Social Growth

Model of a Progressive Economic Policy

January 2012

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- Although the progressive economic policy proposed here is focused directly on overcoming the economic and social crisis by means of social and therefore fairly structured growth, its indirect aim is to alleviate the environmental and political crisis in which Germany, Europe and the world find themselves.

- Social growth, with its focus on education, health, care and climate protection, puts less pressure on natural resources than the conventional market-driven growth model. It also delivers the results that people expect from democratic politics, namely jobs and a share in the prosperity these jobs create.

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Content

Preliminary Remark

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This text is based on a wealth of studies and reflections that have emerged in recent years either within the FES or commissioned by it – partly in the course of the project »Germany 2020« (2007–2009), partly within the framework of its successor project »Social Growth«. The long bibliography includes these publications, but also reflects the diverse contributions of prominent experts. Within the FES, René Bormann, Michael Dauderstädt, Philipp Fink, Sarah Ganter, Sergio Grassi, Björn Hacker, Marei John-Ohnesorg, Gero Maaß, Christoph Pohlmann, Markus Schreyer, Hubert Schillinger and Jochen Steinhilber collaborated within the framework of a task force.

Summary

The economic and financial crisis has laid bare the weaknesses of the dominant growth model in no uncertain terms. Manifestly, this growth, which was largely abandoned to market forces, was not sustainable. Bolstered by a general rolling back of the state and a liberalisation of labour markets, in Germany and indeed worldwide income inequality increased. This was compounded by ever more lopsided economic development, driven by the globalisation of financial markets, leading to an explosion of financial assets and corresponding debts.

Internationally, this development took the form of large imbalances in international trade and capital movements. To this day, the high current account surpluses of some countries are matched by the high current account deficits of other countries. Over the years, these surpluses and deficits have generated a high level of exposure and foreign debts which, together with the public debt which has increased sharply since the crisis, have reached a level that is no longer sustainable. Debt reduction strategies are now therefore called for that generally entail a reversal of current capital flows. However, the burden of adjustment cannot be borne by the deficit countries alone; the surplus countries – and Germany in particular – must also participate.

A simple return to pre-crisis business as usual scarcely seems convincing. If more balanced and social growth is to be achieved we have to bid farewell to the idea of »efficient« financial markets. The crisis has shown that markets are characterised rather by herd behaviour and regularly precipitated changes of »sentiment«. Handing over capital allocation to the financial markets alone has led to colossal errors. In light of these enormous market failures, effective regulation of banks and financial markets and a more emphatic social and industrial policy commitment by the state are called for.

The goal of the social growth model proposed here is a change of course in economic policy and the bolstering of domestic demand. Future growth in Germany is likely to be not primarily in industry but in services. There is a great deal of catching up to do, especially in social services, such as education, health and care. Many needs, in particular those of low and middle income earners, cannot be satisfied because of a lack of purchasing power. That is why a new social, macroeconomically viable, structurally coherent and equitable growth model is needed that can absorb the unemployed or the underemployed in a growing service sector with decent work; increase employment and productivity overall; and improve income distribution.

In order to reduce the inequality which is one of the causes of the crisis tax policy must be used more vigorously, for example, by raising the top tax rate and rein-

troducing the wealth tax. In order to reduce imbalances in the Eurozone, coordination of wage policies makes sense, as does closer coordination of economic policy, including the surveillance of current account surpluses and deficits. Joint eurobonds could be the beginning of genuine, even fiscal integration within the Eurozone.

Social growth must guide the markets, not only in Europe but also globally, directing their effects along socially desirable paths. This includes minimum standards with regard to working conditions, safeguarding the welfare state and a coordinated global monetary policy that controls exchange rate upheavals that are harmful for the real economy. A progressive economic policy implementing this model should therefore be based on the following ten-point programme:

1. Guarantee a Stable Supply of Credit with Effective Financial Market Regulation.

2. Use Education Policy to Boost the Forces of Growth and Expand Opportunities for All.

3. Open Up New Areas of Growth with Industrial Policy

4. Strengthen the Position of Employees by means of Minimum Wages and Codetermination.

5. Fund Public Tasks Properly and Fairly by Reforming Tax Policy.

6. Stabilise the Economy and the Debt Situation by means of an Anti-cyclical Fiscal Policy.

7. Strengthen Forces for Growth in Europe by means of a Robust Public Financial Architecture.

8. Provide for More Stability in the Eurozone by means of Economic-policy Coordination.

9. Ensure Decent Work for All by means of European and Global Standards.

10. Manage Globalisation by means of a New Economic and Monetary Order

1. The Problem: Unbalanced Growth

The global economic and financial crisis that broke out in 2007 had only just started to show signs of being – at least partly – overcome when it returned with full force. While in some states the enormous financial assets and gross domestic product (GDP) of the pre-crisis period have more or less been restored, unfortunately others continue to suffer from the consequences of the crisis in terms of low growth, higher unemployment and rising public debt. The now alarming level of public debt, however, is not least a result of the anti-crisis policies that, by means of bank bailouts and economic stimulus packages, had enabled the rapid overcoming of the crisis in the first place. Now the financial market crisis has been transformed into a public debt crisis which in turn threatens to trigger a new banking crisis.

The economic crisis shows that the prevailing model of economic growth has fundamental weaknesses. A simple return to pre-crisis business as usual scarcely seems possible. In keeping with this, a broad debate recently got under way on the benefits and disadvantages of economic growth. This goes hand in hand with another debate on state and market failures caused by the financial and economic crisis. We need to understand the mistakes that resulted from unguided growth processes in order to be able to develop alternative strategies. The model of »social growth« serves this very purpose. A growth model must be outlined that is socially balanced and thus also less crisis-prone. This entails a more active role for the state, not only domestically but also internationally within the framework of cooperation and in the coordination of economic and social policy.

The crisis did not emerge out of nowhere. Its causes lay in a long period of unbalanced global growth, accompanied by increasingly unequal income distribution that, in turn, led to an explosion in financial assets. These assets had their downside in enormous debts arising from accumulated state budget and current account deficits. In many countries, this was compounded by the overindebtedness of private households, for example, in the United States, the United Kingdom, Greece, Spain and Ireland. In some countries – for example, the United States, Japan and Greece – the public authorities got deeply into debt financing the demand needed for growth. The rapid parallel development of debts and assets up to the outbreak of the crisis was made possible by the lack of regulation of global financial markets and because the latter distributed risk recklessly and without proper transparency or control.

