



What Future Role for the State?

Peter Bofinger, Erhard Eppler, Andrew Gamble, Anatol Lieven, David Marquand, Thomas Meyer, Donald Sassoon, Gesine Schwan, Wolfgang Thierse and Polly Toynbee identify recurring themes and offer new perspectives for change.

- All over the world, government action is needed to prevent the international financial system from total collapse and to mitigate the effects of a global recession. With the failure of laissez-faire politics, a re-assessment of the role of the state is on top of the agenda.
- Market forces as championed by neoliberalism have failed. In defining the future role of the state, where shall the new line between the private and the public sphere be drawn? Which functions should it fulfil and which should be left to market forces – particularly with the aim to guarantee social and economic stability?
- What is needed are new ways of thinking and a new political framework which sets the conditions for socially sustainable policies, while ensuring the functioning of a more responsible market.

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In cooperation with the Global Policy Institute of London Metropolitan University and within its current work focus »The Role of the State in the Twenty-first Century«, the London office of the Friedrich-Ebert-Stiftung has propounded a series of articles. Some of the following commentaries have already been published on the websites of the British newspaper *The Guardian* as well as the German weekly newspaper *DIE ZEIT*.

Peter Bofinger

The collapse of the Communist planned economies at the end of the 1980s put the state increasingly on the defensive in the west as well. The market was turned more and more into an article of religious faith, and the new credo asserted that the state, as the antagonist of the market, should be kept as small as possible. The focus of the economic policy agenda worldwide was therefore the attempt to reduce taxes and public expenditure, cut back the mechanisms for social security and remove state regulations, as far as this was possible. This was intended to create as much scope as possible for the hoped-for positive effects of market forces.

The crisis in the financial markets has put a massive question mark against this paradigm. Banks, hedge-funds and insurance companies have done everything they could in the last decade to break free of the bonds of state regulation. The states supported this process by deregulation measures and largely relied on private rating agencies to take on, in an appropriate manner, what should actually be a task for the state – supervising the banks. The result of these developments, though welcomed by many renowned economists, was a self-destructive process which could only be stopped when the state declared its readiness to supply the financial system with liquidity and fresh capital.

From that, there follows this central lesson for the future role of the state: The market and the state are not opponents. Instead, market forces require a strong counterweight from an effective state. The market as a system is often only directed towards the very short term, and therefore does not guarantee any lasting developments on its own. This applies to the financial markets, just as much as it does to the markets for goods and labour.

The future role of the state must be to shape market processes so that they lead to sustainable economic development. In concrete terms, steps must be taken to make the financial markets more transparent and provide them with a better risk buffer. However, the still more important task consists in ensuring that the prosperity gains which arise from globalisation in the future also reach the broad mass of employees. This can be achieved above all by an across-the-board minimum wage and by making the collectively agreed base-rate wage binding on a general basis. In the low wage sector, a negative income tax for employees with children is also required. The state must also ensure, by means of major investment in education and effective inheritance taxes, that equality of opportunity continues to exist within society.

In order for the state to assume this role, society must provide it with the necessary financial resources. The fear of many critics of globalisation has not come to pass: in the last two decades, most states have succeeded in raising their tax revenues in line with the development of the economy. So no »race to the bottom« has taken place. Instead, the Scandinavian countries prove that economies with very high taxation rates of over 50% can still remain internationally competitive. What is crucial is that – just as with a good hotel – the taxes provide value for money, that high taxes therefore are accompanied by a good infrastructure, an effective education system, protection against crime and a high quality cultural provision.

The state of the future must therefore be a shaping state. It must not submit passively to market forces. Instead it must actively channel these forces so that they can have a lasting, positive impact and thus assist as many people as possible. This is the decisive factor in ensuring that after the crisis in the financial markets, we avoid having to face a crisis of globalisation. Free markets will only have a political future when the majority of voters once again feel that prosperity is increasing across the board.

Peter Bofinger is Professor of Economics at the University of Würzburg and a member of the German Council of Economic Advisers (the »five wise men«).

Erhard Eppler

In the twenty-first century, the state must first of all perform the core activities which make it a state. It must obtain, maintain or restore its monopoly of the use of force. It must stop the trend towards the private, non-state, commercialised use of force. Wars between states are becoming less frequent, but the containing and overcoming of non-state violence is becoming more important and more difficult. The state must prevent protection against crime from becoming one of many goods which some people can afford and many cannot. Whatever is directly or indirectly connected with the state's monopoly on the use of force must not be privatised. That applies to the police and the armed forces, but also to prisons and all judicial institutions.

