordinating fiscal policies more tightly, albeit in a decentralized way. Germany would be urged to invest more, while France, as usual, would have to consolidate more effectively. A fiscal council, as envisaged in the Five Presidents' Report, could fulfill this coordinating function. Or the function of a European fiscal policy could be exercised by a euro-treasury that would modulate boom-and-bust cycles across the eurozone. This would require the services of a European commissioner who would have a euro budget with borrowing rights at his or her disposal. A euro-treasury would imply further communitarization, something that people view with skepticism in Germany. On the other hand, the effectiveness of a decentralized version of coordination would be limited.

It is clear that we must decide between two alternatives. Do we want »risk-free stagnation« or would we rather help make the eurozone crisis-proof? We can regain the trust of our population in the European project by promoting greater justice and economic recovery. Both measures are necessary to prepare the way for a second step: developing Europe further and reshaping it in such a way that it will be more crisis-proof. Here, our main concern should not be to minimize the risks of potentially irresponsible national budgetary policies. We must also acknowledge that the lack of a communitarized European fiscal policy has already caused a great deal of harm.

Nevertheless, I reject the assertion that it was a mistake to bring in the euro. It has always been clear that European unification is a project that would not go forward without some problems. Yet it is equally true that the crucial mistake made during the first decade of this century was the failure to create the political corset necessary in a monetary union. The euro was the logical next step after the single market and the European monetary system. The new currency, in turn, calls for new answers. Some of these, such as the banking union, we have already found. The Five Presidents' Report is not the solution; instead, it is the initial salvo in a debate that now has become necessary.



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In the Great Dragon's Shadow

Climate change in Taiwan's political culture

The new Taiwanese President, Tsai Ing-wen, took office on May 20. Her triumph in the previous election reflects a social transformation that harbors the potential for greater conflict in the country's relations with the People's Republic of China.

Sensation! Landslide! Tsunami! No hyperbole was too extreme for the media both inside and outside Taiwan when Tsai Ing-wen was elected as the country's first female president last January with 56 % of the vote. For the first time, her Democratic Progressive Party (DPP) was able to win a majority in Parliament, while the once all-powerful Chinese People's Party (Kuomintang or KMT) suffered a historic defeat. Her election marks a profound reversal in power relations that was preceded by a long-percolating social transformation. Among the fascinating issues raised by the inauguration of Tsai's presidency is how this transformation will evolve in the future and affect relations between Taipei and Peking.

To begin, let us take a brief glance backward: 1996 was the first time that a president of Taiwan was directly and freely chosen by the people. The winner was the KMT candidate, Lee Teng-hui, who was born on Taiwan rather than in China, unlike most of his fellow party members. In the years after 1949, the birthplace of a candidate played an overwhelmingly important role in elections. In the aftermath of China's civil war, one-and-a-half million Chinese on the losing side, mainly soldiers and bureaucrats, fled to the island, which at that time had about four million inhabitants. The newcomers usurped power for themselves and began to re-educate the Taiwanese, who had been colonized for fifty years by arch-foe Japan, as Chinese. Chinese became the sole official language, while the southern dialect that was the mother tongue of most islanders, labeled as Taiwanese, was banished from public life. The so-called »white terror« lasted into the Eighties and imposed the death penalty on anyone who advocated the independence of Taiwan. Martial law was not lifted until 1987. At that time the political system was gradually liberalized and new parties were established, such as the DPP which emerged from the civil rights movement. Lee Teng-hui, who took over the leadership in 1996, came from the old power apparatus, but had a different mind-set. In a grand gesture he asked the Taiwanese people to forgive the long years of oppression and proclaimed a national holiday to commemorate the victims. In this climate it took only four years after the first free election for a democratic transfer of power to take place.

However, Chen Shui-bian, the candidate of the DDP and ex-mayor of Taipei, was able to win the presidency in 2000 only because the KMT was riven by internal power struggles and allowed two different candidates to run for that office. To many people it was a shock when Chen was elected with 39 % of the vote. The KMT loathed the Taiwanese-speaking tribune of the people, while Peking branded him a saboteur. His erratic ways even gave headaches to Taiwan's most important ally, the United States. Politically, the new president was stymied by the KMT majority in parliament, but he

was still able to make headway on some minor issues. Schoolbooks used to emphasize the continuity of the Chinese Republic from its founding in 1911, but henceforth they highlighted the development of Taiwanese democracy. Passports now added the word »Taiwan« to the country's official name »Republic of China.« The building in the heart of Taipei dedicated to the dictator Chiang Kai-Shek was rechristened the Democracy Memorial Hall, while the public space in front of it was renamed »Freedom Square.« It is highly symbolic of Chen's contentious heritage that the first renaming was swiftly reversed, whereas the second persists to this day. After his term in office was over, Chen himself was convicted of corruption, abuse of office, and money laundering and sentenced to life in prison. He was freed only last year due to ill health and allowed to receive medical treatment at home.