In this way, large imbalances accumulated in international trade that could not be equalised via market or price mechanisms, but became entrenched. In the Eurozone, despite robust growth, divergences between the member states in recent years have increased steadily. The European Central Bank's (ECB) single monetary policy encouraged debt-driven asymmetrical growth in the former high-interest rate countries of Southern Europe, with marked current account imbalances, which collapsed in the financial market crisis.

This lopsided growth was made possible by ensuing long-term trends that, in turn, had – and continue to have – repercussions for global growth (Dauderstädt 2011b):

- Globalisation: The internationalisation of markets for information, capital, goods and services and labour has fostered growth since around 1990. The transformation of former communist economies – especially China – and the increasing involvement of developing and emerging countries in the global economy have enabled an international division of labour and gains from specialisation, thus boosting productivity. In global terms, this has led to greater prosperity. On the other hand, this exclusively market- and competition-oriented globalisation has forced all the countries concerned to undergo major upheavals in order to adapt to the new circumstances.

- Increasing inequality: Rising incomes became increasingly unequally distributed since the distributive power of states and trade unions or employees was weakened by global competition for tax revenues, production locations, investment and jobs in favour of corporations, asset holders and investors. In practice, a rising profit share and a falling wage share can be discerned in all countries, as well as a widening gap between rich and poor as a consequence of the extremely unequal distribution of the fruits of globalisation.

- Crisis-prone financial markets: The liberalisation of global capital markets has also meant that the financial sector today operates to a large extent isolated and disconnected from the real economy. Short-term, often speculative capital movements threaten the stability of financial and economic systems. In recent years and decades, therefore, the global economy has increasingly become more crisis-prone.

At first sight, Germany's economy – especially its export economy – has benefited from these developments. It offers a range of products – capital and luxury goods – for which, thanks to the inequality of global growth, demand abroad is strong. Germany has internationalised its production processes, the outcome of which is a – by international comparison – strong and relatively large industrial sector alongside a relatively small service sector.

On closer examination, however, a number of problematic developments can be discerned in Germany. For example, because of its strong dependency on its export industry the German economy is extremely prone to crises abroad. This affects not only the banking sector, which in the wake of the global financial crisis was brought to the brink of disaster and had to be bailed out by the state, but also the real economy. At around minus 5 per cent the collapse of growth in Germany in 2009 was among the worst, by international comparison. Although unemployment increased only moderately this concealed a massive fall in hours worked due to reductions in working time accounts and short-time working.

In a longer term perspective, too, Germany's growth and employment dynamic is disappointing by international comparison. Growth was rather weak up to 2005 due to its predominant dependence on export surpluses at the expense of domestic demand. Also alarming is the, by international comparison, low and rapidly declining aggregate productivity growth (van Ark et al. 2009). The unemployment figures in Germany were high for a considerable period, even before the crisis. Thanks to the advance of financial market capitalism and a labour market policy that promotes precarious employment real wages stagnated. Inequality of income and wealth increased more rapidly than in almost any other OECD country (Bontrup 2010). The low qualified in particular continue to be unable to enter the labour market. Accordingly, already during the years before the crisis fewer and fewer people benefited from economic development; opportunities for economic and social mobility have deteriorated and the risk of poverty (especially in old age) has risen. These serious social problems threaten not only further economic development, but also social cohesion.

The state in Germany has also pulled back from many areas of economic and social life in recent years. This is reflected, on the one hand, in the development of government expenditure relative to GDP which, shortly before the crisis, fell to the lowest value since reunification. As a consequence of this, in the public sector Germany now has one of the lowest investment and expenditure ratios for initial and further training, as well as for public infrastructure. This has dampened economic growth in recent years and undermines the basis for future growth.

The tax ratio has also fallen sharply in the wake of extensive tax cuts, as a result of which the state, in the past ten years alone, has forgone revenues of around 350 billion euros and now stands at a very low level by international comparison. The goal of using tax cuts to stimulate investment activity among private companies was not achieved, however. Instead, these tax cuts have reduced the redistributive capacity of the German tax system. Capital and assets are scarcely taxed any more, which serves only to accelerate income and wealth inequality even further. In contrast, the recipients of earned income, especially medium incomes – also as consumers – are effectively bearing more and more of the aggregate tax and contribution burden. As a result, the state, and primarily the *Länder* and the municipalities, which carry the bulk of public investment, lack the financial muscle they need to cope with tasks as they arise. Not even the goal of reducing the public debt could be achieved. German public debt grew due to the long period of weak economic growth and high unemployment even before the crisis and increased sharply in the wake of the fiscal policy bailouts needed to overcome the current crisis (Priewe/Rietzler 2010).

Because of its strong export orientation, growth in Germany slumped dramatically (minus 5 per cent). On the other hand, it was able to recover much more quickly than other countries since it benefited disproportionately from the recent global upturn. The latter came about because of the government economic stimulus packages and massively expansive central bank monetary policies applied worldwide. The easing of the labour market permitted modest nominal wage rises. Nevertheless, the German economy has returned to its export-oriented, unbalanced growth model. The currently very low real interest rates – owing to low nominal interest rates and slightly higher inflation – also strengthen growth. The »post-crisis economic miracle«, however, depends on European and global demand, as it did before the crisis. The developing and emerging countries which at present are supporting the global economic upturn are having to contend with the overheating of their economies, speculative capital inflows and looming asset price bubbles. There are considerable macroeconomic risks and public policy shortcomings, both in Europe and globally, which make the basis of the upturn appear fragile and the distribution of its benefits unfair.

Economic crises are likely to get worse if their causes are not addressed and their manifestations are not adequately regulated and subdued. Unguided economic growth will augment further risky developments worldwide: for example, in the past, economic growth has accelerated greenhouse gas (CO_2) emissions and caused the price of many raw materials to rise. Climate protection poses a major challenge for collective action at the global level since polluters – households, corporations and countries – can free-ride on those who make economies. The looming competition for access to raw materials will – in the ideal case – lead to more competition among importers of raw materials for the markets of the exporting countries (so that they are able to pay for those raw materials) and to a race to improve resource efficiency, but it could also turn into conflicts for territorial and economic control of natural resources.

World population growth is also progressively becoming a threat to growth, although in the past it has done most to bolster economic growth. Demographic transition to stable or shrinking populations alongside rising life expectancy is dramatically changing the age structure of societies. Labour supply will tend to decrease, while the needs and expectations of the older population will increase. The pain entailed by this demographic transition will start to be felt in Germany only from 2020, although it will probably have the positive side effect of reducing unemployment.