The state must make the law and enforce the law – according to democratic rules. It can only achieve that if its monopoly on the use of force remains unchallenged.

The state is responsible for making educational opportunities available to all. Education is not a product to be bought and sold, but a human right which the state is committed to serve. In the twenty-first century, educational opportunities must be offered to people of all ages.

The state has no right to decree what culture is. But it has to create the conditions for culture, including those forms of culture which would not be able to survive in the free market (opera, symphony orchestras etc.).

The state is not responsible for the truth, but it is responsible for the conditions in which to find out the truth (e.g. university professorships for disciplines which from the point of view of industry are superfluous).

The state has to set a framework for the market. A legal framework which lays down what is allowed in competition and the search for profit, and what is not.

We also need an ecological framework which motivates, persuades and if necessary even compels producers and consumers to behave in an ecologically sensible way. The state is responsible for avoiding catastrophic climate change, which could not be prevented if we were to leave it to the laws of the market. A social framework must ensure that the chasm between rich and poor does not become even deeper, but is gradually reduced in size. Thus the state also has a redistributive function. Progressive income tax is a tried and tested instrument for this purpose. We must not abandon it.

Another part of this social framework is labour law, and in particular laws to safeguard every citizen against the risks of sickness, accidents, unemployment, invalidity, old age and the need for long-term medical care. Wherever human dignity is violated, the state is challenged (Article 1 of the German Basic Law).

The state must not only simply allow freedom to its citizens by *not* interfering in areas where it has no place. It must guarantee freedom, make it enforceable, and where necessary, protect it against non-state, usually economic power.

In the twenty-first century, freedom of the press not only requires that no state authority should attempt to enforce censorship. It also requires protection against investors who – without any experience in journalism – buy up newspaper publishers, simply in order to increase their profits. This probably can only be achieved through legislation.

When there is talk of the state in the twenty-first century, then it cannot only be the nation-state which is meant. State activity is also the responsibility of the cities and municipalities, regional units (federal states, counties, départements etc.), and also of the European Union, and sometimes even the United Nations.

In a century in which capital acts and invests – or indeed does not invest – globally, the nation-state framework may become ineffective. What is lost by the nation-states must be taken on by the European Union, and in some cases also by the UNO. The supranational levels of governance will therefore gain increased importance.

However, this does not alter the fact that the democratic welfare state under the rule of law remains the only way to make any form of force, including that of the state itself, subject to the law. It therefore represents an achievement which must be defended.

Andrew Gamble

In his acceptance speech, Barack Obama identified three main issues which he would face as President – the global financial crisis, two unfinished wars, and climate change. His biggest challenge, however, and one which confronts all on the progressive left is how to make the state more effective in a more global world.

Government at the national level has been conducted according to rules and principles that are binding on all political actors, and which therefore help to constrain the unfettered exercise of power by separating or dividing it. Such constitutional government provides a framework in which government can be both responsible and representative – managing conflicts, protecting rights, promoting participation and maintaining the security of its citizens. The key contemporary challenge is how to embed these principles in the global polity, creating the kind of public sphere and public space for debating policy, adjusting interests, and evaluating decisions which characterise established democracies. But this has to take place at a time when national democracies are under considerable strain, facing challenges to their capacity to be representative, responsible and participative.

There is also a crucial difference between the national and the global level. National constitutions traditionally seek to regulate and limit political power, and constitutional government by definition is limited government. But at the transnational level the need is not so much for limiting government as creating a capacity for government, and providing regulation of those agents who are currently able to exercise power without any scrutiny or accountability. It is necessary to enquire not only whether the institutions and procedures for limiting national governments are still the right ones, and whether they can be improved, but also whether national governments have the capacities they need to meet the expectations of their citizens and deliver the services and the public goods that they want, and whether citizens have the means and opportunities to participate in determining policies and how they are being governed. The answers to the last two aspects point towards new transnational structures of governance.

This cannot be done, however, simply by replicating the national state at the global level. The progressive left in the past has been chiefly concerned with problems arising from the division of labour, the move away from self-sufficiency and the creation of extended and impersonal networks of interdependence, which have made possible huge increases in wealth and in population, at the same time as continual

changes in the structure of occupations, services, and lifestyles, and the application of modern science to create continuous technological innovation.