At first glance his presidency seems to have been a failure. Chen Shui-bian deepened the chasm separating the political camps. His successor, Ma Ying-jeou (KMT) won the 2008 presidential election even more handily than Tsai Ing-wen did on January 16, 2016. Ma's victory seemed to prove that the political rowdies from the DPP were finished, and that their politics of symbolism no longer had much appeal, because people expected solutions for concrete problems. When the smart, Harvard-educated Ma Ying-jeou assumed office, it seemed as if the political world had been put back in order. But matters were not so simple.

The true heritage of Chen Shui-bian must be sought in the generation that came of age between 2000 and 2008. Because they grew up in a democratic environment, the members of that generation had a less ideologically biased but more emotionally positive relationship to their own homeland. To call themselves Taiwanese does not imply any sort of protest on their part. It is something that, to them, is simply self-evident. The »Taiwan generation« only emerged as a public actor in the last three years, but did so in impressive fashion and with still unforeseeable consequences.

In July of 2013 a young draftee was brutally tortured to death by his superiors in the barracks. The case made major waves. In Taipei over 200,000 people took to the streets and demanded that politicians fix what was wrong with the army. It was striking to see so many young faces in the crowd. Six months later president Ma Ying-jeou wanted to push a trade deal with the People's Republic of China through parliament without any debate. A handful of students refused to play along and instead made the spontaneous decision to occupy the parliament. What ensued initially was a brutal assault by the police, followed by an even greater response by the populace. On March 30, 2014, in Taipei, a million people expressed their support for the occupiers. All of the television networks in the country covered the event live, as their leader, Lin Fei-fan taught the president a belated lesson in democracy. He gave the impression of being calm, unruffled, and almost disconcertingly confident as he made it clear in the final demonstration that you don't rule by decree in a democracy. In the weeks to come, students from all over the country streamed into Taipei and transformed the square that fronts the still-occupied parliament into a civic forum. The public agitation long since had ceased to be about the trade pact. Instead, the issue was once again what kind of country Taiwan is and wants to be. Civil society had been activated and drawn more and more citizens into its orbit.

In Taiwan there is a name for this new generation that offers insight into the climate change occurring in its political culture. *Tianrandu* refers to people to whom the idea of an independent Taiwan has become normal, regardless of exactly what meaning is attached to that term. Previously, anyone who advocated Taiwanese independence was branded as a *taidu-fenzi*, principally by those who believed that Taiwan is and always will remain a part of China. Even today, when the word is used by KMT politicians or communist cadres on the mainland, it carries the connotation that someone is a slightly addled, muddle-headed traitor to the fatherland. Any person who referred to him- or herself in that way did it with clenched fists and with the awareness that s/he belonged to a persecuted minority. But when young people call themselves *taidu-fenzi* today, they do so with an implicit addendum: What else could we be? For young Taiwanese their national identity is not based on the fact that the island belonged to the Chinese Empire in the nineteenth century. For them, Taiwan is the product of a development that has taken place over the last few decades, of which democracy represents the most important accomplishment. The outcome of the election of January 16 shows that, in the meantime, this conviction is now shared by a majority of the population. According to opinion polls, up to 80 % of Taiwanese would favor full (*de jure*) autonomy if they could be sure that Peking would permit it. Of course, that is inconceivable for the foreseeable future. What do these seismic shifts mean for Taiwanese politics?

Surprisingly little was said about relations with the island's giant neighbor in the weeks leading up to the election. Tsai Ing-wen's campaign attempted to win over the Taiwanese without overusing the mobilizing potential of anti-China rhetoric, as Chen Shui-bian and the »old« DPP surely would have done. Even after the election Tsai prefers to talk about low wages, high rents, and promoting domestic industry. She knows that one of the factors responsible for Chen Shui-bian's downfall was his habit of promising the independence camp more than he could deliver, not to mention that those promises antagonized Peking and annoyed Washington. By the same token, her immediate predecessor, Ma Ying-jeou, came to grief because his rapprochement with China did not bring the promised economic benefits, although it did anger the island's youth and irritate broad segments of the population.

There are three lessons here for the new president: She wants to stay close to the United States, keep her distance from China, and, on the domestic front, create a more just society with efficient institutions. As little as possible is to be said about independence, so that as much of it as possible can be achieved. This is a course that soberly factors in all circumstances and reflects the style of the new president. It rests on a tripod of hopes: that the USA will remain loyal to Taiwan so as not to jeopardize its status as the power that protects that Pacific; that China will tolerate political distance as long as trade relations flourish in the Taiwan Straits; and that the Taiwanese population is prepared to endure Peking's paternalism and threats if there are enough jobs and affordable housing.

For the moment this seems like a realistic program, and the president appears to be well advised to begin with jobs and housing. However, it remains to be seen how the scenario of »Taiwanization« outlined above might play out in the middle and long

term, and what pressures might arise from it for the political leadership. The movement known as »The New Force,« in which the Taiwan generation began to define itself politically, ran candidates for office in the last election and succeeded in winning some parliamentary seats. During the electoral campaign it made some deals with the DPP, but since the latter won such a convincing victory, it won't need any coalition partners. Consequently, The New Force will have to set its own priorities. One issue it might emphasize is the excessively generous pensions awarded to the traditional supporting cast of the system: the military, civil servants, and teachers. These pensions are paid at the expense of younger people and limit the financial leeway for reforms. Tsai Ing-wen still has not said concretely how she would approach this sensitive topic.