2. The Entangled Debate between Market Liberals and Growth Sceptics

Current interpretations of the dominant growth model's crisis tendencies vary widely. On the one hand, there are those advocating approaches aimed at legally codified solutions based on political consensus and democratically legitimised as far as possible. These should be global or at least multilateral, European or national. On the other hand, there are those who are confident that within a rather minimal state framework competition between nation-states, enterprises and individuals will lead to solutions to the current problems at national, European and global level. For creditor states, asset holders and the majority of employers the appeal of this option is that these solutions tend to reflect their aptitudes and interests.

This landscape is traversed by a cleavage between those who advocate globalisation, Europeanisation and growth and those who abjure them. The latter want to restrain globalisation in favour of national, regional and local circulation of goods and finance and to renounce growth; the former welcome such developments, even if they may wish to organise them differently. Those abjuring growth encompass both radical right- and left-wing positions, the former seeking salvation in the dismantling of globalisation in favour of national, regional or local circulation of goods and finance and a return to populist-nationalist politics, while the latter dream of constructing eco-socialism in one country released from the dictates of the world market and of growth. They also demand the contraction of growth (»degrowth«) in order to enable developing and emerging countries, taking into account environmental limitations, to grow further.

Box 1: Why growth at all?

Critics of growth of a conservative (Miegel 2010), green (Seidl/Zahrnt 2010) and left-wing (Passadakis/Schmelzer 2011) persuasion fundamentally call into question the wisdom of further growth. It is not environmentally sustainable, no longer fulfils »genuine« needs, does not make people happy and is based on the exploitation of nature and people, especially in poorer countries. The compulsion for more growth is supposed by some to be the result of the need to finance social security systems as they are currently set up and by others to result from the need to satisfy the commercial interests of capital.

This criticism does not hold water. Growth is important in order to meet major social needs that have not yet been satisfied. Growth also makes sense in branches and areas which remain underdeveloped, such as education, care and climate protection. Economic growth need not consume more raw materials and energy. For example, it can also result from the transformation of household activities into market-related employment. Growth is therefore not to be rejected across the board. It is much rather a question of which other real goods and services should be provided and whose incomes should grow. More education, care, health and renewable energies are socially desirable. The incomes of the world's poorest and even poor people in Germany should also increase in the foreseeable future.

However, growth is by no means an automatic panacea. For example, although uncritical advocates of growth are keen to point out that without growth full employment and fairer distribution could not be achieved, that is only a half-truth. First, full employment could also be achieved through the redistribution of necessary work and income, even if that would be much more difficult politically without growth. Second, growth is no guarantee of full employment and more equitable income distribution, as the past has shown. In order to achieve or maintain full employment, growth must be over the employment threshold provided by aggregate productivity increases. But these productivity gains can – as was frequently the case in the past – also be converted into more free time. This should be distributed in such a way that large groups of employees are not unemployed long term, but rather everyone has shorter weekly working hours, more holidays or longer retirement in old age.

In the final analysis, growth continues to make sense where there are still major unsatisfied needs, whether among poor people on low incomes or in sectors with low purchasing power but substantial need (Dauderstädt 2010a). In contrast, there should be no increase in luxury goods that scarcely enhance social prosperity.

In Germany's party political landscape radical positions have so far played a relatively minor role and may be found almost exclusively outside parliament. Although critiques of growth and globalisation and Euroscepticism are frequently encountered in the public debate, opting-out – so far at least – is not a serious political standpoint. However, there are also considerable differences among those who basically advocate growth and believe it to be necessary, for example, with regard to the extent of their willingness to seek supranational solutions, take global and European responsibility and exercise solidarity.

These differences manifest themselves in particular with regard to:

- the democratic and social management/governance of globalisation;

- the relationship between supply-side and demand-side orientations in economic policy;

- the significance of cooperation and competition between states;

- the issue of the containment of global markets – especially the financial markets – by internationally agreed standards and regulations.

The German economic policy debate is dominated by the traditional cleavage between those who attach more importance to market forces, private initiatives and »personal responsibility« and those who wish to establish more egalitarian social or even more ecological relations by way of state intervention in and against the market. The governance role of the state is not in dispute. In the first »camp« the reliance is on supply-side forces, which are obstructed by excessive government regulation, too high taxes and strong trade unions; in the other camp all this is regarded as necessary correction for market failure. While the former regard inequality as a natural concomitant of growth and to be accepted, the latter consider it to be a result of market power which, also in the interest of long-term growth, must be evened out.

3. The Concept of »Social Growth«

The concept of »social growth« is intended to define a paradigm that offers an alternative to the dominant discourse based on market-driven growth, but also the currently fashionable scepticism about growth. The idea is to redefine such key notions as »work«, »value creation«, »productivity«, »investment« and »debt« and to institute an economic policy »revamp«. The main point here is the recognition that markets in general – and, in particular, financial markets – have proven unsuitable for providing rational resource allocation and income distribution. Social need differs fundamentally from unequally distributed purchasing power. This approach will be expressed in terms of concrete economic policy recommendations, whose embedding in the »social growth« paradigm will – the idea is – confer on them stronger justification and more consistency.

»Social growth« is intended to offer as many people as possible an opportunity for decent work and a share in social prosperity. Needless to say, one can distribute only what has been produced – but people should also receive their proper share. The scope for distribution opened up by rising employment and productivity increases should be used for more private and public consumption and investment, but also more free time. That includes shorter working weeks, more vacations and a longer safeguarded retirement. More jobs and productivity increases require investment in tangible and intangible capital stock, including human capital. These social investments must be promoted, channelled and liberated from the financial market casino (Dauderstädt 2010d).

3.1 Work, Productivity, Investment

On the supply side, economic growth results from more work and/or higher productivity (see Figure 1). Both arise primarily from more investment, which creates new jobs, or, by means of a modernised capital stock, makes labour more productive. However, the three key growth factors require a more precise definition if they are to merit the predicate »good« or »social«.

- Decent work is work that is properly paid and thus enables working people to look after themselves and their families adequately. It also allows employees to have a say in their workplaces. These conditions are best fulfilled with full employment since that confers substantial market power on wage earners. It should be noted, however, that additional employment that replaces undeclared (»black«) work, work in the home or voluntary work creates new prosperity only to the extent that it is more productive.

- Social productivity differs from productivity as traditionally understood and measured in that it takes into account (negative) external effects and excludes increases in efficiency achieved at the expense of the employees. The value of a product – good or service – expresses a social need. Value creation can also result from improvements in quality from the consumer's standpoint. Apparent productivity rises achieved solely by means of higher output or lower input prices, work intensification (in other words, more work in the same time), a concealed reduction in quality or an orientation towards an elitist demand structure resulting from unequal income distribution do not increase aggregate social wealth.

