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Ways, Byways and Third Ways to a Social and Democratic Europe

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- European integration - not very social and even less democratic
- Europe's social democracy - only half-heartedly European
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Summary

1. The long-lived dominance of liberal (and conservative) policies and the one-sided emphasis on market integration have created a deficit of democratic control in Europe, particularly over market processes. The social role of the Union – full employment, social justice – is relatively underdeveloped in spite of certain amendments, above all since the 1997 Amsterdam Treaty. The more unsatisfactory the outcome of market-led development – i.e. rising unemployment, poverty and inequality – the more serious is this situation.

2. This development also reflects the relatively modest influence of European social democracy on the integration process. Its potential influence was undermined at the outset by strong Euroscepticism and divergent national priorities, whereby there were greater differences between the parties over "national policy" issues than over "class" issues (employment, distribution). The more power Social-Democrats have held nationally, the less they have co-operated at European level. This danger is also threatening the most recent attempt at a joint strategy, the "Third Way".

3. This joint strategy is however largely a fiction. For, as a result of their different structures, the individual Member States are affected differently by Europe's common crisis of mass unemployment and overstretched social policies. National anti-crisis strategies are equally diverse. Progress was visible everywhere in the late 1990s: virtually all countries brought down their unemployment figures, reduced their budget deficits and rolled back the State. The variety of methods used testifies to the scope still available for national policy-making, while at the same time exacerbating competition in the field of social and employment policy.

4. The overall context of social-democratic policies in Europe is modified by globalisation and enhanced integration

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(internal market, monetary union). Not only companies but their all-round social and political environments are entering into competition. Admittedly, the EU treaties long ago restricted competition between national policies, yet there is still a threat of a "race to the bottom", which is due to political perceptions and rhetoric rather than economic constraints.

5. A European welfare union must above all else allow scope for national growth and distribution policies, but must in addition complement these at European level where the national level is overstretched. Monetary and fiscal policy has already been Europeanised to a high degree. In order to achieve social justice, poorer regions must grow faster than the EU average and socially weaker population groups must have a larger share in prosperity. The central problem remains the trade-off between employment and income: this is where national divergences threaten the social consensus in Europe.

6. Given the differences in the nature of national problems, preferences and policies, a social-democratic strategy for Europe must combine scope for the individual players with guarantees that zero-sum games and "races to the bottom" will not occur. Because of their different conceptions of State and democracy, Europe's Social-Democrats find it difficult to harmonise their views on how to make integration more democratic. Rather than by central directives from Brussels, the process of reform must be guided by dialogue and networking among decision-makers and representatives of those concerned at all levels. Finally, a social and democratic Europe needs a critical public at all policy-making levels.

1. European integration – not very social and even less democratic

The conservative/liberal integration project

The **foundation and initial phase** of European integration was guided by ideas and individuals coming primarily from **conservative, Christian-democratic political circles**: Schuman, Adenauer, de Gaulle, de Gasperi (one exception: Spaak). What came much later to be dubbed the "democratic deficit" was in those days more of a yawning abyss. Moreover, it soon became clear that European law would take precedence over and could even overrule national law. The **Common Market** stood at the heart of the EEC; however it was not a neo-liberal end in itself, but a tool to preserve peace and freedom. In economic terms the Common Market was intended to achieve lasting, balanced growth. To this end it was embedded in strong sectoral policies (agriculture, energy, coal and steel) which could not in any sense be described as market-oriented.

The European market in the early EEC was anything but free.

Although **social considerations** were not central to integration, which was ultimately driven forward by the quest for peace, they do crop up at prominent points in the Treaty text ("economic and social progress", "constant improvement of the living and working conditions"). These aims were implemented through the Social Provisions chapter of the EEC Treaty (Art. 117-128), in particular the European Social Fund created therein and the Economic and Social Committee set up as an advisory body. Expenditure on the Social Fund, however, has represented only a modest proportion of the budget of the EEC and its successor organisations, the EC (European Communities) and EU (European Union).

The **growth phase of the 1960s** required relatively few social flanking measures. Structural change (above all the unprecedented contraction in agriculture) was cushioned by full employment. The EEC responded to this change by establishing in 1964 the structural part of its agricultural policy. At the same time the social expectations of the population mounted and were reflected in a **swing to the left**, which was not only accompanied by strikes and unrest but also strengthened social-democratic and left-wing movements (SPD government in Germany, Labour in the United Kingdom, the end of dictatorships in Greece, Spain and Portugal, Socialist election victory in France), which advocated the then more modern (Keynesian) economic policies. The EC's social problems changed **with the first enlargement taking in the UK, Denmark and Ireland in 1972**. The Regional Fund was established in 1975 in order to help reduce income disparities in the integrated area. This task became all the more important with the **accession of the relatively poor Mediterranean countries Greece, Spain and Portugal**, whose political influence strengthened the Community's redistribution policies. European democracy likewise took a significant step forward during this period: **the first direct elections to the European Parliament (1979)**.

Social-democratic influence in the 1970s was followed by the free-market trend of the 1980s.

The **phase of stagnation in the early 1980s**, characterised by sluggish growth and rising unemployment (three million jobs lost between 1981 and 1984), led to a **retreat from social-democratic beliefs**. Thatcher came to power in the UK, Kohl heralded a change of course in Germany and Mitterrand had to put an abrupt end to his experiment of "Keynesianism in one country". Europe appeared to be falling behind the USA and Japan; this was attributed by Conservatives to too much State and too little market. The next step towards integration, the **European internal market**, was designed to remedy that situation from **1986/87 onwards**. The central principle here was "mutual recognition" of regulations, which in actual fact introduced regulatory competition where no common standards were laid down. Yet here again the domination of Liberals and Conservatives was not complete; social concerns did also play a part (albeit a modest one) in European decision-making procedures. Thus, under pressure from the weaker Member States, the goal of "economic and social cohesion" was enshrined in the Treaties, and the regional policy reform of 1988 doubled the resources earmarked for the Structural Funds. Success was such that the free-marketeers appeared to be proved right. The second half of the 1980s brought growth and falling unemployment figures (the EU rate fell from 10% in 1985 to 7.7% in 1990). At the same time Euroenthusiasm among the population grew and reached a peak in 1990.

The **Treaty of Maastricht (1992)** took the deepening of Europe one stage further in a **biased bid for liberalisation**. Economic and monetary union, in particular the **single currency**, removed yet more barriers to market forces and expanded the room for manoeuvre above all of businesses and the wealthy. By contrast, the stability pact and the Maastricht criteria posed fresh constraints to an active economic policy. Nonetheless, the Structural Funds increased considerably as a proportion of the EU budget during the course of the 1990s, thanks to the establishment of the cohesion fund and **the accession of Austria, Sweden and Finland.** A Social Charter – only later endorsed by the United Kingdom – laid down certain fundamental social rights of workers, most of them however lying below national standards. The Parliament's role in EU decision-making procedures was also strengthened.

The early 1990s were notable for increasing unemployment, injustice and Euroscepticism.

Between 1992 and 1994 **unemployment**, which had fallen in the second half of the 1980s, rose from 7.7% in 1990 to around 11% by the mid 1990s, with the loss of five million jobs. **Income distribution** within the EU also worsened during the 1980s and 1990s. The adjusted wage share fell from around 75% on average in the 1970s to roughly 68% by the end of the 1990s. The **distribution** was further worsened by a shift of the tax burden onto the shoulders of labour, while capital enjoyed tax relief. Although some poor Member States, especially Ireland, did manage to catch up, the gap between Europe's poorest and richest regions remained largely unchanged. The citizens reacted with growing **Euroscepticism**: the proportion of those in favour of EU membership fell on average from over 70% in 1990 to under 50% in 1997.