Nevertheless, on the domestic front the new administration will start out on the right foot. The KMT will need a long time to recover from the historic rout it suffered in the last election. On election night its candidate, Eric Chu, apologized to his supporters and claimed to have understood that only a radical internal reform would help their party get back on its feet again. If such a transformation should come about, it would be a long-overdue response to the realignment that has been going on in society for some time. But so far intra-party debates have merely laid bare the rift that runs through the party. While one faction demands that the KMT should open up and make itself more attractive to younger voters, the other calls for closer collaboration with the Communist Party on the mainland to prevent the island from drifting toward independence. Their demand shows that broad sections of the party have lost contact with developments in Taiwanese society. It is an especially ironic twist of history that, of all parties, the KMT's old Communist nemesis should now be seen as a potential ally.

For some time now Taiwan's maneuvering room in foreign policy-making has been rather minimal. That is one reason why the island relies mainly on the »soft power« of an open society in addition to its economic clout – a society in which an unmarried woman without potent family connections can be elected president. In a speech delivered in Houston last June, Tsai Ing-wen proclaimed: »Through its example Taiwan wants to make the spirit of democracy and freedom the new paradigm of Asian values.« Without mentioning independence, she highlighted the very thing that the ruling elite in Peking most fears: that their youth, too, might reject the dictum that democracy is not suited to China. On election night last January, Chinese social media hastened to block the keywords »election« and »Tsai Ing-wen« early in the evening. But anyone who read commentaries such as those from Hong Kong could sense that the Taiwanese example had broad appeal. One young woman posted, »When will we have that too?« as she listened to the victory speech of the newly elected president. The latter told her supporters that she had promised back in 2008 to change their tears into smiles, and that is exactly what had just happened. There were outbursts of jubilation and flags were waved. The young woman from Hong Kong wrote, »I am still crying.«



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Is Economic Democracy Obsolete in a Globalized Economy?

The notion of economic democracy sounds suspicious to economists. It conjures up images of bureaucratic decision-making procedures, inflexibility, and collective interest-representation, all of which economists consider obsolete, because they now seem incompatible with modern up-tempo economic activity and its global reach. If they are right, some firms – and indeed entire economies committed to economic democracy – would be condemned to fade away or perish in the age of digitalization and globalization.

But the reality on the ground in countries such as Germany flies in the face of these prejudices. There, firms exceeding a certain threshold size are required to institute co-determination either at the level of the firm or the individual plant, depending on the applicable set of regulations; yet these companies have been no less successful in global competition than those not subject to co-determination laws. Thus, sweeping judgments seem out of place here. There is no obvious reason to doubt that economic success can be compatible with elements of economic democracy in business corporations. So it may be worthwhile to take a closer look at the circumstances of the case and inquire whether the exigencies of economic life today may have condemned some elements of economic democracy to obsolescence.

For the sake of precision, it would seem reasonable for us to move beyond an excessively narrow concept of economic democracy. Such a concept comes in two versions: Either all economic decision-making in a firm would have to be democratic, or there might be broader processes of political democracy that prescribe to a firm what its decisions ought to be. This is not what we are talking about. We should take it for granted that economic decisions inevitably involve capital risk, and that circumstance must be reflected in the freedom of the firm to control its own resources. Nevertheless, the firm's freedom is not unlimited; instead, it is hedged in by obligations to the broader society. In the final analysis, a firm is obviously part of a society and thus subject to its norms and arrangements. The extent to which this fact affects the details of entrepreneurial decisions remains to be seen.

The crucial question is whether elements of economic democracy can still work successfully in a globalized and digitalized economy. To phrase that question more generally, is there any room under these conditions for moral values that transcend the quest for profitability?

The risks of economic activity

It is indisputable that economic decision-making involves the risk of capital. From this fact one can infer that firms have a right to control their capital expenditures. The latter principle, in turn, is based on the consideration that decisions made in full awareness of the risk to one's own resources ought to be optimal from both a micro- and macro-economic perspective. This makes perfect sense from the micro-economic standpoint. Entrepreneurial decisions presuppose that the decision-maker

weighs expectations of making a profit against the concomitant risk of losing capital. If, in this weighing of possible outcomes, it seems more likely that tidy profits will be made by producing a commodity or service, then capital will be expended for its production. But if the opposite outcome appears more likely, then the good or service in question will not be produced. There is no a priori way to insure that a given decision is correct. Production may generate losses, but by the same token the decision not to produce something may mean passing up an opportunity to earn a profit. Both outcomes are possible. Nevertheless, when the owner of capital weighs options in the manner outlined above, putting resources at risk, s/he is less likely to make a bad decision, and that eventually benefits the firm.