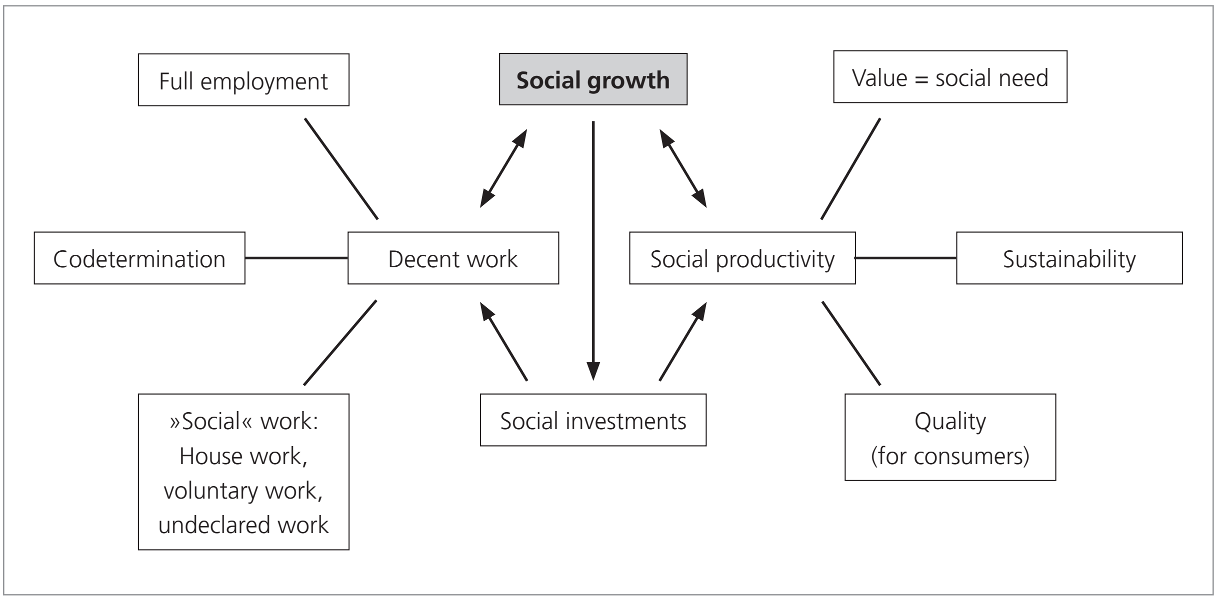
- Social investments are expenditure that generate growth either by creating jobs or increasing productivity. Restructuring of assets between different financial investment vehicles does not count. Besides the traditional investments of private entrepreneurs in better capital stock and thus in new or more productive jobs government spending not only in »bricks and mortar« (in other words, infrastructure) but also in education, research and health counts. The spending of private households on housing, education and so on also increase prosperity over the long term.

Investment occurs in the private economy only if investors can expect an income stream to justify the outlay, which is often financed by loans. Enterprises expect demand for their products; the state expects higher tax revenues; private households expect rising income and/or lower costs (for example, on rent). These incomes arise only if other actors incur the corresponding expenditure. For that purpose they need access to income or credit (see Section 3.2).

On the one hand, not all private economic investment is useful with regard to social growth per se, while on the other hand the private economy systematically neglects socially valuable investments. This market failure throws up the question of what should grow in the future. Although the industrial sector will continue to occupy an important position in the German economy it cannot be assumed that, on balance, its growth will in the long term lead to more employment. In fact, the GDP share of the industrial sector and in employment has been declining for several decades in most developed countries, although in Germany this trend has been slower. In direct contrast, employment in services has risen. There is still considerable employment potential in the latter, especially in social services.

Social growth will also take place predominantly through the expansion of service provision, especially in areas such as education, care and health. Here, too, growth

Figure 1: The supply side of social growth



will result, on the one hand, in additional employment and, on the other, from higher productivity. The new jobs are partly absorbing, at present, the unemployed or those involuntarily working only part-time, and partly services within the family are being transformed into market services. This increases GDP, although social prosperity increases only to the extent that market-oriented work is more professional, more productive and of higher quality. It was long feared that services productivity cannot really increase (known as »Baumol's cost disease«). However, this thesis brackets out important productivity components, such as quality and intangible capital.

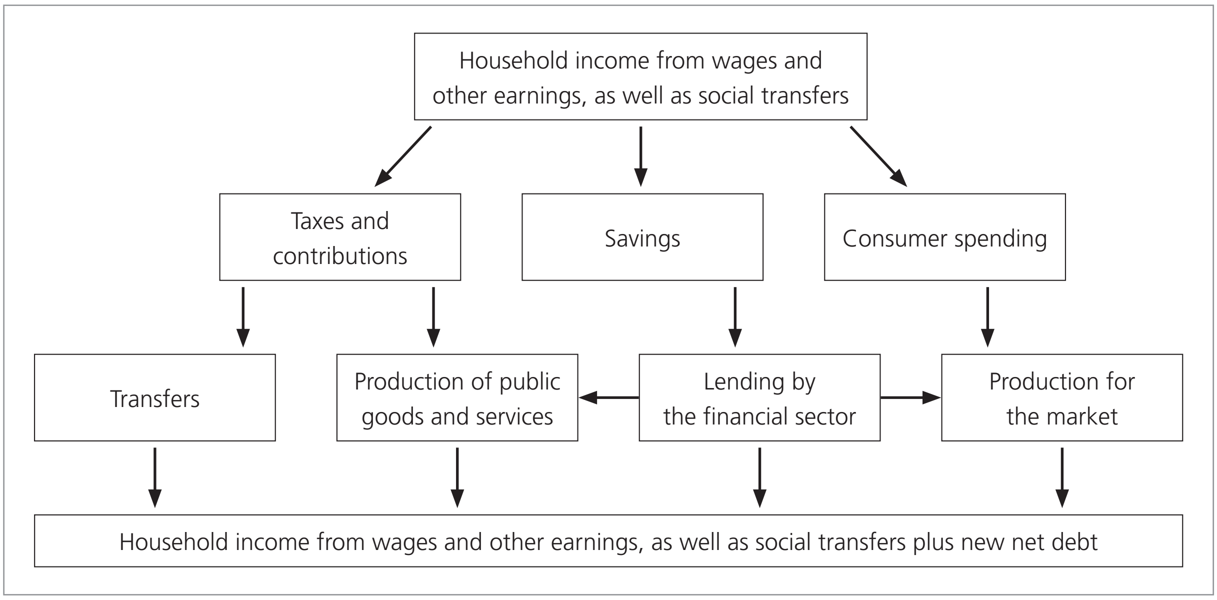
3.2 Demand and Distribution

Social growth requires – like every stable and sustainable growth process – adequate development of aggregate demand. Social demand is constrained by the aggregate of incomes, state transfers and additional lending (see Figure 2). Incomes have an impact on demand only if they are either spent directly or are diverted via the state – taxes and contributions – or via the financial sector to those who spend them. As a rule, the money diverted via the state is spent since both the recipients of transfer payments and the state as provider of public goods barely save. Concerning the savings made available to the financial sector things are more problematic since they can flow into investment vehicles that scarcely stimulate the real economy, at least directly. However, the financial sector – especially when the central bank's monetary policy is accommodating – can also create loans beyond the savings of other actors (mainly households, but also companies and, rarely, the state). Only these loans, which exceed savings, feed growth.