The social-democratic change of course

All of this saddened and angered above all those sections of the population – namely the poor, wage-earners and recipients of social benefits threatened by cutbacks – generally regarded as the main backers of social democracy and its potential voters. Government budgets were

European integration reveals social and democratic deficits.

increasingly funded out of their taxes, even though their proportion of the national income was diminishing. Social-Democrats in fact won parliamentary elections between 1993 and 1998 in Denmark, Germany, Finland, France, Greece, the UK, Italy, Portugal and Sweden. **Power changed hands** in the opposite direction only in Spain (1996), Ireland (1997) and Austria (2000), while in the other countries (Netherlands, Belgium, Luxembourg) the Social-Democrats remained in office continuously.

The **Social-Democrats' resurgence** in Europe was also reflected in the Amsterdam Treaty, which made the first corrections to the liberal model. The Labour Party's victory and the new Blair government meant that the United Kingdom too now accepted the Social Charter, and the Charter was incorporated into the new Treaty. Furthermore, the social partners now have the option of drawing up binding regulations at their own initiative. A new chapter on employment gave the Union special responsibility for the labour market. Employment guidelines were laid down at the 1997 "Jobs Summit" in Luxembourg, and the Commission and Council announced several employment policy initiatives at the next few summits. Similarly, "democratisation" of the Union made some headway: the Parliament's powers were further extended, EU citizenship was introduced and the Treaty provides for suspension of an EU country's membership if that country seriously infringes human rights. The full effects of this social-democratic change of course have yet to be felt. Whereas the economic situation has improved (cf. Table 5, p. 11) and the EU's approval rating has risen slightly, the underlying crisis has by no means been overcome yet.

The late 1990s brought Social-Democrats to power in almost all Member States.

Market liberalisation takes precedence over policy harmonisation.

Despite these changes at the end of the decade, the current state of affairs in the Union can be described as **only moderately social and democratic**. At its core it is a market-led exercise in liberalisation which is not embedded in a governmental framework. Public policies beyond the nation-state are based on intergovernmental Treaties and in all important fields require authorisation from the Council, which – although it is composed of representatives of democratically elected governments – is not itself elected. Members of the EU Commission are likewise appointed, albeit under Parliament's scrutiny and with the possibility of dismissal. From the perspective of EU citizens, the Union's decision-making procedure is subject to very little democratic political control. Indeed, this often enables their own elected governments to abdicate from their political responsibilities, by pointing to European requirements and constraints.

When all is said and done, the social component of the integration exercise remains similarly modest. The body of Union law, the *acquis communautaire*, is intended to consolidate the internal market. The social consequences must be borne by the Member States and their local authorities, which – especially in the monetary union – feel compelled to cut costs in order to compete with other locations. Therefore the **Union's weakness in the social policy sphere** is without doubt attributable much less to an aversion of the EU institutions to a European social model than to the reluctance of individual Member States (first and foremost the United Kingdom, but often Germany too) to attach greater importance to social policy in general and at EU level in particular. Redistribution (transfer payments) is most likely to take place between States which use their political influence to economic and financial ends.

As a specific manifestation of globalisation, EU integration shares its asymmetry: increasing freedom in society – especially for people who are mobile, powerful and rich – through **market liberalisation**, without at the same time internationalising governmental and State structures. Admittedly, the incipient European suprastate (or, rather, its multi-layer policies) allows for a good deal more political influence over market processes than does any comparable institution of global governance (IMF, WTO, ILO, World Bank, etc.) over the international economy, but then again liberalisation on the internal market of Euroland goes much further. Ultimately what prevails is "negative integration", with integrated markets and differentiated policies.

2. Europe's social democracy – only half-heartedly European

Apart from the trade unions, **Europe's social-democratic parties** are the movements which could most readily be expected to lend both a social and a democratic dimension to European integration. Two factors have long stood in the way of such influence:

> The stronger the influence of social democracy on countries' national politics, the less keen it has been to shape the EU.

- left-wing **Euroscepticism** in the early days, and
- **national dissimilarities**, which make it difficult for all of Europe's social-democratic parties to harmonise their views and manifestos.

Thus it was that social democracy in Germany did not embrace the idea of integration until the Godesberg Programme – and even then only to a certain extent. The British Labour Party did not join the Party of European Socialists (PES) until years after the UK's accession to the EU. Wherever Social-Democrats have been able to achieve their aims (social justice, social democracy) in the domestic arena, they have taken exception to any restriction of this room for manoeuvre.

The relative interest in European co-operation shown by Social-Democrats during the period of conservative dominance declined markedly in the second half of the 1960s. The possibility of implementing their own policies nationally, now that they were in government, led to a **neglect of the European level**. Despite the formation of the PES in 1974, Europe's Social-Democrats were unable to agree on a common election manifesto for the first direct elections to the European Parliament in 1979. Only in the 1980s, when faced with the liberal revival in Europe, were they once again prepared to co-operate. But even in the 1990s Euroenthusiasm was less in evidence on the Left than among continental Liberals or Christian-Democrats. Only Conservatives (especially in Britain), and of course Communists and right-wing extremists, are appreciably more Eurosceptical than Social-Democrats.

> Apart from the aim of peace, the basic policy thrust of social democracy, dominated by societal concerns, contains few original ideas on either foreign or European policy.

What is more tenacious is the **diversity of social-democratic manifestos and policies**, which hampers European co-ordination. These reflect different national problems, levels of development, social and economic structures and also the traditional attitudes to Europe of national elites. A European policy is first and foremost a foreign policy. Apart from the aim of peace, the basic policy thrust of social democracy – geared to boosting prosperity and distributing it fairly – contains few original ideas on foreign policy, let alone on European policy. On key European policy issues concerning the EU's institutions and finances, as well as on many individual policies such as enlargement, **national attitudes prevail over party-political considerations.** This is borne out by an overview of social-democratic positions.

Even Social-Democrats are guided mainly by national concerns in matters of foreign and security policy.

The Table confirms some obvious assumptions: in the more Eurosceptical countries such as the UK or Denmark and in the new Member States Sweden and Finland (Austria being an exception), Social-Democrats tend to oppose a deepening of Europe along the lines of a federal State. This also ties in with a preference for unanimity in the Council, allowing for national vetoes blocking EU decisions. More common ground is apparent on the issue of parliamentary scrutiny, where almost all parties would like the European Parliament to have more power; at the same time, however, the Eurosceptical countries call for greater scrutiny by national parliaments. Whereas a majority of social-democratic parties would like **a more prominent role for the EU in social and labour market policy**, attitudes on foreign policy issues vary much more widely. They are all in favour of a Common Foreign and Security Policy (CFSP), but its specific orientation ranges from close links with NATO in the UK's case to calls for neutrality from the new Member States. Other contentious points include co-operation with the Organisation for Security and Co-operation in Europe (OSCE) and a merger with the Western European Uni-

Table 1: National social-democratic positions on the goals of European integration and reform of the EU institutions