But risk-taking is also advantageous to the entire economy, since it means that the products consumers most desire are the ones that the economy ultimately will supply. Hence, an optimal expenditure of capital is attained. Scare capital will not be wasted pointlessly in producing goods that nobody wants.

What often gets overlooked in these arguments over the pros and cons of regulation is the fact that, in addition to the capital risk incurred by the owners of capital, there is also an employment risk for the firm's workforce. From an economic standpoint, that risk is usually just as existentially significant for them as is the risk of capital for the firm's owners. Poor decisions made on the capital side that endanger the firm impose additional burdens on the employees. From the regulatory standpoint, the sharing of risk implies the necessity of shared decision-making as well. This is one of the roots of German co-determination.

Furthermore, business corporations are a part of society. In many ways their decisions affect not only them, but also their economic and social environment. It is therefore not only legitimate but also desirable that society should regulate them and insure that its preferences will prevail over the firm's more parochial interests.

Thus, in contrast to a shareholder society, a democratic stakeholder society has to include in its decisions some factors that transcend property rights and/or display a more complex grasp of property rights in a democratic society. Its point of view includes the conviction that the fundamental rights associated with a democracy cannot simply be set aside in the economic sphere. Rather, the latter must be given due weight, while taking into account the risks involved.

Competitiveness versus democracy

From the neo-liberal perspective, such principles are incompatible with success in the marketplace, since only those decisions that follow from the logic of capital risk count as optimal. That conclusion is based on three considerations. First, the owners of capital, motivated by the fear of losing it, will recognize which decisions have the best prospect for success. In other words, they will make the best decisions because they have the best information. Second, if the workforce and its employment risks were to be taken into account, that would render decision-making more complicated procedurally and too slow for market conditions. Third, employees pursue different interests than do the owners of capital. In particular, they want higher wages or, when wages are set through collective bargaining agreements, they want to extract other

benefits from the firm's returns. No matter which outcome turns out to be the case, it will diminish the profits realized by the owners of capital and thus reduce their incentive to produce.

One conclusion follows directly from the above reasoning: One should expect firms that bestow rights upon their employees, e.g., German companies that practice co-determination, to be less profitable than comparable firms that do not. Moreover, firms located in countries with economic systems that do grant such employee rights would be expected to lag behind in global competition. Since they would likely lose out in the rivalry to offer companies attractive locations for their operations, they would want to avoid such competition altogether. So assuming that the reasoning outlined here is correct, firms that practice internal economic democracy would be jeopardizing their very economic survival.

But there are several fallacies that plague such reasoning. In the first place it idealizes the risking of capital as the factor most likely to guide optimal decision-making. In fact, larger firms generally tend to feature a divergence between the ownership of capital and the power to decide how it will be used, which falls to the company's management. For that reason, this allegedly ideal economic arrangement does not exist in many modern firms. As a rule, attempts are made to bridge the gap by tweaking the compensation packages offered to the firm's management by including the right kinds of incentives in it: i.e., ones contingent on the firm's profits. But this solution has drawbacks that are certainly far from trivial: the goals of a business enterprise generally are not only of a short-term nature, and therefore profits earned in the short run do not have a lot of predictive power about the firm's long-range prospects. Therefore, much more complex systems of incentives are typically used. The risks inherent in a system of compensation entirely dependent on profits emerged starkly in the financial sector. There, the capital risks taken by the banks and their investors in the run-up to the financial crisis were drastically increased by speculative short-term considerations.

The second serious fallacy lies in the claim that the productivity and thus the profitability of a firm are necessarily diminished when risks other than those on the capital side of the ledger are taken into account. But that is not the case, as has been evidenced especially by Germany's course of development. That country has neither indulged in excessive wage settlements nor has its competitiveness been vitiated by other, socially-motivated burdens. Of all the member states in the eurozone, Germany experienced the slowest rate of wage increases up until 2008. Since then, wage gains have exceeded the average, but only slightly. If one examines wage increases in the context of productivity gains, it turns out that the burden of labor costs in Germany has been relatively light. More generally, the export data confirm that the German economy has not suffered from competitiveness problems despite its web of regulations.

This fact may be explained by noting the hidden productivity potential of the multiple goals set by the firm. Employees who assume some responsibility for their company on account of co-determination policies approach their jobs with caution but still in a spirit of innovation due to the employment risks they would face if it failed. Many firms have long since discovered that a sense of responsibility on the part

of employees is a resource. But of course they try to harness that resource more fully to the goals for the sake of which they risk their capital by delegating economic responsibility and shifting economic risks to their employees. In this sense they make employee responsibility subservient to the objectives of capital risk.

The same logic holds true for social regulations. Firms that are leaders in coming to grips with value shifts in society have a competitive advantage. Ultimately, the brands they market will be stronger if they can be sold as »modern« in the sense of being in tune with prevailing social values. That, too, is something that businesses have already figured out. Today, products – especially consumer goods – are frequently linked to values that can be adapted to sales pitches. In some cases, though, the values at issue are ones that previously had been bitterly opposed by many of those same industries, such as environmental protection.

