

A stylized world map composed of a grid of dots. Most dots are light gray, but several are colored red, notably in North America, Europe, and East Asia.

Elements of a Progressive Economic Policy

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January 2012

- These are testing times. The global economy is floundering. Whether the United States will manage a sustainable recovery hangs in the balance. What is more, united Europe finds itself plunged in a severe crisis, the worst since the foundation of the European Union. At the close of 2011, how this crisis will resolve itself – economically and socially – cannot be foreseen.
- The crisis we are currently experiencing has so many different elements: a financial crisis, a banking crisis, a growth crisis, a public debt crisis, but also a crisis of contemporary liberal capitalism. Perhaps worst of all, it is accompanied by a moral crisis. People's trust in what democracy can do is in profound crisis, especially the inability of democratic politics to assert itself against the financial markets.

Europe Stands at a Crossroads

At first glance, the situation seems paradoxical: the German economy has thrived in recent years, with solid growth and falling unemployment. Poland, too, and a number of other countries in northern and in central and eastern Europe have managed to come through relatively unscathed. However, those who believe that the worst is now behind us may be utterly deluded. A deterioration of the situation cannot be ruled out. Even in 1931 there were optimists who took the view, two years after »Black Friday«, that things were finally looking up. Sadly, they were wrong. It was only then that the crisis really got going. Then, the United States, under President Franklin D. Roosevelt, introduced the New Deal, an unprecedented – and successful – policy of state intervention that restored trust in democracy and its institutions. Germany and large parts of Europe struck out on a different path – and descended into fascism and war.

Historical analogies are never entirely apt. However, it is becoming ever clearer that we are heading towards a fork in the road, towards an »existential test«, as the *Financial Times Deutschland* put it. This concerns, on the one hand, the future of Europe and its common currency and, on the other hand, the future of our market economic system.

As early as May 2010 German Chancellor Angela Merkel warned: »Europe stands at a crossroads«. And she urged Europe to prove its mettle. That was almost eighteen months ago. In the meantime – after further rescue packages and bailouts, as well as countless crisis summits – doubts are multiplying about whether Europe is really proving itself in the crisis.

What is the decision that faces us? Poland's finance minister Jacek Rostowski said recently: »We have a choice between much more profound macroeconomic integration within the Eurozone – or its collapse. There is no third way.« This evaluation is correct. Piecemeal technocratic solutions are no longer enough. The disintegration of the European currency and the European Union would be terrible for all of us. If this is to be prevented the great step of European economic and financial union must be taken. But in that case, energetic action is needed in that direction. The crisis management agenda is clear: economic government, debt brake, transaction tax. What

Europe now needs in the crisis are courage and a clear commitment to continuing the European project. That also means that a European social union must be given equal status alongside economic and monetary union.

A Deep Crisis of Economic Liberalism

We have reached a crossroads, but also in another, much more far-reaching sense. The fact that recently even conservatives and long-time supporters of the »free market« have started to brood over whether this system has much of a future is to be welcomed from a social democratic standpoint. An article entitled »I'm starting to think the Left might actually be right« by influential British journalist (former editor of the conservative *Daily Telegraph*) Charles Moore recently made considerable waves. Moore was a faithful supporter of Margaret Thatcher and has even written her biography (to be published after her death). However, he wrote: »It has taken me more than 30 years as a journalist to ask myself this question, but this week I find that I must: is the Left right after all? You see, one of the great arguments of the Left is that what the Right calls »the free market« is actually a set-up.« Moore's answer is that, indeed, that's how it is: »It turns out – as the Left always claims – that a system purporting to advance the many has been perverted in order to enrich the few.« The people have lost their faith in the free market and Western democracy. »They have not yet, thank God, transferred their faith, as they did in the 1930s, to totalitarianism. They merely feel gloomy and suspicious. But they ask the simple question, »What's in it for me?«, and they do not hear a good answer.«

Good answers are not coming, at any rate, from those who brought about the shambles of »financial capitalism unleashed«. Today, the latter are helpless and disoriented. No one really wants to hear their remedies any more, as the catastrophic situation of the market-liberal FDP in Germany shows.