Party	Finalité 1990-97	Functional extent of integration 1990-97	CFSP post-1992	Principles of institutional structure 1990-97	EU citizenship (1993-96)
SPD (Germany)	Constitution	Internal market, labour market policy, environmental policy, consumer protection, social policy	Pro CFSP, no merger with WEU, co-operation with OSCE	Two-chamber system, more QMV in Council, dual majority, more scrutiny by national parliaments, list of competences	Catalogue of basic rights, strengthen basic social rights
PSF (France)	Federation, constitution	Internal market, EMU, labour market policy, fiscal policy, energy policy, social policy	Pro CFSP, neutrality, merger with WEU	More power for Council, more QMV in Council, dual majority, EP right of initiative, more scrutiny by national parliaments, more subsidiarity, list of competences	Catalogue of basic rights, strengthen basic social rights
PDS (ex-PCI) (Italy)	Federation, constitution	EMU, environmental policy, social policy	Pro CFSP, European army, co-operation with OSCE	More QMV in Council, dual majority, less subsidiarity, list of competences	Catalogue of basic rights, EU citizenship, strengthen basic social rights
PvdA (Netherlands)		Internal market, environmental policy, energy policy, social policy	Pro CFSP, merger with WEU	More QMV in Council, dual majority	Strengthen basic social rights
PS (Belgium)	Constitution	Internal market, labour market policy, fiscal policy, social policy	Pro CFSP, co-operation with OSCE	Two-chamber system, more QMV in Council	EU accession to ECHR
SD (Denmark)	Co-operation, EU not a State	Labour market policy, environmental policy, consumer protection, social policy	No merger with WEU	More QMV in Council, EP right of initiative, more scrutiny by national parliaments, more subsidiarity, list of competences	Strengthen basic social rights
PASOK (Greece)	Constitution	Internal market, labour market policy, social policy	Pro CFSP, merger with WEU, pillar of NATO	Two-chamber system, more QMV in Council, more subsidiarity	Catalogue of basic rights, EU accession to ECHR, strengthen basic social rights
PSOE (Spain)	Federation, more than a free trade area	Internal market, EMU, environmental policy, social policy	Pro CFSP, co-operation with OSCE	More QMV in Council, dual majority, EP right of initiative, more scrutiny by national parliaments, less subsidiarity	EU accession to ECHR, EU citizenship, strengthen basic social rights
Labour (Ireland)	EU not a State	Internal market, labour market policy, environmental policy	Pro CFSP	More subsidiarity	EU citizenship, strengthen basic social rights
Labour (United Kingdom)	Confederation, EU not a State	Internal market, labour market policy, environmental policy, social policy	Pro CFSP, as a pillar of NATO	More QMV in Council, dual majority, EP right of initiative, more scrutiny by national parliaments, more subsidiarity	EU accession to ECHR, strengthen basic social rights
SPÖ (Austria)	Federation	EMU, labour market policy, environmental policy, social policy	Pro CFSP, neutrality, co-operation with OSCE	Two-chamber system, more QMV in Council, EP right of initiative, less subsidiarity	Catalogue of basic rights, EU accession to ECHR, strengthen basic social rights
SD (Sweden)	EU not a State	Labour market policy, environmental policy, consumer protection, social policy	Pro CFSP, neutrality, no merger with WEU	More QMV in Council, dual majority, more scrutiny by national parliaments	EU citizenship, strengthen basic social rights
SSP (Finland)	Confederation, EU not a State	Internal market, EMU, labour market policy, environmental policy, energy policy, social policy	Pro CFSP, neutrality	More scrutiny by national parliaments, more subsidiarity	

Source: Andreas Maurer: *Der Wandel europapolitischer Grundorientierungen nationaler Parteien in der Europäischen Union*, in Mathias Jopp, Andreas Maurer, Heinrich Schneider: *Europapolitische Grundverständnisse im Wandel. Analysen und Konsequenzen für die politische Bildung, iep Analysen* 14, Bonn 1998, pp. 301-364 on (WEU). Even on the issue of EU citizenship, the greatest harmony of views concerns the call for a strengthening of **basic social rights**, whereas the parties tend to disagree on other points (catalogue of basic rights, accession to the European Convention for the Protection of Human Rights and Fundamental Freedoms – ECHR).

Differences of opinion within the parties further complicate the picture. Perspectives on European integration range from traditional left-wing scepticism ("capitalist Europe") to the view that the EU can protect its members from globalisation and US hegemony, to the aspiration for a pan-European welfare state. Regional party branches may have different positions from those of the national leadership: thus, some German *Länder* governed by Social-Democrats may prioritise different aspects of European policy from the federal government, likewise in social-democratic hands.

Despite their demands for a more social Europe, Social-Democrats tend in the end to prefer national solutions to economic and social problems.

These divergences have tended to increase at times when Social-Democrats have held governmental office in the Member States. It remains to be seen whether the convergence emerging between the various parties in the early 1990s concerning key "class-related" aspects of social-democratic policy-making, namely social security and employment, will continue. Most parties have been hoping for help from the European level, in view of the crisis in both these areas caused by mass unemployment. The **Blair-Schröder Document** of 1998 postulated a new, more liberal consensus among Europe's Social-Democrats, while at the same time emphasising national responsibilities and proposing a mutual learning process. It remains to be seen to what extent the agreement on specific measures really is sufficient to overcome the crisis (see below). Until now there has been more divergence than convergence in respect of predominantly national policy fields.

3. Third and other ways out of Europe's various crises

The concepts of the "Third Way" and "progressive governance" constituted an attempt by Social-Democrats to find a **response to the European crisis of the 1990s** devoid of the flaws of the failed remedies attempted during the 1973-85 period of stagnation. Any such strategy must react to a very multi-faceted crisis: weak growth, which is one of the main causes of mass unemployment; slow structural change into an information and service society, which is likewise contributing to unemployment; the strain on government budgets, which is provoked above all by unemployment but is in addition exacerbated by demographic trends (the growing proportion of elderly people in the population); the opening-up of global markets, which is accelerating structural change, thereby affecting the composition of unemployment and endangering the taxation basis of the State.

Europe's various crises

Economic and social circumstances in Europe are anything but uniform. As shown by Table 2, in the crisis year of 1994 the unemployment rate was relatively high everywhere, yet it varied between virtually full employment in Luxembourg and Austria and serious mass unemployment in Spain. By the same token, government debt ranged from worrying double-digit sums in Greece and Sweden to an almost balanced budget in Luxembourg. All countries bar Ireland were troubled by demographic developments, albeit to different degrees. The service sector lagged behind, especially in Germany and Spain.

The **Social-Democrats' strategic responses** differ just as considerably. Admittedly, hardly any party advocates traditional anti-crisis measures using job creation programmes financed through debt. The pressure to comply with the Maastricht criteria, at least in Euroland, rules out such a course of action. But a variety of solutions has been put forward, both within and beyond the spectrum of what has since 1997 been known as the Third Way and since 2000 as "progressive governance", as explained by Wolfgang Merkel and Wolfgang Thierse in an SPD document of 1999, which arose as a reaction to the 1998 Blair-Schröder document. These different approaches are on the one hand determined by the different structures of socie-

Economic and social problems vary considerably from one Member State to another.

Table 2: Europe's weaknesses

Country	Unemployment as a % 1994	Government debt as a % of GNP 1994	Proportion of people over 65-year 1998 -2015	Services as a % of GNP (1997/8)
Belgium	10,0	-5,1	16,4 - 19,1	70,0
Denmark	8,2	-3,9	15,2 - 19,2	69,2
Germany	8,4	-3,5	15,9 - 20,3	44,1
Finland	18,4	-6,2	14,6 - 20,1	61,7
France	12,3	-5,6	15,6 - 18,4	71,5
Greece	8,9	-12,1	17,1 - 21,4	71,7
UK	9,6	-6,8	16,0 - 18,7	66,7
Italy	11,4	-9,0	17,6 - 22,6	66,9
Ireland	14,3	-1,7	11,4 - 13,6	60,6
Luxembourg	3,2	2,6	14,1 - 17,0	..
Netherlands	7,2	-3,4	13,6 - 18,5	70,0
Austria	3,8	-4,4	14,7 - 17,8	68,1
Portugal	7,0	-5,8	15,4 - 18,2	60,9
Sweden	9,8	-10,8	17,4 - 21,8	71,2
Spain	24,1	-6,3	16,5 -19,7	25,1

Source: Eurostat, UNDP

ties and welfare states in Europe, which are in turn partly the product of past social-democratic policies, and, on the other, result from the varying problems experienced in individual countries.