But the progressive left also needs to be concerned with the division of knowledge. As the division of labour takes hold, so knowledge and information have become progressively more fragmented, dispersed and limited. This has major implications for how contemporary societies and politics are organised and governed. Even while certain forms of knowledge, particularly modern science, have come to pervade and shape more and more areas of human life, it has not delivered rational control either of society or of the natural world, but has instead increasingly displayed the contingency and limited character of human knowledge.

What this indicates is that building new forms of transnational governance will require many new institutions, which are often unlike those that have become established in national political systems. It is hard to imagine political parties playing the same role they played in the establishment of national democracy. Other ways of ensuring that different interests and groups are properly represented, and other ways for individuals to participate in the political process need to be found.

Every means to create new public spaces for the global polity must be tried, because only a global civil society can provide the networks, associations, campaigning organisations and public discussion that can begin to sustain the kind of politics the global polity is going to require. The crucial requirement for all forms of progressive politics is that politics continues to be regarded as an open process of deliberation and choice among alternatives. Its main enemy is the belief that outcomes are fore-ordained and that the struggle to maintain healthy representative and participative institutions at all levels of the global polity is therefore futile. If the state is to have a positive future that view must be overcome.

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Anatol Lieven

The latest economic crisis has blasted to pieces the radical free market dogmas of the past generation, and even in the US has led to a greater degree of state intervention in the economy than would have seemed imaginable a few months ago. So far, this intervention has been chiefly devoted to saving the financial systems of the West. However, it opens the way for radical new thinking about the role of the state in general.

The first task of the state will obviously be to manage the economic recession so as to preserve not just banks but also key industries. This in turn will be linked over the coming generation to the preservation of particular cities. One of the saddest things about the United States is to see the way in which once great cities have been left devastated by shifts in the world and US economies. American cities like Buffalo and Detroit are becoming near-ghost towns, with all the money that they once generated long since blown on an endless round of consumption, and nothing beautiful, useful or permanent to show for all this frenetic spending. It is essential that the historic cities of Europe and Asia not be allowed to follow this disastrous pattern.

Secondly, the state will have to take stronger defensive action in the areas of terrorism and illegal immigration. It is not that these pose mortal dangers in themselves, but rather that in some circumstances they could combine to cause a reaction in the white populations that would destroy Western democracies from within. The US under George Bush has been a frightening presentiment of this possibility.

If we are in for a long period of economic recession and stagnation, then present levels of illegal immigration simply cannot be tolerated. Large parts of the existing navies of Western Europe – which frankly are not doing anything much – should be redeployed to patrolling the Mediterranean and Atlantic coasts of Europe. The Bush-Blairite project of extending democratic stability to the Muslim world by force has manifestly failed and should be abandoned. Instead we should look to our own defences.

In the longer term, greater state intervention will be required in the linked areas of healthcare and genetic engineering. Barack Obama's promise radically to reform and extend the US health system is greatly to be welcomed, and it is essential that those of Europe be defended against the impact of economic recession. This is absolutely fundamental to maintaining basic civic solidarity in Western societies. That said, our health systems cannot sustain an indefinite growth in the costs of extending the life of very old and sick

people for a few months or years. Some hard decisions will have to be made concerning generational balance and solidarity in this regard, and they can only be made by the state.

A related issue will be the future role of the state in regulating genetic engineering and extending some of their benefits to the mass of the population. If the market is allowed free rein in this area not merely does it risk producing monstrosities, but the differences in health and lifespan between social classes that it will generate will make nonsense of democracy and indeed of the very notion of a common society.

Finally, but most importantly of all, if modern market democracy – and quite possibly, modern civilisation itself – are to be preserved, the state will have to take much stronger action to combat climate change. This will require far greater investment in alternative energy technologies, with revenue generated by heavy taxation of private transport and carbon-emitting industries.

This will in effect involve limits on the consumption of present generations for the sake of future generations and the future existence of the state itself, to some extent analogous to demands by the state in wartime.

There is reason to doubt of course whether contemporary Western societies are capable of such voluntary austerity. On the other hand, it may be that the present economic crisis is already forcing people to abandon the gross consumption patterns of the past two generations, and thus opening the way for a new and healthier set of cultural and moral attitudes.