The upshot is that it is quite possible to combine democratic rights, moral values, and profitable production in the age of globalization. But that doesn't mean such efforts always will be credible or successful. Nevertheless, the expectations are there; it is the task of politics and civil society to live up to them.



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Morality, Rights, and Markets

The dominance of economic liberalism since the nineteenth century and of its more extreme version, the brand of market fundamentalism often labeled »neoliberalism,« recently has led to some problematic consequences. For one thing, in societies heavily influenced by these ideologies the notion gradually has taken hold that the sphere of the market, together with its characteristic logic of profit-making, constitutes a kind of extraterritorial precinct within the larger society. It is perceived to be a domain in which the moral laws of society are assigned a marginal role, at best, perhaps useful once work is over, but certainly not to be accorded any constitutive significance. Consequently, neoclassical economics behaves as if it is revealing the natural laws of economic activity just as physics brings to light those of nature itself. The implicit message of its revelations is: »We're sorry. Unfortunately, nothing can be done.« Businesspeople, interest group representatives, and most journalists who report on the economy share this odd world-view, treating it as simply self-evident. It is as though all of them, upon entering the battleground of the markets, were walking proudly through a gate bearing the inscription: »Here ends the world of social norms on morality and ethical conduct.« This viewpoint also has won over quite a few politicians: a libertarian image of the world stipulating that in economic matters the only

thing that counts is success measured in money: a slice of the societal world still in the state of nature.

Paradoxically, this world-view has its counterpart in an understanding of the market as the constitution of liberty. Accordingly, it claims an unconditional guarantee of autonomy for economic activity in much the same way that a law-governed democracy does for the common life of citizens in the state. On closer inspection, the liberal notion of freedom soon turns out to be synonymous with license. In fact, it leaves little scope for the norms of ethical behavior and solidarity. The liberal concept of freedom alone, so it is alleged, ensures that the beneficial logic of the market can work properly and give everyone his or her money's worth in the end, whether in respect to liberty or to prosperity. According to the eighteenth-century philosopher Bernard Mandeville, private vices (pure egoism) will automatically become public virtues (prosperity for all) through the market's invisible hand, if only it is allowed to operate without undue interference. This bourgeois utopia has been put into practice in its most radical form only very recently. It reached its zenith in the first decade of this century, especially with the arrival of the global financial crisis. The meltdown of the financial sector clearly and unambiguously refuted market fundamentalism on its own (economic) terms. Yet, remarkably enough, that crisis actually did neo-liberalism very little harm, since it has survived its own *de facto* demise in a strange sort of intellectual afterlife (Colin Crouch).

Two dangerous misconceptions

This market-centered ideology rests on two fundamental misconceptions, as has been demonstrated more than once during the past 150 years, much to the detriment of social welfare. One of these is historical and the other systematic. The historical misunderstanding involves a failure to recognize that economic activity and the structure of the market at all times have been embedded densely and inextricably in the social fabric of the society and have been in every respect the outcome of its acknowledged rules and regulations. The systematic misunderstanding comes to light when we observe what really happens when markets are granted unlimited dominion over society. The unanticipated and undesirable consequences are myriad: The freedom of many (perhaps most) people is reduced to an illusion, while inequality gets out of control; democracy and social cohesion are jeopardized; and the business cycle acquires a stranglehold on society and politics. Of course, the advocates of market fundamentalism trot out their standard excuse: They had been warning us all along that disruptive political interference in the sovereignty of markets ultimately would precipitate a crisis, and now that the crisis has in fact arrived, it confirms that they were right all along. But in the aftermath of the global financial meltdown of 2008, in which governments had to bail out banks with tax money, almost no one believes that canard anymore. Nevertheless, this excuse lives on as long as it can recruit powerful friends in influential interest groups, the media, and the political class.

So the one step that is long overdue, if possible before the next big crisis overtakes us, is to recall vividly two incontrovertible yet largely forgotten truths, ones on

which Jens Beckert has done some recent pioneering work. To begin with, the central dogma of market fundamentalism, according to which people always act with the exclusive goal of maximizing their own utility, has been thoroughly discredited on empirical grounds. In fact, human actions involve a variety of different motives, including ethical ones. Furthermore, markets and the individuals who embody them inevitably are saturated with social norms and habits on every level. Even today's celebration of egoism is merely a cultural norm that is itself open to question.

When markets are being organized (What can be traded and according to which rules?), when they are operating (How do the powerful decide?), and in their outcomes (How legitimate is the distribution? What is being withheld from society?) ethical norms are involved. Inevitably, there is a system of ethical life engaged every step of the way that *enables, accompanies, and limits* markets. However, that ethical system is perverted into its opposite when egoism is declared to be a law of nature. The great historical and cultural variation in the norms governing markets and their place in society offers proof of this observation. Indeed, such normative variety has not been completely obliterated even by neo-liberalism in present-day societies. No market anywhere would last even a day without a strong and reliable ethical order that establishes the conditions under which market exchanges can be carried out at all. For example, the ethical order regulates verbal agreements, promises made by oneself and others, valid contracts, respect for people and laws, a consensus on what should and should not count as a commodity, and above all it fosters mutual trust. In short, markets cannot endure unless society grants a minimum level of recognition to their processes and services. When these ethical prerequisites are missing, acquisitive action inevitably deteriorates into raiding. It turns out that even the egoism of private utility-maximization only works well when it is embedded in precisely that world of trust and reciprocity for which it has so much contempt.