The choice of strategy depends first and foremost on the traditional structures of the welfare state, its funding and the labour market:

- **Welfare states can be divided into three types** (cf. Esping-Andersen): Anglo-Saxon/liberal, with limited residual protection; Christian-Democratic/corporatist, which is earnings-related (central and southern Europe); and social-democratic/institutional (Scandinavia). The welfare state in the poor countries of southern Europe, with its low-level benefits, could in fact be seen as a fourth category. Each system of social security has a different funding method (taxes, contributions, insurance premiums), form of organisation, coverage of persons and risks, level of expenditure and structure of expenditure (distribution among individual benefits such as age, health, unemployment, etc.). These last two depend not only on the level of benefits per recipient but also on the extent of unemployment and the age structure in the population.
- **Funding structures** range from the Danish model, with 75% paid by the State and around 10% by each of the social partners, to the Dutch model where the State contributes only 16% and the employee and employer rates are almost 50% and 20% respectively. For all that, many of these charges are interchangeable: where old-age pensions are funded out of taxation (e.g. Denmark), non-wage labour costs appear to be lower than in a contributions-based system. Nationals of the United Kingdom pay taxes rather than contributions to health insurance funds, thereby gaining access to the National Health Service.
- European countries also differ significantly in terms of their **labour market structures** – not only their headline unemployment figures but also productivity growth, annual working time (extent of part-time work), activity rate (women's labour force participation) and age structure. Growth arises in equally varied ways: in some instances more as a result of higher productivity, and in others

Table 3: Minimum income levels and social expenditure in the EU

Country	Minimum income as a % of average per capita income 1995	Social expenditure as a % of Gross Domestic Product 1997
Belgium	30,9	28,5
Denmark	43,7	31,4
Germany	14,6	29,9
Finland	20,7/21,7	29,9
France	19,3	30,8
Greece		23,6
UK	20,7	26,8
Ireland	29,9	17,5
Italy		25,9
Luxembourg	29,8	24,8
Netherlands	38,7	30,3
Austria	20,1	28,8
Portugal	15,4	22,5
Sweden	24,7	33,7
Spain	20,8-30,5	21,4

Sources: Pierre Guibentif/Denis Bouget: *Mindesteinkommen in der Europäischen Union – ein sozialpolitischer Vergleich*, Lisbon 1997; Göran Therborn: *Die Gesellschaften Europas 1945-2000, ein soziologischer Vergleich*, Frankfurt am Main 2000

thanks to a more extensive use of labour; here, rates of pay are crucial in influencing the distribution of these factors.

Then, against this backdrop, there is also the part played by the respective parties' **national preferences and political/ideological traditions and basic inclinations**. The variety of policies pursued, especially among social-democratic parties in government (either alone or in coalition), is remarkable. When in opposition, even less realistic notions are reasonably easy to sell; when in power, however, a party programme must stand the test of social and economic reality. Nonetheless, even the policies of social-democratic governments reveal an impressive array of approaches.

Many ways out of the crisis

In key **economic and social policy areas,** Europe's individual social-democratic parties pursue a policy mix consisting of certain similarities (e.g. a tight fiscal policy) but also significant differences, e.g. in the ratio of government expenditure to GDP (in 1994, Ireland under 40% and Sweden over 70%) and the ensuing room for manoeuvre and resources available to governments. On the monetary policy front the main difference is between the countries participating in monetary union and those outside of it – the UK, Sweden and Denmark – which were able to revive their economies after the 1992 crisis by devaluing their currencies against the ECU/Euro.

The State was being rolled back in almost all Member States (with the exception of Portugal and Luxembourg) until the year 2000, by an average of 5% of Gross Domestic Product (GDP). The EU average fell from 51.3% in 1994 to 46.3% in 2000. The largest relative **reduction in State expenditure** took place in the Scandinavian countries (Sweden by 15%, Finland by 13% of GDP) and in the Netherlands (almost 9% of GDP). Those countries also saw the greatest decline in social expenditure relative to GDP, whereas it continued to rise in Germany and certain other countries.

The State has been rolled back in almost all Member States.

Table 4: Overview of social-democratic governments' economic and social policies

Country	Monetary policy	Fiscal policy	Labour market policy	Social policy
UK Originator of the Third Way	Independent Central Bank, cautiously in favour of euro	Sound/restrictive	Wage spread, but minimum wage	Investment in education and health, "welfare to work"
Sweden The social-democratic model *par excellence*, reformed but not abandoned	Independence	Tendency for budgets to balance in the long term	High proportion of employees in State sector and a very active policy of job place ment and retraining	Pension reform, preser vation of qualifying periods
Denmark Successful inclusive model	Independence	Anti-cyclical, but deficits limited in terms of time and quantity	Moderate pay policy, reduction of labour supply (incl. early retirement, time off) and active skills training	Social benefits cut, but high wage replacement high wage replacement high wage replacement taxation
Netherlands Third Way *avant la lettre*	Hard currency policy, pro euro	Tight	Pay restraint (Wassenaar Agreement 1982), flexibili-sation and more part-time work	Restriction of previously very generous and much abused regulations, mix of basic State cover and addi-tional private provision
France State-oriented	Pro euro, but in favour of ECB pursuing a growth-oriented policy	No longer Keynesian policies, but tax increases	Shorter working hours	Only limited reforms – apart from a reform of unemployment benefit
Germany Homeland of the "*Neue Mitte*" (New Centre)	Pro euro	Austerity policy, tax reform, eco-tax	Youth unemployment pro-gramme, Alliance for Jobs	Reversal of some conser-vative cutbacks, pension reform
Austria Continuity of welfare state	Hard currency policy, pro euro	Consolidation for Maastricht and post-recession in mid 1990s: fair burden-sharing	No major changes to a successful policy	Further extension of welfare state

The policies of many governments (not only social-democratic ones) have borne fruit. **In the year 2000 unemployment was lower in Europe; government budgets were healthier and relatively smaller**. Table 5 shows the changes compared with 1994. It is noteworthy that many countries managed at one and the same time to reduce considerably the share of State expenditure and government budget deficits and to bring down unemployment. The main reason was that growth picked up in many countries, especially in the poorer countries Portugal, Spain and Ireland, but also in Scandinavia, the Netherlands and – not problematical in the first place – Luxembourg. Greece suffered job losses even though it enjoyed healthy growth. This success conflicts with the traditional social-democratic/ Keynesian assumption that job creation can be achieved only – or primarily – through additional State expenditure, whereas austerity policies destroy jobs. In Germany and Austria growth was weak and unemployment began to rise once more.

> Increasingly intense policy competition in Europe is being played out less in the marketplace than in public debate.

The Maastricht Treaty did of course place tight constraints on the fiscal and monetary policies of would-be euro zone members, but the variety of methods used demonstrates how much room for manoeuvre still attaches to national policies in the fields of greatest concern to Social-Democrats (employment, social equilibrium). **Indeed, policy competition in these fields is more intense than ever in Europe**. A critical public consisting of the media, academics, international organisations and voters compares national attempts at solutions and awards marks to ever more sensitive governments and elites. This policy competition is played out under even harsher conditions within the monetary union, since classic policy instruments have been denationalised while at the same time it has become easier to compare results and competition has intensified.

In view of this competition, is there in fact any need for **European Social-Democrats to unite** to bring about prosperity, social justice and

Table 5: Europe's progress

Country	% change in unemployment	Reduction in government budget deficit as a % of GDP since 1994	Average annual growth since 1996
Belgium	-1,5	4,6	+2,7
Denmark	-3,8	1,5	+2,4
Germany	+0,2	2,5	+1,9
Finland	-9,5	10,3	+4,7
France	-2,3	4,1	+2,7
Greece	+1,1	10,8	+3,5
UK	-3,8	7,7	+2,8
Italy	-0,5	7,5	+1,9
Ireland	-9,6	3,4	+8,2
Luxembourg	-0,6	0	+5,2
Netherlands	-4,8	4,4	+3,6
Austria	+0,2	2,7	+2,4
Portugal	-3,5	4,3	+3,4
Sweden	-3,5	13,2	+2,8
Spain	-10,3	5,6	+3,5
EU	**-2,8**	**5**	**+2,6**

Source: Eurostat

democracy in Europe? Is not the national arena adequate for that purpose, even after the introduction of the euro and eastward enlargement? Or would it not be simpler to ensure that the European level allows national players sufficient scope, rather than going to great pains to devise an integrated European strategy? The goal of a social and democratic Europe has often been a prisoner of its own history in this respect. Integration within the Union to date has created conditions which make national policies more difficult to control. The **abdication of power over national economic policy in favour of markets and supranational institutions** has without doubt progressed further within the EU than anywhere else, but does still allow a good deal of scope for appropriate national solutions. Nonetheless, unless European rules are drawn up to prevent success being achieved at the expense of neighbours/competitors, there will be a risk of "races to the bottom" and zero-sum games.