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David Marquand

One thing is certain. The current crisis cannot be overcome without a substantial increase in the role and scope of public power. The crisis stems, above all, from lax and incompetent public regulation of private economic power. That in turn stems from a profoundly dangerous economic philosophy, which holds that government failure is more prevalent and more damaging than market failure, that markets are always wiser and more rational than governments, and that if private market actors are allowed to pursue their private interests without interference from public authorities, the invisible hand of the market will necessarily deliver the best possible outcome for society as a whole.

After the fall of Communism, that philosophy became part of the conventional wisdom in the United States, in Britain, in the institutions of global economic governance like the IMF and the World Bank and to a lesser extent in most member states of the European Union. We have now been reminded that it was fatally flawed: that as Keynes pointed out more than seventy years ago, financial markets, left to themselves, are governed less by reason than by a quintessentially irrational herd instinct and therefore have an inherent propensity to generate bubbles which are bound to burst sooner or later. When they burst, they are likely, in the absence of countervailing public action, to drag the whole economy down with them.

So public power has to be deployed; and, as Keynes also showed, it has to be deployed in good times as well as in bad. The notion of the »managed economy« has fallen so far out of favour in the last twenty years that it has become little more than a memory. It must now return to the centre of the public policy stage: not just during the current crisis, but after it as well. But who is to do the managing? What form should public power take? In Keynes' day, the answers were not in doubt. The state would manage the economy, for it was in the state that public power took visible shape.

In Europe, at least, I believe that the answer is grossly over-simplified, and may turn out to be almost as dangerous as the market fundamentalism that has got us into the current mess. The small and medium-sized states of Europe are too small and vulnerable – and also too divergent – to do the job. As I write, the British Government has just launched a massive fiscal stimulus to avert the danger that the current down-turn will turn into a real depression on the scale of the depression of the 1930s. It was right to do so. But there are formidable risks – chief among them,

the risk of a confidence crisis, and a precipitate fall in the value of the pound that would make it impossible for the government to borrow enough to finance the stimulus it seeks. The obvious answer is for Britain to join the euro; and although this is highly unlikely in the medium term, I don't rule it out.

But irrespective of what may or may not happen to Britain, the crisis has shone a harsh light on a fatal flaw in the Eurozone itself. Monetary policy has been Europeanised, but fiscal policy has been left to national governments. That was always a risky thing to do, but as long as the boom proceeded on its merry way all seemed to go well. Now the flaw has become obvious. In short, the Eurozone, as presently constituted, is not enough. We need a smaller role for public power on the national level, and a bigger role for it on the European level. In that perspective, the whole language of »state« and »non-state« obscures more than it illuminates.

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Thomas Meyer

Hardly a single basic political term has been more politically instrumentalised and ideologically plundered, or become such a constantly available token of political hypocrisy, as the state. And yet the whole affair is quite simple. The experience of the 20th century and the results of empirical research in modern governance theory both require us, when directing social relationships and developments, to exercise as much pragmatism as possible. Thus we should leave the individual and very different directing resources to the areas where they can achieve most – money to the market, solidarity to civil society and power to the state. However, the state must assume the obligation to guarantee the overall framework of social regulatory tasks, for one absolutely compelling reason: because it alone is in a position to guarantee rights.

Among democrats, whether citizens, politicians, journalists or social scientists, nobody has any doubt that guaranteeing basic rights to every citizen is a core task, which in modern society should never be relinquished or delegated to others by the state – quite simply because no other player would be able to perform it. But according to existing international law, and also to the European Union Declaration of Fundamental Rights, there are five categories of basic rights which are valid for every citizen: civil rights, political rights, cultural rights, social rights and economic rights. Thus it is not only a matter of guaranteeing freedom of thought and religion, free speech, freedom of assembly and democratic participation in forming and controlling one's own government, but it applies also to education, health and social security, the right to work and to fair working conditions, and the protection and expression of one's own culture and language. In modern societies, the state must guarantee all this, without doing everything itself. It is free to decide how to organise the performance of all these tasks. There is great scope for competing ideas, players and parties. In granting these rights to every one of its citizens, the state is bound by valid basic rights, and thus by the conditions which underlie its own legitimacy. It may neither ignore them, nor delegate them.