Growth indeed requires that sectors or actors are willing to incur debt and thus to absorb the savings of other actors or sectors. Without this willingness to incur debt growth would grind to a halt since otherwise increasing supply would not find sufficient demand, other than via falling prices. This willingness depends on the interest rate. Interest rates must be lower than expected returns. With regard to the economy as a whole, however, the bank of issue must select the interest rate in such a way that the resulting total lending and the corresponding demand do not too far exceed real supply opportunities and only lead to inflation. In the past the German Bundesbank or the European Central Bank, from the German point of view, tended to act too restrictively so that demand fell below potential supply and generated unemployment and weak growth.

For a while, therefore, borrowing can compensate for a lack of demand owing to low wages, as happened in the United States in the years before the outbreak of the financial crisis in 2007. The US example shows, however, that escalating debt cannot be a sustainable

Figure 2: Circulation of income



substitute for too low and unequally distributed incomes. High incomes lead to a high savings rate. In Germany and many other countries income distribution in the past twenty years has become markedly more unequal. The incomes of the richer population strata has risen much more quickly than those of the poorer strata. This has not only dampened demand but has caused the emergence of a demand structure increasingly oriented towards the interests of wealthier households (luxury and positional goods). This trend was reinforced by the diminishing tax burden on wealthier households. These tax breaks also limited the capacity of the state to satisfy social needs for public goods and services. In future, therefore, it must be ensured that additional value creation is also shared by employees. Only in this way can weak demand be prevented from hindering growth.

3.3 State and Market

For a start, the circulation of income between supply and demand operates regardless of whether social needs are met publicly and collectively or privately via the market. The frequently expressed assumption that taxes and contributions lower demand is wrong, as already explained. On the contrary, demand and supply will be created and additional employment and growth will result, when the state undertakes any expenditure not undertaken by the private sector. What justification scepticism about the state does have concerns the assumption that the state might be a less efficient supplier than the market and private enterprise. Only in this case could more growth be expected from privatisation.

One possible advantage of the market is the better adjustment of supply to demand via the price mechanism. Ideally, prices would reflect social preferences and guide the factors of production towards those activities that furnish the supply corresponding to these preferences. Reality is rather different, however:

- There are marked differences of income and wealth and thus purchasing power is unequally distributed. This distorts the relationship between prices and social preferences and needs.

- The price mechanism excludes external costs – such as environmental pollution – and benefits and malfunctions with regard to public goods (for example, public safety, financial market stability and so on).

- Because of information asymmetries the benefits for the consumer are significantly smaller. For example, a consumer buys a good and thus increases GDP, but later realises that this product has barely benefited him (or not at all).

- The capital markets on which asset prices are supposed to reflect expected returns are – contrary to the long popular hypothesis of efficient markets – not really efficient, but rather operate in terms of the herd instinct. In this way they guide investments towards segments – for example, house building in the United States, Spain and Ireland – in which social need may ultimately be lower than the markets expect.

For all these reasons, which reflect market failure, government regulation of the markets is necessary and certain social needs must be met by the state. However, efficiency might be enhanced if supply is met by private firms on behalf of the state. However, efficiency and productivity must not be confused with cost reductions. Cost reductions can be the result of downward pressure on wages or other input prices, which means that prosperity is merely redistributed.

On closer examination, the demand often expressed that the state should keep out of structural change in the economy and allow market forces free play does not hold water. The state has always implemented an industrial policy, whether openly through direct support for individual sectors or branches, or covertly, for example, by promoting international competitiveness via the state education and training system or even by means of economic stimulus measures, such as compensation for short-time working which has made things a lot easier for the construction industry and manufacturing to cope with the financial and economic crisis, thereby preventing loss of production capacity, knowledge and growth potential.

Furthermore, there are many historical examples that confirm that the market is not always better than the state at opening up new areas of growth successfully and sustainably (microprocessors, the internet, renewable energies). The financial and economic crisis, too, has shown that allowing market forces free play to guide investments does not always benefit society. The state should therefore try, within the framework of a sustainable industrial and structural policy, to guide investments and capital flows towards forward-looking and progressive uses that benefit society the most. At the same time, it should not attempt to hold back unavoidable structural change, but provide social policy support for the necessary environmental, economic and social adjustment processes. There is no alternative to organising production and consumption in future in ways that conserve resources, the climate and the environment.

3.4 European Integration and Globalisation

In transnational markets the circulation of incomes (see Figure 2) takes place across national borders and can no longer be regulated and balanced out by a supranational state if private actors or individual states generate imbalances. On the basis of very different national income levels global – or European – competition between labour forces dampens wage development in many countries, increasingly detaching it from productivity development. Income inequality is rising in most countries. However, the catching-up of some countries, such as China, is reducing global inequality between countries a little. The resulting growth in savings, however, stimulates speculation on asset markets.

Social growth at the global and European levels calls for full employment here too, besides further productivity growth via investment in the real economy. Demand must be ensured through better distribution, in particular by means of productivity-oriented wages.

- Globally, this means that especially in poor countries unemployment must be reduced, working conditions improved and wages increased. Catch-up strategies based on export surpluses and low wages should be balanced by strategies directed towards domestic demand and fighting poverty. Financing the necessary investments should not be left to poorly regulated global capital markets subject to the herd instincts, manias and panics of the actors operating in them.

- There is also a high level of inequality in Europe that primarily takes the form of major regional income differentials between countries, although inequality within most member states has increased in recent years . Recent regional catch-up, which had reduced between-country inequality and which the debt crisis has abruptly terminated, must be revived within the framework of a European growth strategy. In the EU, too, the requisite investments may not be left to the free market. Too much was invested – and too rashly – in Spanish and Irish real estate, a bad investment that has had dire consequences. Decent work in the single market must be protected by means of high minimum standards with regard to working time, working conditions and remuneration. Supply and demand in Europe must be managed by means of a coordinated economic policy that promotes environmentally and socially sustainable development, achieves high growth and employment and limits imbalances.