4. From a contest between locations to competition between policies

Globalisation has exacerbated competition on all markets, intensifying the risk of such conflicts. The anti-crisis strategies of Member States governed by Social-Democrats are themselves part of an intricate contest, whereby the goal-posts of each country's success are constantly shifting.

Regulated competition between locations in the internal market

Companies and locations deploy a profusion of measures and mechanisms to boost their market position, their proceeds and profits, thereby generating not only progress but also problematical externalities. In order to keep the latter under control, States and supranational organisations have devised a profusion of regulations, which are mainly a burden on companies but do also protect them. Conversely, public institutions produce important inputs which improve competitiveness. On the positive side these combine to form “systemic competitiveness”; on the negative side they produce distortions of competition, which do at least give short-term advantages to individual companies but are harmful when they become more widespread. As a rule, national policy regulation obviates a whole series of distortions of competition and market failures at home – as listed below – but readily turns a blind eye when the damage occurs on the other side of the border. Such problems are the subject of numerous regulations in the EU internal market (cf. Box p. 13).

Mercantilist Euroland – an importer of employment.

In addition to competition affecting mobile products and investments, there is in Europe competition – albeit weaker – involving mobile citizens and workers:

- as **tax-payers**, wealthier citizens in particular try to move their place of residence to wherever the tax burden is lightest;
- as **recipients of social benefits**, they try to maximise the real value of payments received, which is why national social security administrations wish to prevent the “exporting” of claims and payments (e.g. under the German system of nursing care insurance, benefits are paid out to carers and not to patients);
- as **wage-earners** they become **migrant workers,** moving to wherever pay and employment opportunities are best – although not usually in such numbers that levels of pay are equalised. The EU has already put a check on wage competition with its posting directive.

A contest between locations in the European social space

Achieving a social Europe means taking these problems into account at two levels: externally and on the internal market.

- **On the external front**, many Social-Democrats hope that, because it is so large and hence less dependent on foreign trade, **Europe’s economy is less vulnerable to globalisation**. Similarly, the EU carries more weight than individual Member States when it comes to putting forward its interests in international economic negotiations and at the relevant organisations (WTO, IMF, etc.). It is able in these forums to press for better social and environmental standards and for growth-oriented solutions to balance of payment and debt crises. But it remains vulnerable to international financial markets, whose “verdict” has already severely depressed the rate of the euro. Euroland can however afford to let the exchange rate mechanism run its course: devaluation improves price competitiveness, thereby increasing exports and employment, albeit at the cost of terms-of-trade losses and inflation risks which push down real incomes in relative terms. One could in fact conclude that Euroland has a mercantilist economic foreign policy (tight fiscal policy, moderate wage policy, undervalued currency). Euroland would be better able than an individual Member State to combat a short-term economic crisis. Monetary policy is already centralised, and fiscal policy can more easily be co-ordinated if individual finance ministries no longer have to worry about the external value of their currencies and if the interest rate risk is contained. Lastly, the EU would also be in a better position than any individual country **to reclaim sovereignty over economic policy**, which it or its Member States have relinquished to the market or to international organisations during the lengthy phase of liberalisation since 1970.
- Global competition pales in comparison with the **contest between different locations within the EU** and above all in Euroland, with its common currency. Exchange rate risks, transaction and transport costs are far lower in this area than in the international economy, where the protection they afford local traders should not be underestimated. This increases vulnerability to activities which distort competition, especially on the part of the State at all levels. To the extent that the EU Member States **turn into competitor countries which see it as their main task to safeguard and boost the competitiveness of their companies and their location**, there is potential for the Union to become dangerously conflict-prone, above all because of the threat of „races to the bottom“. But government action can sometimes deviate from this logic. For instance, certain Member States charged companies very dearly for the purchase of UMTS licences and attracted criticism of adverse distortions of competition.

Competitive risks and their regulation in the EU

- Companies can attempt to sell their products more cheaply by **reducing the quality**. This can also be done by means of certain production processes (e.g. by using poorer inputs). To the extent that consumers could be harmed, State regulations on **consumer protection** are enacted. But these must not hinder access by consumers to products which are not harmful but merely cheaper or different (e.g. beer not brewed in accordance with Germany's *Reinheitsgebot* legislation). The market must be allowed to operate, while the State must ensure transparency where appropriate (e.g. labelling). In this area the EU has already regulated competition in the internal market to a large extent since 1992.
- Matters become more complicated when companies cut costs by altering their production processes in ways which partly **externalise costs**, e.g. to the detriment of the environment. Here there is a need for **State controls**, harmonised internationally, even where product quality is unaffected. This is a particularly critical aspect of international trade policy, since it permits only product-related discrimination. The *acquis communautaire* limits competition in Europe by restricting straightforward externalisation of costs.
- All companies are keen to reduce **labour costs**. Here too there is a plethora of surveillance measures, some of them international, to forestall or restrict harmful practices (neglect of health and safety, child labour). Minimum wage rates protect pay levels to some degree. Working hours and time off are subject to statutory minimum standards and collective agreements. Ever since 1957 the Treaties have contained an article compelling Member States to comply with the rules on paid holidays (Art. 120 EEC Treaty). A number of other provisions guarantee minimum employment standards (health and safety in the workplace), which increase labour costs at least indirectly. Labour costs can in addition be affected by methods of taxation and methods of funding social security.
- Naturally, employees attempt through their representative bodies (works councils, trade unions, etc.) to safeguard and increase their pay and to ease working conditions. All these social and national constellations of **industrial relations** therefore have an impact on competition and need to be regulated in the European internal market. Despite the (limited) introduction of European Works Councils, EU progress in this area has been very meagre (e.g. on EU company law).
- One classic problem of competition is **augmented market power** resulting from dumping, price-fixing, cartels, take-overs and mergers, monopoly positions, etc., all of which are the subject of national and European competition policies.
- Competitive problems are often created not only by the selfish conduct of companies but also by **government business support schemes**. Financial subsidies (grants, cheap loans, etc.) or tax relief in the form of general reductions in business taxation or specific tax-breaks (e.g. rules on writing off or deducting certain costs, etc.) are of direct relevance here. But infrastructure or cheap inputs provided by the State (e.g. energy, water) have a similar effect. National or European controls not only prevent distortions but also protect municipalities, regions or Member States from being played off against each other by potential investors. But where should the dividing-line be drawn? Education, health and research likewise produce public goods which give companies a competitive edge. This is where we encounter **systemic competitiveness**, which today's business location policies are designed to maximise.
- Finally, economic policy sometimes pursues a "**beggar thy neighbour**" strategy, aiming to solve its employment problems at the expense of trading partners. It may attempt to give the national economy a competitive advantage by means of customs duties and trade barriers. This is now quite impossible in the EU and increasingly less feasible worldwide. But a competitive edge can still be obtained on foreign markets by devaluing the national currency or lowering inflation. Inasmuch as economic policy strives to do this by suppressing domestic demand (restrictive fiscal, monetary and income policies), it may trigger harmful competition which ultimately curbs demand worldwide. Such **mercantilism** might appear pointless in the monetary union, but it still remains a threat.

But "**competition is good for business**". Policies must not aim to align competitive conditions in an economic area. On the contrary, the aim should be to build on the different advantages and existing capabilities of individual locations, companies and persons – for everyone's benefit wherever possible, of course. The success of capitalist economic development consists in continually improving productivity by devising new products and processes. In extreme cases, if the economy or individual companies are burdened with too many obligations and costs, they will cease production. That may even be desirable in certain instances, where the externalities outweigh the value added. But it would be fatal to demand, for example, that a poorer and less productive EU Member State (or a future member in central and eastern

Conflicts in Europe can be avoided by drawing a clear distinction between home-grown problems and ones caused by foreign competition.