Fundamental rights are valid everywhere

The principle of asocial maximization of utility, then, is alleged to constitute an exception (albeit a universal one) to ordinary ethical rules insofar as it describes human behavior in markets. But as we have seen, it is neither an anthropological nor an economic constant of nature; rather, it is little more than a cultural convention. Under pressure from trans-border markets and the neo-liberal musicians that accompany them, our societies only recently have acquiesced in the fallacy that such a convention reflects a deeper natural law. In other words, even if we instituted a quite different set of social rules, we could still have high-caliber competition and markets. Markets are nothing more than means (specialized techniques) for achieving sharply limited social objectives, and in the world we inhabit, those aims must be legitimized constantly by democratic procedures and universal, fundamental rights. As Otfried Höffe put it, such rights are mid-level principles of justice founded upon morality, but now rendered concrete enough to be of use in evaluating human conduct. In that context they become obligations as part of a shared code of moral conduct binding upon everyone and backed by sanctions. This is especially the case when it comes to economic life played out in the arena of markets. It is here, more than elsewhere, that

the appeal to fundamental rights and democratic procedures becomes urgent, because economic power can threaten those ethical principles as surely as can the unrestrained power of the state, particularly since the former is less often in the limelight and strikes people when they are most dependent.

Certainly, societies that institute markets cannot apply the same rules to them as they would for the state's decision-making process or cooperation in civil society – at least not if they want to achieve the twin objectives of providing the optimal supplies of goods and services and insuring that people have decent incomes. Competition needs space and scope to operate efficiently; yet that space is circumscribed. Its rules and goals must be socially defined, and its operations are not to be relieved of the obligations imposed by the validity of the fundamental rights enjoyed by all market participants in every position and situation. Those qualifications need not diminish productivity – at least not the kind that societies really desire. The creation of comprehensive social welfare states in Europe since the first great upheavals of capitalism offers clear evidence that restrictions on markets protect not only the lives, dignity, and well-being of the most vulnerable. They also preserve markets themselves from the inevitable self-destruction they would have suffered if they had been left to their own devices.

Markets always depend on the preliminary inputs, safeguards, supplementary services, and restrictions that law and morality impose. These are requirements that allow markets to function. The market cannot provide them itself, but it can surely destroy them if it switches from the role of society's servant to that of its master. History shows that self-regulating markets not only systematically violate crucial basic rights, but are plagued to a remarkable degree by problems that detract from their purely economic efficiency. In short, they display a self-destructive dynamic that is immanent in the systemic conditions of their own functional logic. Marx was right about this. Market failure, along with its devastating train of consequences for society's interests and values, is always the immediate outcome of the dominance of pure market logic. Markets tend to abolish themselves by ever-increasing concentration, blindness toward the future, untrammled inequality that endangers democracy and social solidarity, unemployment and poverty for many people, and severe damage to human labor and nature, fundamental values that are not really »commodities« at all.

A social Magna Charta

For all these reasons, the 1966 United Nations International Covenant on Economic, Social and Cultural Rights spelled out in detail the ways in which an economic and social order had to be constructed in order to respect fully the dignity of all human beings. Because by this time, after 200 years of experience with the capitalist form of economic activity, the most frequent and serious risks were quite well known, the list of fundamental rights was long and highly specific. They included: the right to work, just and favorable working conditions, the right to form labor unions, co-determination, gender equalization, wage fairness, paid vacations, a »decent living,« social security, free education, including even higher education, medical care, and the opportunity to participate in cultural life. To reduce all this to a lowest common denominator, universal basic rights call for an economic order embedded in an exten-

sive social and political framework (including co-determination) with strong labor unions, an encompassing social welfare state, and a free educational system designed to promote equal opportunity.

In sum, the ethical system that *enables*, *accompanies*, and *limits* markets, having emerged from the experience of the devastation wrought by »free markets« and »free« property in the means of production, is not merely a pious wish of the powerless. It is actually an aspect of the law currently in effect. It can be shown that the prerequisites of a market economy – those institutions that it cannot generate through its own actions but can doubtless destroy – include both an effective check on the market’s cultural sphere of influence and limits upon the destructive externalities that markets inflict on nature, humanity, and society. But that is not the end of the story. A broad palette of public goods accessible to all likewise must be made available, not least because it helps regenerate the social and moral infrastructure of society. These are precisely the institutions and services that the inherent functional logic of markets prevents them from delivering. Social and cultural rights are in part intended to secure just these prerequisites of the market. Such rights stipulate, among other things, that children and young people should benefit from an education committed to cultivating humane values. They also enjoin the participation of everyone in social and cultural life, regardless of their success and failure as market participants. By contrast, the colonization of culture and society by the logic of markets and their allegedly egoistic motivations (Jürgen Habermas) first destroys the conditions for a humane common life and then the markets themselves.