On this point there is therefore no question of differing political opinions or ideological preferences, but rather an inescapable obligation derived from universal human rights: the modern state, operating under the rule of law and as a participatory democracy, has overall responsibility for universal social security provision and the structure and development of the economy, in line with these fundamental rights. The embedding of the markets, and particularly the finan-

cial markets – which are becoming an ever more crucial factor for the economy as a whole – within a welfare state and regulatory framework, is therefore part of the state's core tasks and this cannot even be subject to discussion.

Of course, just how the modern state does all this, which combination of delegation and state provision is chosen, is a matter of experience and intelligence. Of course we know that the ideological maxim which claims that the state can best discharge its responsibility to guarantee all this by performing every single task itself, has been historically refuted with spectacular clarity. This obliges both political actors and academics to search openly and creatively for the best ways to achieve the desired purpose. However, this must not deflect us from the fact that the *purpose* itself, the state's duty to guarantee fundamental rights, cannot be delegated. Let us have as much market and civil society as possible. But how much state is necessary to guarantee the fundamental rights of the citizens is a decision for which the state alone can be responsible: that is, responsible to its citizens.

Donald Sassoon

The problem with this question is that it is a general question which seeks a general answer. It assumes an abstract state which has determinate functions, which responds to specific stimuli and which has a range of powers. In other words the question assumes the possibility of a general theory of the state. I think this endeavour, which has preoccupied the minds of theorists for several centuries, has exhausted itself. We will never have a theory of the state which will fit both Luxembourg and the United States, as well as China, the Republic of Congo, Paraguay and the Lebanon – unless we remain at an extremely high level of generality. We can jot down a list of states' functions (supervising the economy by taxing and spending, maintaining law and order, ensuring security from external threats, regulating markets, providing public services, negotiating with other states, etc.) but this kind of exercise does not get us very far since existing sovereign states have very different powers and are enmeshed into the international system in very different ways.

To add to the complexity of the issue we have also a number of regional and bilateral accords, some formal (for instance, the European Union) others informal (for instance, the so-called special relationship which ties some countries, such as the UK and Israel, to the United States). These accords, though they formally restrict sovereignty and are sometimes internally contested, often enable an expansion of the functions of states and a better performance. Finally we also have a set of relationships, mainly but not exclusively economic – what goes under the generic name of globalisation – which is constantly changing.

Over the last century or so, states – all states – have expanded their functions in all directions. Little has been left untouched. Much of the current political debate, precisely because it centres on what the state should and should not do, accept the fundamental premise that, potentially, the state, particularly if backed by a visible majority of the population, can do anything it likes. It controls the market by deciding what can be bought and sold, by defining property rights. It controls private life by deciding who we can marry, the speed at which we can drive, how our children should be educated, where we can smoke, where we can travel, what we can read, etc. The limits of its power are set by the popular will (how much the people can tolerate), the resources at its disposal, the capabilities of its personnel, and by a complex range of external constraints.

From this perspective, discussing the future role of the state in the abstract is a useless exercise. What

this or that state should do and what states should do together is, on the contrary, the essence of politics and this is where opinions divide. Contrary to what it is generally assumed, the years since the 1980s have not seen a retrenchment of the state – the so-called Reagan-Thatcher neo-liberal revolution. At no stage did the official exponents of the minimalist state (I am talking about the political parties which expressed such position, not the ideologues who barked at the sidelines) deny the centrality of the national state in the economy. They simply thought that a low level of regulation was preferable to a high one. The present situation suggests that they lost the argument.

The real debate should move onto an entirely different level, namely onto the construction of an international system of regulation. This will not happen, precisely because states vary so much and any international system would need to be constructed around the interest of the hegemonic state. In the absence of a true hegemon (and current assumptions are that the USA will not be able to reconstruct the hegemony it had during the thirty years after Bretton Woods) there will be no agreement. The current crisis has not even generated a common European Union policy. States will continue to perform the same roles as before, will patch up their economies in a more or less concerted way. We will be stuck with a partially globalised economy and an extension of national regulations and anarchy will continue to prevail.

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Gesine Schwan

Though pronounced dead for a long time, it suddenly is back: When the financial crisis spilled over into Europe in the autumn of 2008, the state experienced an unexpected renaissance. Everywhere on the continent, banks – and soon companies in the real economy – called for state assistance. Politicians, experts and increasingly the general public as well, began demanding tight regulation of the financial markets by the state.