Europe) must pay the same wages, grant the same social benefits and meet the same environmental obligations as the richest and most productive economies. The catching-up process in fact demands that, during the transitional phase, poor locations are attractive because costs are lower there.

On the contrary, regional policy in most countries – and most notably in the EU – makes deliberate provision for **distortions of competition in favour of weaker locations, sectors or companies**; these may and should be supported with subsidies, tax relief and infrastructure facilities. At EU level this raises the problem of deciding who is entitled to receive what assistance, and for how long; moreover, what sacrifices a rich location (i.e. one not receiving preferential treatment) should make for the sake of potential competitors. After all, consumers in rich regions can also benefit from subsidised and hence cheap goods produced in poor locations, as long as this leads to lower prices and not merely to higher factor income, but they might pay for it through a loss of income if their own producers are forced off the market. This distribution problem must be solved politically since it is created politically.

The close interlinking of national economies (if indeed one can still refer in Europe to national economies) inevitably means that action taken by one country affects the interests of another country more rapidly, triggering reactions and conflicts which must be solved politically. But a retreat from economic integration is virtually unimaginable. The only solution left, therefore, is **better European management of competition, whereby "better" signifies above all more social but also more democratic.** The number one task of such management must be to distinguish between those problems really caused by competition and those passed off by the rhetoric of globalisation and competitiveness as international problems, but which are in truth home-grown and can be solved by taking perhaps painful decisions on distribution at domestic level.

5. Hard ways to a welfare union

A welfare union is more than the sum of national strategies for growth and justice.

A social-democratic strategy cannot be confined to managing conflicts between national strategies for more growth, employment and justice in Europe. After all, European policy is more than the sum of national efforts. But even a guarantee of national scope for a policy of social justice would be an important contribution to a social Europe which creates prosperity for all under the conditions of an integrated market and a common currency. Such a "**welfare union**" must facilitate two things: **growth and fair distribution**, ensuring that all of Europe's citizens have a share in increasing prosperity – perhaps not to the same degree, but at least in a way that excludes as few as possible. This means first and foremost that the incomes of poorer Europeans should rise by an above-average amount, both those of poor minorities in richer countries and those of the majority in poorer countries. In the long term this would bring us a little closer to the ideal of **equality of opportunity**.

Ultimately the **distribution of capital and labour in Europe** determines the distribution of income and standard-of-living opportunities; these should be promoted in the following areas, to be explored in depth below:

a) **Investment** should be facilitated through monetary policy and intensified by industrial policy,
b) with its **regional distribution** leading to as rapid as possible an equalisation of income;
c) this depends on **labour market strategies**, which often evaluate employment and income differently,
d) immediately raising the **social policy** question of income for persons not in work.

a) Wooing investors

On the supply side, growth occurs as a result of an increased and/or more productive use of the factors of production, mainly capital and labour. But this supply requires demand, in the form of consumption, investment and exports. In the **monetary union**, this process is now influenced to a high degree by the economic policies of the **European Central Bank**, whose monetary policy affects the use of capital on the supply side, and, on the demand side, influences in particular investment and – through exchange rate policy – exports.

European policies strive above all else to forestall disruptions to growth. Monetary union will prevent exchange rate disruption internally and mitigate it on the external front. National fiscal policies have reduced deficits and indebtedness under pressure from the Maastricht criteria and the stability pact. Wage rises have been lower than productivity growth and have therefore tended to be deflationary. Both of these factors have **eased monetary policy**, allowed interest rates to fall and encouraged investment, in turn boosting growth and employment. Euroland has nevertheless attracted relatively little foreign capital; conversely, the weak euro has provoked a rise in exports. What could be a cause for concern, however, is weak domestic demand, especially if the export boom subsides.

National growth strategies aim particularly to make their own location attractive to investors. Foreign labour, by contrast, is normally sought out only when serious bottlenecks occur; labour market and employment policies are geared to better use of domestic labour (on this point see “Working, but not poor”, p. 16). When promoting investment it is necessary to avoid a form of competition which seeks to lure investors solely through lower taxes, and to support a public policy which guarantees favourable investment conditions and competitive production through an **efficient use of tax revenue** and through **appropriate regulation**. Various tiers of government in different European locations are offering the whole gamut of public goods and services to this end, from social security to health, education, research and infrastructure. A contest between locations could, on the one hand, cause these public providers to improve their services: the opening-up of public procurement in the internal market has already entailed savings for public entities as customers. On the other hand, public service providers will attempt to defend themselves politically against this pressure, especially when they come into competition with private operators, maybe from other Member States.

This is where **traditional and progressive social democracy** are most likely to clash. Whereas classic social democracy wishes to protect this sector for various reasons (ideological preference for the public sector, favoured relations with its employees and political management), proponents of the Third Way are eager – in a bid for progressive governance – to reform the public sector, making it more customer-oriented and more efficient. Liberals expect only the pressure of competition to force the public sector into reforms, and they welcome competition in Euroland for this reason. The alternative would be policy competition in which democratic public opinion (elected representatives at various levels, the media, civil society organisations, supervisory bodies such as courts of auditors, higher-level authorities, etc.) pushes through “best practice” reforms on the strength of other countries’ experience. Where public services are provided by private operators in competition with public ones and on commercial terms, this can hamper access by marginal population groups which either live in remote areas or are too poor to afford expensive services.

Europe needs policy competition, since it optimises public service provision by spreading best practice.

b) Regional solidarity

If the destiny of locations is left to the market alone, a **problem of distribution** soon arises: attractive locations receive more tax revenue and can use it to offer additional and better inputs or to reduce their taxes, thereby becoming even more attractive. Desirable though this virtuous circle may be from the point of view of the successful location, the resulting geographical inequality of economic development is likely to be all the more problematical. If the Union or one of its Member States adopts countermeasures in the interest of a social justice, it not only distorts competition but must also ask itself whether or not it is contributing to an inefficient supply of public products (and to the patronage which might lie behind it) in weaker locations, rather than promoting real development (e.g. as happened for many years in Greece). It should however also be clear that, once they have successfully caught up, the newly enriched locations must in turn show solidarity with poorer regions and graduate from recipient to donor. There can be little justification, particularly in employment terms, in continuing to use EU resources to entice foreign investors and migrant workers to locations such as present-day Ireland, which have already completed the virtuous circle and have already exhausted their own labour potential.

A socially just Europe, keen to **reduce regional income disparities**, must devise suitable solutions for this problem, which will be greatly

The catching-up process in the monetary union calls for higher inflation to be permitted in poorer regions.

worsened by eastward enlargement. It is easier to interest richer countries and regions in promoting development processes in poorer ones if resources are put to effective and efficient use. Productive locations will in any event be burdened with extra charges, but they should also gain sales opportunities. Where development is successful, competing operators with subsidised cost structures emerge; this is in fact advantageous to consumers in richer locations too. Should underdevelopment persist, there is a likelihood of migratory flows away from poor regions, which do partly solve the problem but at the same time create new problems of adjustment in rich regions.

Aid for poor regions from rich ones must not amount to internal EU horse-trading. It is politically acceptable only if it promises real success.

There are two opposing strategic alternatives here:

- A **liberal** policy would have faith in the market forces which cause poor people to migrate to rich regions and capital to flow into poor regions. This presupposes at the very least that such migration does not harm the poor regions (no brain drain) and that capital yields are higher there but will decline after the influx due to diminishing marginal returns. It is up to regional economic policy to solve its own problems – on pain of continued underdevelopment. From this perspective, policy competition in the Union exerts healthy pressure.
- **Market sceptics** would argue that migration tends to deprive a region of human capital which is important since it is active and adventurous; furthermore, despite lower input costs, capital yields are no higher because of low productivity, and in many cases rising marginal returns cause producers to congregate in successful locations. Economic policy in poor locations suffers equally from a lack of good people and from a lack of funds. The Union's task should be to support the public authorities with aid and to limit policy competition through harmonisation, while at the same time accelerating the spread of "good" policies.