One key problem with the current international monetary system results from the fact that one national currency – at present, the US dollar – is used as *the* global currency and as the main reserve currency. In order to make available sufficient liquidity for the global economy the country issuing the global reserve currency has to run a deficit. The stability of the world economy and the world monetary system, however, depends on the confidence of international capital markets in the stability of the main reserve currency. Deficits shake this confidence, which time and again has been reflected in sharp fluctuations in the real value of the US dollar. Thanks to the dominant economic and political position of the United States and in the absence of alternatives this confidence – at least hitherto – has never been lost entirely.

Since international currency reserves have hitherto been held mainly in US dollars the United States has been able to pursue an expansive domestic policy, which favoured an unsustainable asset price and consumption boom. In the current world monetary system, China's accumulation of reserves combined with expansive monetary and fiscal policy in the United States has resulted in a »symmetrical maladjustment«: as long as the surplus countries are willing to keep their reserves in US dollars neither side will come under any adjustment pressure. The monetary and fiscal policy of the dominant reserve-currency country (the United States) is oriented primarily towards domestic economic goals and thus more or less accepts the negative effects (in the form of oversupply or shortages) on global liquidity. In the context of deregulated financial markets the world monetary system structured in this way leads to cycles of »boom and bust«, in other words, to asset price bubbles that then periodically burst. Until steps are taken to reduce global imbalances and to restore the world economy to some sort of equilibrium new financial and economic crises will occur, harming global growth and thus also the prosperity of all countries.

4. »Compass for the Future«: A Progressive Economic Policy

What would a new social growth model look like and what economic policy instruments could be used to implement it? In the short term, we need to surmount the debt crisis, which must be accompanied by structural re-regulation of the financial markets. In the medium and long terms we need a growth model that both enables and guarantees more social balance and environmental sustainability. Since this can scarcely be expected from market forces – even if those forces were deployed on the basis of an ingenious economic policy to achieve these goals – success depends more than ever on government policy. In a globally interdependent economy effective supranational economic policy requires the close cooperation of national governments and the establishment of regulatory and governance structures.

4.1 Overcoming the Debt Crisis

The debt crisis has its roots in the real economy and the financial system. In the real economy income inequality within countries and – partly caused by that – macroeconomic imbalances between countries have increased (Busch 2009). Without the growing indebtedness of the sectors and (deficit) countries which, in the expectation of long-term growth were willing to consume and invest beyond their income, the growth from which the surplus countries have benefited would have collapsed long before the financial crisis. The financial system, on the one hand, created the conditions enabling debt-driven growth to keep going for so long and, on the other hand, extended unsustainable growth paths by shifting and disguising risk. Even worse: the perception of risk fluctuated so chaotically between false optimism and sheer panic that a deep crisis was triggered with grave consequences for the real economy.

Only massive monetary and fiscal policy intervention by central banks and governments was able to limit and mitigate the effects of this financial market crisis on the real economy. As a result, asset values have recovered well, but at the expense of a restructuring on the liabilities side on which states have now taken up a much larger proportion of debts and risk (Dullien/von Hardenberg 2011; Dullien 2010a; McKinsey 2011). In order to clear the way for new and sustainable growth substantial debt reduction is unavoidable. This can be achieved in three ways (which may be combined) (Dauderstädt 2009b):

1. A debt (and wealth) »haircut«, which has already taken place with regard to private debts (for example, US mortgages). Debt forgiveness with regard to states makes less sense, not least because in many cases it affects banks that would then have to be recapitalised or bailed out. In that way there would be no haircut but only a change of debtor: the state would remain sitting on the debt (as a kind of »debtor of last resort«).

2. Expenditure surpluses on the part of creditors leading to revenue surpluses on the part of debtors. To that end, surplus countries would have to be willing to accept current account deficits; asset holders would have to invest and/or consume heavily or be taxed more (wealth taxes, wealth levy, inheritance taxes).

3. Much higher but still controlled inflation – about 4 to 6 per cent a year – for several years that would devalue the debt in real terms. Central banks would have to put up with these price rises and not respond with interest rate rises. In particular, poorer recipients of regular incomes – pensions, social benefits, low wages – would have to be protected against a fall in their living standards and a diminution of their purchasing power by some sort of inflationary adjustment in the form of rises in income and/or financial relief.

The way out of the crisis will involve all three components. From the standpoint of progressive economic policy, however, the second component will dominate. It harbours less distribution risk for the poor and reduces growth imbalances. At the same time, the financial markets must be regulated in such a way that no more asset bubbles emerge. This does not mean an unreasonable restriction of loans for the real economy but the curtailment of speculation, more transparency and clear assignment of risks and liability. To this end all shadow banks must be done away with, the jungle of exotic financial products must be cleared, a financial transaction tax has to be introduced and the financial industry must be trimmed back on the basis of a solid, »boring«

business model (financing the real economy, maturity and risk transformation) with appropriate remuneration structures (Kamppeter 2011; Kapoor 2010; Dullien/Herr/Kellermann 2009, 2011).

4.2 Scenarios for a Social Germany

In Germany, the growth model based on wage restraint and rolling back the state must be corrected. This has caused social division and fragile growth that is lopsidedly dependent on exports (Bontrup 2010). Domestic demand, in particular in areas with substantial social needs – such as renewable energies, education, care and health – must be reinforced by means of more equitable income distribution and solidly financed public consumption. In these areas, additional employment and income can also be generated.

The Friedrich-Ebert-Stiftung (FES) in three major studies has worked out scenarios simulating social growth in Germany:

1. The first study, within the framework of the Future 2020 project, was carried out by Bartsch Econometrics in 2008/2009 (Bartsch et al. 2009a; Bartsch et al. 2009b). It assumed an increase in public investment, especially in training and education, as well as a productivity-oriented wage policy. The result, compared to a baseline scenario with economic policy unchanged, was much higher growth with lower unemployment, better distribution and lower public debt (Bormann et al. 2009a; Bormann et al. 2009b).

2. A second study on growth through the expansion of social services, by Prognos (2010/2011), calculated that the creation of around 1 million jobs, especially in care, would increase GDP by around 22 billion euros (in other words, about 1 per cent of current GDP), about two-thirds of which would go through the state (about half and half taxes and social contributions) and one-third through the market. Households would therefore finance about one-third of their own additional (wage) income via increased spending on individual consumption, with two-thirds coming from spending on public services (Prognos 2011b).