The state then stepped in, however reluctantly – with guarantees of enormous sums, programmes to stimulate the economy and cash injections for struggling banks and firms. This decisive action, which – even if there were some differences of nuance – was taken in all the capitals of Europe, met with general approval. The state was back, simply because it provided the only chance to avert the collapse of the system.

However, the general respect for these decisive state actions is not free from critical undertones or dangers. I should like to stress three aspects which – in my opinion – should influence the future nature of state activity:

1. The huge state guarantees, subsidies and programmes to stimulate the economy are contrary to all the efforts to balance budgets in Europe and put at risk the work of almost an entire decade. SPD leader Franz Müntefering's phrase that in Germany the state is not poor, is of course true, but it does have a debt problem all the same. If the state is too willing to let itself be misused as an institution for repairing all the mistakes of those who for years and years have criticised it as inefficient and over-expensive, then the danger looms of a self-fulfilling prophecy: the state will reach the limit of its means. This will happen not because it has over-estimated its own means and possibilities, but because it has to step in to help other people who constantly painted it as incompetent and over-extended. In the long term, this could undermine its legitimacy.
2. At the same time I can see the danger that, as the state becomes stronger again, the always fragile balance between state, the economy and civil society could be thrown out of kilter. It's true that we in Europe want a strong state, but we do not want one which crushes society and strangles the economy. The relationship of productive tension between the major political and social players can produce negative consequences if permanent shifts of power towards the state cause the system to lose its balance. This is an even greater danger

when that relationship is embedded in a complex, multi-level system. We want a free economy within a system of market economics, and a free, living civil society. We can only tolerate state intervention in these fields for the brief duration of a crisis which threatens our very existence. Otherwise we violate the principles of regulatory policy and will damage democracy.

3. Above all, however, the re-emergent state in the crisis of the moment appears embedded in a European and international framework, but in the last analysis acts in the guise of a classic nation-state. This brings the danger that we could delay the necessary further development of state activity towards stronger international negotiating mechanisms, such as those which find expression in global governance. Continuing to operate through the increasingly outdated nation-state, out of a false perception that it is a good guarantee against all sorts of crises, would drive us back years in our efforts to develop governance, thus wasting valuable time which we urgently need to construct a new world order.

Perhaps we are experiencing the old nation-states intervening in the economy in the Keynesian tradition for the very last time. There is no question that these interventions are necessary. And I explicitly welcome the fact that Keynes is on everyone's lips once more. Nevertheless, we should remain aware that we are currently using an instrument which perhaps will be completely unusable in a few years time. As long as we do not forget that state activity too must always be able to cope with current challenges, then this insight may perhaps represent the opportunity which the crisis brings.

Professor Gesine Schwan is a former President of the Europa University Frankfurt/Oder and the social democratic party's (SPD) candidate for the German Presidency.

Wolfgang Thierse

In its Hamburg Programme of 2007, the German Social Democratic Party provided a clear outline of the future tasks of the state: the democratic state is the political self-organisation of its citizens. A living civil society can and should supervise, correct, spur on, relieve and supplement state activity; but it cannot replace it. Without a vibrant, vigilant civil society, the very substance of the democratic state is in danger. Each of them remains dependent on the other, they need one another.

The state will have to perform its sovereign duties in the future as well – both internally and externally. It exists to make laws and binding regulations, and to ensure they are obeyed. As a democratic state under the rule of law, it makes every use of force, including its own, subject to the rule of law. That is precisely what legitimises its monopoly of the use of force, something which must be defended.

In the future also, German social democracy stands for an effective provision of services, under public responsibility and focused on the citizens. It considers that the state is under an obligation to provide all its citizens with equal opportunities in life, and to grant equal access to public goods – education and culture, health and natural resources, internal and external security. Only the state can ensure that everyone has a fair share – not the market. A market or financial market left to its own devices is socially and ecologically blind. It is not of itself in any position to provide public goods to an appropriate extent. In order to have a positive effect, it requires concrete rules and state control.

The welfare state, the greatest achievement of European culture, is the most important single factor which distinguishes our continent from every other one. This welfare state represents organised solidarity between strong and weak, young and old, sick and healthy, workers and unemployed. It is and remains the crucial basis of the economic dynamism which creates our prosperity.