The central dilemma is how to create more jobs without lowering incomes.

The catching-up process (i.e. incomes rising by more than the average) in the monetary union calls for regionally differentiated inflation rates. Whereas in the past **alignment of incomes** was achieved in particular through the revaluation of a poorer country's currency in the wake of development, in Euroland it can be brought about only through higher inflation in poorer regions. European monetary policy has to permit this. In a monetary union where income disparities are set to increase dramatically following enlargement, it is crucial to the social justice that these processes should occur rapidly. Aid should be accompanied by controls and incentives to use it efficiently and to prevent its distribution by patronage. Such dangers could be averted by means of greater transparency, democratic participation and networking of all the players. Wage subsidies, which push wage costs below productivity, would be preferable to capital subsidies, which hamper labour-intensive production and are more susceptible to corruption.

c) Working, but not poor

Employment and labour market policies contribute to growth, on the one hand by fully exploiting or even augmenting the potential supply of labour and, on the other, by boosting its productivity. These two components may come into conflict with one another. For instance, a high-wage policy can foster growth in productivity, in which employees will then – all being well – participate. If well-paid jobs are in short supply, the activity rate remains relatively low and/or unemployment high. Low-wage policies (such as for example in the Netherlands) even enable less productive workers to be employed. Conversely, productivity gains can be converted into increases partly in income per capita and partly in paid 'non-work'/leisure, which may in itself mask shorter annual working time for employees, higher unemployment, a lower activity rate or a different age structure (higher proportion of under 15 and over 65 year-olds).

It is actually relatively easy to create jobs, as long as the potential workers can be persuaded to accept low incomes. However, if one wishes at the same time to achieve social justice, the options look rather different. The **least painful solution is to raise the productivity of the unemployed through education,** so as to make them attractive to employers even on higher pay. Another alternative is the Swedish pattern of employment in the State social services sector, where productivity is less crucial than a deliberate socialisation of demand. In a great many cases, where this cannot be done, ways must be found to improve the lot also of (low) wage-earners in the private sector.

Three options suggest themselves at this stage:

- **redistribution through taxation**: tax systems are already progressive now, i.e. the rich are supposed to pay more income tax than the poor. In addition, many countries have introduced negative income tax (or comparable subsidies) into their labour market policies, so as to raise the incomes of low earners to a level higher than that of alternative incomes (social assistance).
- **strengthening the market power of labour**: a labour shortage can be amplified through various types of policies to reduce working time: longer training periods, earlier retirement, shorter weekly working hours, more leave. All such measures diminish the supply of labour and augment the market power of the remaining suppliers. On the external front, the labour supply can be curbed through restrictions on immigration. However, if in the long term strong trade unions push up wages in excess of productivity gains, they can of course boost the incomes of employees but might do so at the cost of growing unemployment.
- **wealth distribution**: the distribution between labour and capital would be less contentious if their owners did not belong to two different groups. If workers possessed enough capital for the returns to compensate for modest wages, they would be more receptive to a redistribution in favour of capital. Yet asset formation among working people is proceeding – if at all – at snail's pace. Meanwhile new capital owners are inheriting enormous wealth through no effort of their own. Radical inheritance taxes would be a major step towards establishing equality of opportunity. Another possibility would be taxation of wealth, which – in this era of global capital mobility – would have to focus on immovable assets (land, buildings, plant).

Whilst some of these measures could be implemented nationally without any excessive effects at European level, others would benefit considerably from a **uniform approach within the EU**. Tax competition in particular is already a threat. To the extent that taxes are levied in order to finance additional public inputs for production in the marketplace, one could leave it up to the trade-off between low taxes and poor public infrastructure on the one hand and higher taxes and good provision on the other to strike a balance. If it is a matter of solidarity with weaker members of society, the trade-off does exist – in the form of social peace – but is likely to be too weak. An incomes policy which systematically attempted to gain a competitive edge as a result of low wage rises lying well below inflation plus productivity, and perhaps even offset by taxation, would immediately lead to conflict. Restricting the labour supply by imposing immigration controls would in any event require European agreement in view of the freedom of movement within the Union.

Yes to competition bringing efficient government action; no to a contest bringing less solidarity!

d) Social Justice

The apparent **burden on competitiveness** (or on a location) caused by high wages, and above all by high non-wage labour costs, taxes and social benefits, must be regarded as particularly ominous from a social-democratic point of view. In the monetary union such general cost divergences can no longer be offset by devaluing or revaluing currencies. EU competition compares gross nominal wages in Euros: these determine companies' labour costs and are largely attributable to productivity. What is of interest to employees, however, is the net real income which results when taxes and social contributions are deducted, cost-free public services (education, health, etc.) added in, and price levels – perhaps lower in less developed regions – taken into account. These public services constitute the most effective means of social redistribution in most EU Member States. Social justice in Europe requires that a downward spiral in these net real incomes be prevented. The differential between gross nominal and net real incomes becomes especially large when wage-earners finance benefits for third parties through their taxes and contributions (e.g. unification costs in Germany) and narrows when, by contrast, public services are funded out of taxes paid by everyone (e.g. through taxes on consumption) or indeed to which the rich contribute disproportionately (e.g. through wealth taxes).

As indicated above, social security systems in Europe vary considerably; yet this diversity must not stand in the way of a fair distribution of prosperity. Social expenditure as a proportion of GNP rises in step with income per capita. This correlation is relatively close for overall expenditure, although it cannot be proved for individual components of expenditure. Since social expenditure can hamper competitiveness, it has been proposed that – in order **to avoid a „race to the bottom“** – the EU Member States should be allowed a “corridor” (Busch) within which social expenditure should operate, or else a “lower limit” (Scharpf). The corridor or lower limit would rise with GNP, thus protecting poorer countries from competitive disadvantages, while richer countries would be expected to show solidarity with them. Admittedly, such a directive could scarcely be made mandatory; rather, it would serve to exert pressure in the political process. Countries with fewer social problems will rightly point out that their low expenditure corresponds to this state of affairs. A country with few elderly, poor and unemployed people can hardly be expected to disburse as much as a country with many. But a cutback in benefits per recipient would not be an acceptable argument. In this way rates could be aligned with national average incomes (on the differences see Table 3, p. 9).

Ultimately it is a question of what volume and what quality of public goods and Services, risk coverage and social equilibrium a society can afford and wishes to provide. All of this must be paid for through shifts in consumption and in investment, but these may very well increase productivity (thanks to additional public inputs) and quality of life (thanks to social peace and security). Generally speaking, poorer countries can spend relatively less on these items than rich ones. **The configuration of risk coverage systems and societal solidarity mechanisms should be determined nationally**. International comparisons are in fact only useful in respect of **systemic efficiency**, in other words whether one system provides similar or better benefits at lower cost than another. The method of funding and organisation may play a role here, for instance if costs are so lacking in transparency that benefit recipients are prompted to lodge excessive claims or that classic forms of abuse such as “moral hazard” or “free riding” are encouraged. A social Europe could lay down quantitative **limits for the differential between gross nominal and net real incomes** (as defined above), so as to restrict on the one hand real subsidies which distort competition and, on the other, real impoverishment.

The level of social expenditure is less important here than its method of funding and utilisation. Thus the **level does not correlate with the scale of unemployment** – as liberal critics of the welfare state like to assume. Funding through income-related deductions (as in Germany) does however push up labour costs, which above all lessens the demand for poorly paid and less productive labour in the service sector. Conversely, public social services funded through taxation can create jobs (e.g. in Scandinavia).