3. In a third study (2011), on the *Interdependence between Development of the Health Market and Development of the Economy and Employment*, the Rheinisch-Westfälische Institut für Wirtschaftsforschung (RWI) examined the consequences for growth and employment of a strong expansion – 2 per cent a year – of the health sector. It assumes average real productivity growth of 1 per cent a year, with productivity in the health sector growing only half as quickly, in other words, at 0.5 per cent per year. By 2030, in that case, the health sector's share of value added will increase from 10 per cent to 13 per cent and its employment share from 12 per cent to 16 per cent of the German economy. Correspondingly, health spending will increase as a proportion of household spending, albeit to a far greater extent among poorer households (from 16 per cent to 24 per cent) than among better off ones (from 6 per cent to 10 per cent). Contribution rates will also rise sharply. However, spending in other areas will not therefore shrink in absolute terms and welfare will also increase (RWI 2011).

Germany can therefore pursue a different growth path, complete with energy transition and the expansion of social services without increasing indebtedness among private households and the state budget. Its high export surpluses demonstrate untapped consumption and investment potential. But even without them Germany need not fear a fall in prosperity. Although consumption and production structures need to change, the transformation can take place in a context of growth by means of more employment and higher productivity without involuntary reductions in traditional consumption. To this end stable purchasing power must be ensured to meet the new needs, optimally by means of more equal income distribution and the limitation of asset growth (Dauderstädt 2011a; Pfaller 2010b).

4.3 Sustainable Growth for the World Economy

Germany's export-oriented growth path has contributed to the emergence of imbalances in the European and global economies, which have proven to be unsustainable over the long term (Artus 2010; Dauderstädt/Hillebrand 2009; Dullien 2010b; Münchau 2010). Social growth – as described above – will help to ease the economic situation. Besides Germany, however, there are a number of countries – especially China, Japan and some oil exporters – with considerable export surpluses. The downside of this are massive capital exports which in the recipient countries in turn trigger »exuberant« bubble-like growth (Priewe 2011). As a rule, these imbalances are accompanied by various wage trends, namely real wage stagnation combined with low unit wage costs in many surplus countries (especially Germany and Japan) and sharply rising unit wage costs in many deficit countries (for example, on the European periphery) (Dauderstädt 2009a; Busch 2009).

Pre-crisis growth to some extent reduced the still enormous income differentials between countries within Europe and also globally (Dauderstädt 2010c; 2011c), although accompanied by, on the face of it, perverse capital flows from poor countries (China) to rich ones (United States). This makes it all the more important to establish the economic catch-up of poorer countries on a sustainable basis and to liberate them from their subordination to sharply fluctuating capital market movements. Funding the expansion of their capital stock – in the form of corporate capital, infrastructure and human capital, such as health and education – must be long term and speculation-proof. The resulting productivity increases will benefit society as a whole both in a given country and worldwide, even if particular sectors and localities have to suffer painful adjustment processes (Dauderstädt 2010b).

The sustainability of growth is not only threatened by its dependence on the financial markets, however, but also by the immense strain it imposes on global resources. Rising raw material prices indicate that desired consumption exceeds current – and in the case of many resources their long-term – supply. The price mechanism will ensure over the long term that supply will increase and demand, due to economisation and substitution, will *relatively* diminish. But rising prices burden poorer people disproportionately and more intensive exploitation of mineral resources is often accompanied by massive social costs and environmental pollution, which even rising prices often do not adequately reflect.

Although, due to traditional growth, environmental pollution weighs heavily on the natural basis of life, especially the climate (Netzer 2011), the way out cannot be simply to renounce growth or »degrowth«. Too many people still lack nourishment, clothing, housing, health care and education. Social growth should therefore be applied selectively in many respects: the income of poorer people should grow more rapidly; investment that saves resources in the medium term should increase; social services should grow since they meet social needs and are generally less resource intensive (Spangenberg/Lorek 2003).

4.4 Democratic Governance of Interdependent Economies

Given the enormous impact of the global risks we have described the success of national development paths should be ensured by a cooperative global economic and structural policy. In contrast to globalisation discourse at the beginning of the 1990s in which the economy was depoliticised, the state discredited and global processes ranged against the »Moloch« state, in the coming years politics must replace the primacy of the economy. The search for new policy space within this framework must be characterised by pragmatic solutions, however, beyond statism, but also beyond hostility to the state. This opens up the possibility to conduct a political debate on a modern conception of the state – also and especially at regional and global level (Steinhilber 2008).

Even if its export fixation diminishes, Germany will also in the future be dependent on a properly functioning global economy. Its prosperity will depend on, among other things, whether international goods and financial markets remain stable and the elements of global economic regulation can be adapted to the new conditions. Creating a viable external economic policy aimed at cooperation and integration will therefore be a key task for the future. Given the relative weakness of Germany's voice in the concert of economic powers this can be carried out effectively only within the framework of a strong European Union.

The fact is that in Europe, as demonstrated by the crisis and efforts to overcome it, but also against the background of the common challenges that lie ahead – for example, with regard to the further globalisation of markets, climate change, increasing resource scarcity and demographic change – economic policy can no longer be confined within national borders. The single market and monetary union long ago created a situation of shared responsibility and competence between the national and supranational levels in the EU. However, the financial and economic crisis revealed numerous defects, shortcomings and imbalances in Europe's lopsided integration process (Busch/Hirschel 2011; Hacker 2011a). Its central projects – the formation of the single market and of economic and monetary union (EMU) – have indeed brought about prosperity gains in the member states, but at the same time the negative effects of globalisation in Europe have been sharpened. Integration has taken place primarily as a »market creating« process between companies, but also between states: by dismantling trade barriers and by intensifying competition by lowering wages, social security contributions and the tax burden and by improving location conditions in a »market friendly« way. In contrast, the »market shaping« and »market correcting« process, characterised for example by such things as common employment protection standards and social standards or by the institutional organisation and further development of the EU's policy competences, has continued to cling (Höpner/Schäfer 2010) to a »constitutional minimalism« (Platzer 2009).