Immanuel Kant brought to light the origin and content of morality in the modern world. The rational, self-determined will acts according to norms that consistently insure that the equal worth of all human beings shall be protected. Fundamental rights are its direct expression: civic, political, and cultural rights for the common life of citizens within the state, and – often forgotten, repressed, or denied – social and economic rights for all persons before, during, and after their working lives. Fortunately, *homo economicus* is only a chimera, because he would balk at everything that fundamental rights enjoin. The latter instead refer to a kind of practical reason or morality that exists alongside of and superior to the optimization of acquisitive opportunities (which are certainly legitimate and necessary) and insists upon respect for the equal worth and rights of everyone. The Federal Republic’s Basic Law hit this particular nail on the head by stating that property carries obligations and its use should benefit the general public as well as the individual. It would be a good thing if managers and their academic instructors, the high priests of the financial markets, journalists who report on economic affairs, and many politicians would rediscover this kind of reason, before resentment against the consequences of the false understanding of rationality as private utility maximization causes society to fall apart.



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Global Inequality Exposed

At this year's World Economic Forum in Davos, a study presented by Oxfam lamented that »The richest 1% of the world own more than the rest of us combined.« That report is only one among numerous analyses of inequality in the distribution of income and wealth that have come out in recent years. Interest in such findings has increased markedly since the crisis in global financial markets. That fiasco not only revealed the disastrous consequences of poorly regulated and non-transparent global capital markets; it likewise showed their connection to the ever-more-unequal distribution of wealth and income.

For a long time it was strictly taboo in the field of economics to discuss issues of distribution. Distribution was regarded as a quasi-natural outcome of efficient markets that valued all goods and services optimally in terms of their utility to society. Hence – so it was believed – interference in market processes might jeopardize economic growth and prosperity. Accordingly, the so-called Washington Consensus, championed by large international organizations such as the International Monetary Fund (IMF), the World Bank, and the OECD, called for the deregulation of markets, especially for labor, and the dismantling of allegedly harmful redistributive public policies.

The left long has been critical of such one-sidedness in academic economics. As early as 2009, a book by Kate Pickett and Richard Wilkinson entitled *The Spirit Level: Why Equality is Better for Everyone* caught the public's attention. It is striking that even mainstream institutions have now raised the alarm. The OECD has published several reports on the subject, including one in 2011 called »Divided We Stand – Why Inequality Keeps Rising,« which shows that increasing inequality has blocked social mobility and kept the poor from benefiting from economic growth. In 2015 the OECD followed up with another analysis entitled »In It Together: Why Less Inequality Benefits All,« appealing for a more just distribution in the interests of everyone. Likewise, the IMF, which traditionally has had a more conventional mind-set, offered some surprising studies showing that redistribution can stimulate growth. Even the classically liberal *Economist* is worried about burgeoning inequality and has been devoting more space to the issue.

In 2013 still another book on inequality landed like a bombshell: Thomas Piketty's *Capital in the Twenty-First Century*. The author highlights the dramatic growth of global wealth from its low point in 1950, when its value accounted for 300% of world GDP, to today, when it has increased to 500% of global income and again is approaching the levels of 1910. He demonstrates that, as a rule, the returns yielded by very large fortunes have exceeded GDP growth rates, a trend that shifts the distribution of income even more in favor of the rich.

What, then, are the facts regarding the distribution of income and wealth? In most of the world's countries, inequality has increased. The most commonly used indicator of inequality is the Gini index, which ranges from zero (perfectly equal distribution) to 100 (all income goes to a single individual or household). One can also

express the degree of inequality as a coefficient, in which case it ranges from 0 to 1.0. During the last three decades the OECD average for the Gini index increased from 28.9 to 31.3. The world's largest economy, that of the United States, typifies the trend. It has the most unequal distribution among the developed, wealthy nations, with its Gini index having climbed from 34 to 41 since 1985. In Germany during that same period it increased from 25.1 to 29.1. It is also disquieting to note that there has been a sharp increase even in traditionally egalitarian countries such as Sweden (from 19.8 to 27.4). Only a handful of EU countries were able to buck the trend: namely, Belgium, the Netherlands, and France. In poorer countries inequality usually is even higher. For example, in Latin America and Africa it is common to find Gini values of 50 and 45, respectively. The good news is that, in a few countries such as Brazil, inequality has declined. In China, on the other hand, the number of people living in poverty indeed has fallen in the wake of that country's spectacular growth, but inequality has risen dramatically, with the Gini index there soaring from 33.5 to 53.6!

Because the Gini index is not very intuitive, many studies rely instead on quintile ratios, which represent the relationship between the income of the richest and poorest fifths of the population. For Sweden, the ratio between the top and bottom quintiles is 3.4; for Germany, around 5; for the USA, 8.4; and for China, 9.6.