Social democracy will defend the essence of this welfare state in the future also. Its fundamental quality is that it transforms the weak and those in need of help from being mere objects of charity – however well-meaning – into subjects with legal rights, thus preserving their dignity, to the extent that politics and the state can achieve this.

A humane society is only possible when public goods are provided to a sufficient extent and in great variety. This creates and reinforces the cultural and social cohesion which are essential for a vibrant democracy, and supports the cooperative network of

the citizens. Public goods require and support a basic democratic consensus, which provides the basis on which decisions are taken on their retention, and on the criteria under which they are to be provided.

The wealth of cultural, social and democratic goods is central to the quality of life of our cities and our countryside. Unrestricted privatisation and commercialisation, on the other hand, destroy public spaces and thereby damage the quality of urban life. Publicly-run schools and universities, public museums, theatres, adult education centres and municipal libraries are goods in which every citizen has a common interest. The state is not, and will not in future be responsible for »truths« – whether of a philosophical, religious or historical nature – but it will be responsible for the conditions under which its citizens seek their own truths. The state must not, and cannot, do everything itself. But it does bear the responsibility for the structures to preserve and develop public goods and to ensure that they are available to every single member of society!

Polly Toynbee

Suddenly only the power of government can save us – and most of the world agrees. How oddly that idea clashes with the prevailing political mood in Britain in the last few years. Until Lehmann Brothers crashed out of the sky and the world turned upside down, big government was becoming increasingly unfashionable and the idea of the strong central state was under attack from all sides.

Big government was unpopular in the opinion polls, with fewer people bothering to vote in each election: only 61% in 2005. As a result all the parties were scrambling for other solutions. They all settled on localism, and competed to promise devolving everything down to the lowest level with power returned to local communities. Labour was as eager as the rest to avoid being labelled the party of a monolithic central state. The Conservatives were making good ground with allegations that Labour had swelled the size of government by over-borrowing and over-spending with too little to show for it in improvements in public services.

At the same time, David Cameron was calling for more deregulation in finance and business: one Conservative committee even called for an end to mortgage regulation. Labour was on the back foot, promising a bonfire of red tape and business restrictions to prove it too was for light touch government.

Meanwhile a second anti-state battleground had opened up, as libertarians of right and left attacked the government for Big Brother-like interference with the privacy and freedoms of the citizen. Labour's plans to introduce identity cards, to allow police to hold terrorist suspects without trial for 42 days and the widespread use of CCTV cameras in public places were seen by conspiracy theorists as sinister encroachments on ancient civil liberties.

Now the credit crunch and the prospect of a prolonged slump have changed everything. The government borrows billions to rescue the banks that once complained about state regulation. Businesses large and small beg for state help with cash. They need government to intervene to force the banks to lend at good rates. Property owners need rescuing before their homes are repossessed. Only the state can create new jobs in green industries to reduce the numbers of unemployed.

Labour's fortunes have risen in this crisis, as public opinion supports vigorous intervention from the state. The Conservatives, taking the anti-Keynesian line, have planted themselves firmly on the laissez-faire side of the argument – where Herbert Hoover was in the Great Depression, and where Margaret Thatcher

was in the early 1980s recession. The Conservative gamble that we shall never know how much the recession was eased by Labour's colossal borrowing, but we shall certainly feel the pain when the money has to be paid back through higher taxes. In the hangover after the big spend, they reckon small government will be popular again.

But other pressing global issues demand big government answers – above all, climate change, where every country needs to control its carbon emissions. That demands ever-tighter state control of business and private citizens' behaviour. No-one dares admit it yet, but the big question is whether democracies are strong enough to impose the kind of emissions controls necessary to save the planet. If the small government, deregulating ideologues win the day, there is no hope and we shall all fry.

As Obama steps into the White House next month, the danger for the Conservatives is that their small government rhetoric will make them look increasingly out of step with the progressive mood of the rest of the western world. The new president makes the idea of good government look benign, while George Bush's idolatry of markets red-in-tooth-and-claw looks like a criminal blunder.

This great ideological battle is being played out in practical politics on the ground in Britain – big state versus small state, great intervention versus letting the free market correct what the free market has destroyed. The stakes are high, not just for the political parties, but for the future governance of the country for at least a decade to come. The same challenge confronts the EU. Can it shape up and pull together productively to forge effective government, or will the twin challenges of economic meltdown and climate catastrophe expose its political weakness, as each state struggles to save itself?



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