6. Democratising integration

Given the differences in the nature of national problems, preferences and policies, a social-democratic strategy for Europe must **combine scope for the individual players with guarantees that zero-sum games and “races to the bottom” will not occur**. There is a need not so much for central directives from Brussels as for a rational networking of decision-makers and representatives of those concerned at all levels. In this respect the same problems arise in a multi-layer policy for Europe as are central to the debate about the Third Way or “progressive governance”: **the relationship between State, market and civil society**. A distaste for excessively direct and extensive involvement of the State is combined here with a desire for citizens to shoulder more responsibility. Yet returning responsibility to society presupposes that society is properly informed and is itself able to exert influence – not only over the State but also over the marketplace, and, for that matter, beyond the impact of very unevenly distributed purchasing power.

The disagreement among Europe’s Social-Democrats as to the **principles for building a European democracy** (cf. Table 1, p. 6) ultimately reflects dissimilarities in the constitution of the State and in the conception of democracy from one European country to another. Germany’s federalism arouses different expectations and interests than the relatively new and weak regionalisation in France and the United Kingdom. When it comes to the democratisation of Europe, these differing conceptions vie with one another on all the important issues: constitution, basic rights, relations between the legislative, executive and judiciary, list of competences (subsidiarity).

Important policies at the interface between EU and Member State

- On **economic policy,** the growth and stability pact extended the centralism and the deflationary thrust of monetary policy into the fiscal domain. However advantageous this decision-making structure may have been in the second half of the 1990s, it could be a cause for concern if a classic recession were to occur. For all that, fiscal policy has remained under the control of the Ecofin Council, which comprises elected and hence accountable politicians. One might envisage here an additional or superior form of European "economic governance", which would feel more committed to growth than to combating inflation. It would be useful to have an economic policy instrument geared to correcting asymmetric shocks causing dips in demand concentrated in certain regions; this remains a task for the Member States. Should one Member State be affected in its entirety, all the Ecofin Council could do would be to dispense with its sanctions against an expansive fiscal policy; it could not itself authorise transfers to the country concerned (except in the case of a balance of payments crisis).

- On **taxation policy,** the Member States oppose harmonisation. Therefore the risk with taxes on wealth and high incomes is that taxable persons or their capital will move to whichever Member State offers the most favourable terms. Even if no decision can be reached on harmonisation, greater transparency would help to reveal who is evading taxation in their home country by these means, and on how much income and wealth. In the long term such openness would exert political pressure, which would alter either the conduct of taxable persons themselves or the policy of the countries protecting them, eventually leading to a re-inclusion of the rich among the tax-paying population.

- On **employment policy,** the Amsterdam Treaty provides for co-ordination of national policies: the Member States are obliged to produce regular reports reviewing, among other things, their implementation of the European guidelines. The guidelines adopted in Luxembourg in 1997 and Cardiff in 1998 are somewhat vague, and at the Cologne summit in 1999 the Member States refused to commit themselves to verifiable quantitative targets. Such targets would indeed have to be formulated in a highly complex manner in order to take account of trade-offs between social objectives such as employment, leisure and income. What is preferable here is an open process, one which operates with benchmarking and the spread of best practice in certain sectors but leaves it up to those concerned to set social policy targets. This also means involving groups in civil society – in particular trade unions and employers' associations – as already happens in many national dialogue forums (e.g. Germany's "Alliance for Jobs").

- On **social policy,** the EU mainly confines itself to certain narrow areas such as health and safety, equal treatment and so forth, together with the adaptation of social security systems to freedom of movement in the EU. The key theme of poverty and income distribution did not really surface at all until 1998. At the Lisbon summit in 2000 the EU decided on measures to combat social exclusion. The action plan provides above all for research, better statistics and more exchanges among Member States, in particular the networking of interest groups. In this sphere too, the EU's approach is one of informal processes. What is still completely missing is any debate about wealth distribution and how to correct it so as to move towards long-term equality of opportunity.

- **Regional policy** in the EU has long been the battleground of national budgetary concerns, where it is more a matter of clawing back resources from the EU budget than of meaningful regional support. Since successful development depends primarily on the conduct of local and regional players (politicians, companies, intermediary institutions and civil society organisations), they should take on the main responsibility but should also be exposed to vigorous policy competition. The task of higher-level bodies would merely be to ensure that such competition does not push down standards but amounts to a competitive effort to achieve better organisation, higher productivity and more rapid adjustment. Whatever one's point of view, weaker locations should not be relieved of their responsibilities. However, responsibility also presupposes **powers and room for manoeuvre at local level**; in many countries these have been appropriated by the central government.

Europe's "multi-layer democracy" lacks a "demos", a sovereign population.

In the **multi-layer polit** of Europe the structures for the distribution of power and responsibility are further complicated by the interaction between the Union, its Member States and their citizens. Only the modest beginnings of a European civil society are perceptible. Europe's "multi-layer democracy" lacks a "demos", a sovereign population. On the other hand, no national population can exist where there is no nation-state, even though EU citizenship constitutes an initial step in this direction. The long-lived discussion about subsidiarity demonstrates how difficult it is to distribute tasks meaningfully among the various layers of Europe's system of governance.

When it comes to shaping specific policies, the **opportunities for participation** have already progressed somewhat further. European associations are involved in devising rules and standards for the internal market. The social partners are able to draw up Europe-wide social policy regulations which the Commission must then adopt, subject to certain conditions. The Union is increasingly trying to involve the Member States, not through fixed decisions but by engaging them in dialogue or by using instruments such as the new "open method of co-ordination" (Lisbon 2000), benchmarking and the critical review of national action plans. The interconnection between Member States' administrations and policies is becoming ever closer, and the bureaucrats and politicians responsible for them are exposed to peer-group pressure, which often – as in the case of Austria – imposes more painful sanctions than those permitted by the EU's own legislation and institutions.

At grass-roots level there is a need to safeguard and consolidate the **EU citizens' rights and opportunities for involvement.** A **Charter of Basic Rights** might help achieve this aim, but it would likewise have to be binding on the EU itself and the Member States. If integration is to have a social dimension, appropriate rights such as freedom of association and the right to strike or decent minimum social provision would be particularly important. Social rights should also protect weak and excluded individuals from the "dictatorship" of the socially better-off majority which can come about in a democracy. In the liberal tradition, rights serve to protect citizens from the State. By contrast, the rights of weaker participants in the marketplace are underdeveloped in the face of stronger ones. Here we refer not only to consumers buying products on the market but also to employees confronting companies:

- **Consumer** protection is overwhelmingly based on competition or national minimum standards. Without going to the US extreme of product liability, greater transparency concerning product features (including production conditions) would be helpful, allowing consumers to decide whether they wish to run certain risks and what price they are prepared to pay for a cleaner or more social product. Such transparency could be ensured by institutions or organisations from either the public sector or civil society; manufacturers would of course be liable for claims they make about product features.
- Some slow progress was made during the 1990s in terms of safeguarding the rights of **employees**, such as the posting directive and the rules on European Works Councils. Many European countries also have a minimum wage, which could similarly be introduced EU-wide – albeit differentiated according to level of development.

Key questions about respective powers still remain unanswered concerning the **relationship between the Union and the Member States**. Some Social-Democrats hope that the Union will be able to compel the Member States to adopt more socially oriented policies. Others fear that integration opens the door to policy competition bringing about a „race to the bottom". Even the introduction of minimum standards arouses qualms that countries with higher standards might be prompted to lower them to the prescribed minimum level. Looking at individual policy areas of relevance to a welfare union, a mixed picture emerges (see Box p. 19):

A more democratic Europe means a decentralised Europe in which subsidiarity is taken seriously, since maximum involvement is achieved by tackling issues at the level closest to the citizens. It also means a flexible Europe, in which like-minded people come together to pursue their common interests even where Europe-wide action is inappropriate because of structural differences. But a social Europe also needs strong European policy-making bodies, so as to prevent local solutions being pursued to the detriment either of socially weaker individuals there or of other regions and countries. Such effects can be countered first and foremost by creating a European public. This public must then decide, in a democratic process, where the actions of social players should be circumscribed by binding governmental regulations and where the pressure of democratic public opinion is sufficient to pave the way to a social Europe.

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