All of these measurements describe the distribution of disposable income, i.e., income after taxes and including all transfer payments (welfare, pensions, unemployment benefits, etc.). The inequality of market incomes is still more extreme: by that standard the Gini values tend to be about 10 % higher. The USA comes in at around 45.3, Germany at 42 and Sweden at 38.8. Thus, redistribution via taxes and the social welfare system clearly reduces inequality considerably, although it does not do so everywhere. In many countries (e.g., Chile and South Korea) the differences are minimal; in exceptional cases they are even negative (Brazil).

Wealth is distributed much more unequally than incomes. In almost all countries, the Gini index for wealth exceeds 60, more than double the figure for income. In the case of Sweden it reaches 80.9, while for Germany it is 77.5; for the United States, 85; and for Russia, 91.2. At the upper end of the distribution scale the concentration of wealth is especially pronounced. The top 10 % often hold more than half of the entire wealth in a given country, while the top 1 % own half of that, and the richest 0.1 % half of that. Put differently, as we move up the rungs of the distribution ladder in this manner, the number of persons on each rung is just a tenth of that on the rung below, whereas the wealth owned as we move up is reduced only by half. Thus, wealth per person grows exponentially by a factor of five.

Global inequality is much higher than national inequality

The picture conveyed by these figures about the inequality of income and wealth within countries may be depressing, but it seems almost innocuous compared to those on global inequality. This is the case because one must add to the inequality of distribution within most countries the far greater inequality that exists between or among countries. After all, in the Global South more than a billion people continue to live on less than one euro per day, whereas in the rich countries the average person

may have as much as 50-100 euros daily. Branko Milanovic, a leading expert on the global distribution of income, put it this way: As a predictor of one's likely position on the global income pyramid, place of birth is even more important than class.

If one combines the two measures of distribution in order to illuminate the distribution between persons within a region such as Europe or the entire world, dramatic levels of inequality stand revealed. The richest 20 % of Europeans earn almost ten times as much as the poorest quintile, although this ratio is only five on average for EU member states. For the world as a whole, this factor is five times higher still. The income of the globally richest quintile is 50 times greater than that of the poorest fifth. If the richest fifth gave just 2 % of their income to the poorest, it would double their income, reducing global inequality by half. But the good news here is that global inequality has receded somewhat, mainly thanks to strong growth in the poor countries, especially in China. The decline in inequality among countries has more than compensated for its increase within countries.

The level of unequal distribution of wealth around the globe is even more scandalously high than is the case for incomes. The global Gini index for wealth distribution is 91 (comparable to the figure for Russia). The richest 10 % of the global population own 87.6 % of the world's wealth, and the richest one percent hold a bit more than 50 % of that. These statistics account for the hair-raising revelation by Oxfam that the richest 62 billionaires possess as much wealth as the poorest half of the world's population. In contrast to the trend for global income distribution, inequality across the globe has intensified in recent years.

Growing inequality has alarming consequences, many of which have been pointed out by Pickett and Wilkinson (see above). In his book, *The Price of Inequality* (2012), Joseph Stiglitz alludes to its negative impact on social mobility, growth, and democratic legitimacy. As already noted, the fact that inequality might lead to global stagnation and renewed financial crises also worries mainstream organizations like the OECD and IMF.

Politics is the principal culprit

In conclusion we need to shed light on two questions that any such investigation raises: who or what is the guilty party in the scandal and what can we do about it?

Admittedly, globalization and technological changes are partly to blame, but in the end politics is the principal culprit. During the last forty years, a series of political decisions systematically let the rich off the hook. Top tax brackets were reduced by half, corporate taxes were lowered, and taxes on wealth were eliminated. Meanwhile, the social welfare state was »streamlined,« and labor markets »liberalized.« All of this was justified by the claim that such policies would foster growth, create jobs, and shore up the foundations of the welfare state over the long haul. Many politicians really might have believed that to be true. But such hopes were the result of the discursive sovereignty of liberal theories that now ring hollow in the wake of the financial crisis. Moreover, when business interests spend three billion dollars a year on lobbying in the United States alone, those expenditures cannot help but influence discourses and politics.

Thus, the political system has paved the way for globalization and the digital transformation of capitalism, and in doing so has led to the deepening of inequality. Real wages are stagnating, and the share of national income accounted for by wages (the »wage share«) declined as wage dispersion increased. Top managers no longer earn 40 times more than their employees; they earn 400 times as much. Pop and sports stars cater to globally digitized markets governed by the »winner-takes-all« principle. Tax evasion is a perennial hit in global capitalism (see the Panama Papers). Politicians long have refused to act as a countervailing power against these tendencies.

Thus, the second question also has been answered: In order to combat inequality, the taxation of high incomes and wealth must be increased and the rights of workers strengthened. More needs to be invested in the education and health of the poorest citizens, while the state's efforts to redistribute income should be reformed and made more effective.



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