Social Democratic Answers

But does European social democracy have good answers of its own? Do we have ideas and guidance for a better and more sustainable economic policy? Are we now formulating a social democratic economic policy that is

clearly distinct from the failed economic liberalism, but which does not revert to the hackneyed left-wing dogmas of the past?

Democratic politics simply must take priority over the markets. This has been brought home to us again at least since the global financial crisis hit in 2008. We must therefore regain the power to shape things democratically. Certainly, politics is slower than the markets. However, at least in theory, it has the upper hand. In what follows, therefore, we shall try to briefly outline five economic policy guidelines or principles that progressives and social democrats can get on board with.

1. Progressive economic policy is a proactive, forward-looking policy

Progressive economic policy establishes incentives for companies to make future-oriented investments and invests in education/training, research and infrastructure. Today, qualifications and ability to innovate, social cohesion and high quality services of general interest are key components of a national economy that wants to attract business. We therefore need investment primarily in education/training, research and public infrastructure. This applies not only at the national level. For this purpose we also need a united and capable Europe. We will be successful in our individual states only if the EU as a capable global actor can successfully bind together the goals of the market economy, the welfare state and democracy.

2. For progressives, the economic and the social are not opposites

Economic success and social cohesion are two sides of the same coin. Economically, we cannot afford the exclusion of whole groups of the population from work, education/training and participation, not to mention nationalistic bigotry and a lack of openness to the world. Richard Florida's »three T's« capture this well: talent, tolerance and technology. These are the decisive ingredients that make societies successful in the era of the knowledge economy.

Politics, the economy, the workforce and society must – and can – all pull together for their mutual benefit. A basic consensus of economic actors is needed with regard

to all legitimate conflicts of interest when it comes to the key economic policy tasks and society's goals. Only in this way will we meet our need for skilled workers; go through with the energy transition; and obtain social consensus on the major infrastructure projects we need.

3. Progressive economic policy is based on sound and responsible financial policy

We need consolidation, investment and organisation. For that purpose we need a fiscal policy that supports a dynamic economy, enables the rehabilitation of public budgets and in this way creates more scope for future-related investments. There is no place for subsidising individual interest groups or for borrowing for the sake of tax reductions. Instead, progressive economic policy makes sure that all citizens and enterprises share in financing the state in accordance with their ability and, in return, that they can rely on the viability of the state. The SPD's Godesberg Programme of 1959 formulated the principle: »As much market as possible, as much state as necessary«. It still applies today. Progressive economic policy is committed to market economic principles and does not aspire to put everything in the hands of government. However, it also insists that markets need clear rules in order to function. If many citizens lose trust in the future viability of the existing economic, social and democratic order we have to take action. Otherwise, the economy, society and democracy will be endangered.

4. Progressive economic policy requires order in the markets

Markets should be organised in such a way that they serve national economies. To date, little progress has been made in this respect, either internationally, in the EU or in Germany. At the top of the political agenda, therefore, are the roles of the rating agencies, financial supervisory authorities and the fight against tax evasion and privileges, but also efforts to get the financial economy to share in the costs of dealing with the crisis by means of a financial transactions tax.

The required regulation also involves linking civil rights and liberties to social rights. Freedom means not only people's freedom with regard to the state, but also the social conditions that the state must put in place so

that people can live in self-determination. There must therefore be dependable insurance against life's major contingencies and opportunities for participation and access – for example, to education/training, work and health care.

Today it is clearer than ever that the welfare state does not represent an economic problem, but rather is a key component in the solution of economic problems. In particular in the economic crisis in Germany we have found out that the anti-cyclical mechanisms of the welfare state had a positive economic effect. US Nobel prizewinning economist Paul Krugman remarked recently that the European states with well developed welfare state systems have weathered the crisis much better economically than countries with only rudimentary social systems: »Sweden, with its famously high benefits, is a star performer, one of the few countries whose GDP is now higher than it was before the crisis. Meanwhile, before the crisis, »social expenditure« – spending on welfare-state programs – was *lower*, as a percentage of national income, in *all* of the nations now in trouble than in Germany, let alone Sweden.« This does not mean that existing welfare state structures are in no need of reform. We need a much more *preventive* social policy. This is not a social policy that intervenes only when children have already been deprived of crucial opportunities through lack of support or when young people have already left school. It is a policy that from the very outset prevents people from descending into long-term unemployment.

Progressive policy encompasses decent work, performance-related wages, a fair balance of interests, social security and codetermination and the right balance between social security and flexibility in the world of work. One problem here is developments on the labour market: the precarity which is growing even in Germany is causing enormous economic, financial and social harm. A fairer labour market would be characterised by minimum wages, measures against the misuse of agency and temporary work, but also the strengthening of responsible bargaining partners in the trade unions and employers' organisations.

5. Progressive economic policy aims at an intelligent policy mix

A sensible combination of supply- and demand-side policies is needed. We need international competitiveness *and* a strong domestic market, not a dogmatic fixation on one or the other. Europe's national economies will be able to maintain prosperity only if they continue to be successful on world markets with high quality industrial products, processes and services and, at the same time, boost domestic demand and the employment potential of the domestic market.

Germany's export successes in recent years also demonstrate something else. While other countries in Western Europe have relied primarily on services in recent years – particularly financial services – Germany has kept faith with industrial value creation. Today, it seems that this was the right decision. At the same time, countries in other parts of the world have caught up. For this reason a smart structural policy will also be needed in the future, centred on a secure and affordable energy supply; greater material, commodity and energy efficiency; an adequate supply of skilled workers; and a capacity to innovate.

However, strong domestic demand is also important. Decisive factors in this respect include minimum wages, a wage policy oriented towards productivity and a more intelligent tax and contribution policy. Finally, we need measures primarily to boost female labour force participation. In particular in the German domestic market there is great employment potential in industrial services, health care, care, education and training.

The Role of Regional Policy

The policies of Germany's Social Democratic Party try to do justice to the principles described, also at state level and, in European terms, at regional level. Naturally, an individual federal state within a member state of the European Union has no macroeconomic, fiscal or interest rate policy. The fundamental decisions are taken elsewhere. However, that does not mean that there are no important levers at the regional policy level. Here we shall look at two key strategic decisions that have significantly encouraged development in the Brandenburg region in recent years:

Brandenburg is focusing on concentration: since 2004 the state has abandoned a policy of promoting the economy based on the »watering can« principle and has switched to one based on the principle of »strengthening strengths«. The region is focusing on systematically building up existing spatial and sectoral strengths.

Brandenburg is trying to build up a globally competitive knowledge-based economy. Brandenburg is focusing systematically on innovation, green technology, modern energy and industry, science and research.

The region's economic and structural policy is in line with the strategic goals pursued by the EU in its Lisbon Strategy and 2020 Strategy. Brandenburg also owes its success to EU support – or more precisely, the farsighted way in which use has been made of EU funding possibilities. EU structural funds have contributed significantly to the economic upturn in Brandenburg (and the other eastern German regions). In January 2011, the European Commission honoured Brandenburg – together with Wales and Lithuania – as a »region of excellence«. Also this year Brandenburg was selected – together with Murcia in Spain and County Kerry in Ireland – as »European Entrepreneurial Region 2011« by the Committee

of the Regions. This distinction is intended to reward particularly dynamic and environmentally exemplary European regions.

Not Putting Europe at Risk

We are certainly proud of these honours. Mixed with pride at these successes, however, is worry that Europe could be recklessly and thoughtlessly endangered. Anyone keeping up with current affairs must realise that without Brussels, which is often dismissed so unthinkingly, we would not have come as far as we have over the past two decades.

Needless to say, the European Union is far from perfect and it is currently in a profound crisis. Furthermore, we have to do better in the future, in line with the progressive principles outlined here. However, anyone who pins their hopes on progress must first fight to ensure that we do not lose what we have already achieved and built in Europe. Many people would realise how much we stand to lose only when it was too late. We cannot let things get that far.



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Imprint

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Hiroshimastraße 28 | 10785 Berlin | Deutschland

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The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung or of the organization for which the author works.

This publication is printed on paper from sustainable forestry.



ISBN 978-3-86498-032-9