However, problems and difficulties – including the collapse of the euro and thus ultimately of Europe and the European Idea – can be avoided only by strengthening market-correcting and market-shaping policy instruments and thus ultimately only by means of »more Europe« in the sense of political union (Arbeitskreis Europa 2010b). The ultimate goal must be to convert the EU into a political union in which democratic participation rights similar to those in its member states are guaranteed. However, there must be no simple centralisation of intergovernmental economic policy decision-making in Brussels. This would be justified only if it was controlled democratically (for example, within the framework of the Community method) (Collignon 2010). Until this can be ensured there remains only the reinforcement of joint coordination and agreement on economic policy by the member states. This also means, however, that the EU or all EU member states jointly will institutionally have the right to a say in policy areas hitherto reserved for the individual member states (Heise/Heise 2010). This means in particular putting on the agenda a move towards deeper integration measures: »more Europe« in the sense of further strengthening the competition principle and restricting the scope of policy formation would cause the European project to implode. What is decisive here, therefore, is a new paradigm for European economic governance that understands the equalisation of economic imbalances and social progress in the EU as central tasks (Hacker/van Treeck 2010).

Although in recent years security policy has increasingly eclipsed the global development dilemma, now the question of social growth is forcing its way back onto the agenda, also at the global level. This argument will substantially determine the future constitution of the world. It has become apparent that development problems are no longer only the problem of the global South. The impoverishment also of more and more regions in the North, not just the South, led to crises which endanger the still prospering centres. The latter's development model is being depleted by the environmental crises that will be heightened by the catch-up development of some countries. Social growth at the global level and thus ultimately global development is therefore not an option without a new development model, which in every country combines environmental restructuring of the economy with fairer distribution (Netzer 2011). With regard to the global level this means that less developed countries must be helped to open up new growth paths that must take account of four factors:

1. environmental growth with the emphasis on CO_2 reduction;

2. socially sustainable growth that creates jobs;

3. sustained growth that is no longer subject to capital market volatility;

4. regional growth via regional integration and intensified regional infrastructure.

To that end, the regulatory crisis (with regard to the banks) and the crisis of global economic governance (with regard to global imbalances) must be resolved.

However, decision-making structures at global level – in particular in the case of international organisations, such as the International Monetary Fund (IMF) and the World Bank – continue to face serious problems concerning legitimacy and acceptance. These organisations are still dominated by the traditional industrialised countries and thus primarily represent their interests. They reflect the economic balance of importance and power of the period of their founding after the end of the Second World War, and not the global balance of power as it stands today. They are therefore regarded as unrepresentative and undemocratic by emerging and developing countries. However, informal but powerful governance forums, such as formerly the G7/G8 and today the G20, expanded to include some leading emerging countries, also have serious legitimacy problems which make states that are not represented there reluctant to get behind them.

The solution of key challenges for the future that are now arising at the global level can be achieved only together with the emerging and developing countries, which in recent years have been more closely integrated in international financial and trade structures (Joerißen/Steinhilber 2008). The post-War multilateralism of the Bretton Woods institutions that are now sinking under the deadweight of their obsolete structures must therefore be reformed and the developing and emerging countries must be integrated in new institutions on equal terms. Although the G20 represents a start with regard to establishing a forum in which today's leading economic powers can get together on an equal footing (Pohlmann/Reichert/Schillinger 2010), this – like the timid reforms of the IMF and the World Bank – is not enough to bring about positive integration. The international community has as yet barely begun to address the issue of efficient and sustainable global governance structures that would help to reduce uncertainty and complexity on the basis of trust and to open up new scope for development.

5. A 10-point Programme for a Progressive Economic Policy

The following 10-point programme outlines the most important reforms that are necessary or conducive to implementing the concept of »social growth«.

5.1 Guarantee a Stable Supply of Credit with Effective Financial Market Regulation

Social growth, like any form of growth, depends on an adequate supply of credit. It must therefore be guaranteed that the financial markets – with their short-termism, periodic excessive appetite for risk and unrestrained lending, not to mention their tendency to herd behaviour – do not repeatedly plunge the financial system and thus ultimately also the economy as a whole into catastrophic crises. In transnationally integrated financial markets banks have both foreign creditors on the liabilities side (deposits) and foreign debtors on the assets side (investments). Depositor protection, liquidity support (lender of last resort) and asset valuation (with consequences for minimum reserves and so on) purely at the national level are less and less feasible. In small countries with oversized banking systems – Iceland, Ireland, Switzerland – the state can rapidly be overwhelmed.

If this market failure is to be overcome and, ultimately, the tax payer is to be protected, stronger, more comprehensive and more effective regulation of the financial markets is needed, which reduces the dominance of the financial sector and puts it more in the service of the real economy (supply of credit to private households and enterprises) (Kamppeter 2011; Dullien/Herr/Kellermann 2009, 2011). The core elements of new financial market regulation that, ideally, should be implemented uniformly at global level but if not, at least at European level, are as follows (Noack/Schackmann-Fallis 2010; Kapoor 2010; Dullien/Herr 2010; Arbeitskreis Europa 2009; Steinbach/Steinberg 2010):

- More transparency and the closing of supervisory loopholes by means of central financial market supervision that is, as far as possible, uniform, powerful and transnational. It must have authority to issue directives and to impose conditions, like national supervisory authorities.

- Joint monitoring of the financial system's systemic stability.

- Higher and anti-cyclical capital reserves and liquidity requirements for all banks and financial intermediaries; a ban on off-balancesheet entities without capital coverage and limits on banks' and financial market actors' opportunities to accrue new debt (leverage ratio) in order to reduce incentives for speculative, debt-driven investor behaviour and to enhance the stability of the financial system in crisis situations.

- Higher capital requirements for systemically important banks and »living wills« (settlement rules) in accordance with which (transnational) institutions can be wound up in the case of insolvency without harming everyone else to increase the cost for private actors of failure arising from speculation.

- Reduction of proprietary trading by commercial banks, perhaps also a stricter separation of the traditional loan business from investment banking; stricter regulation of private rating agencies and the establishment of a European rating agency to be financed from Community funds (Arbeitskreis Europa 2010b).

- Reduction of the role of private rating agencies and banks' internal risk models when it comes to capital adequacy.

- Reduction of near-market fair value accounting.

- Limits on the resale of loans (securitisations) by commercial banks.

- Stricter regulation of derivatives trading and making it so that they are settled exclusively via central clearing houses (reduction of over-the-counter trading).

- A European bankruptcy law for banks that ensures the problem-free and orderly winding up of insolvent banks.

- Establishment of a financial »MOT« that accurately assesses the social value and the risks of new financial instruments, both for the banks and for investors, before their introduction. Such instruments should be permitted only if they provide benefits to society (Dullien/Herr/Kellermann 2009, 2011).

- Introduction of a financial transaction tax (Paul/Neumann 2011), as well as stricter, more long term-oriented regulations on bonuses for (bank) managers that in particular make the short-term, destabilising pursuit of profit and speculation on the international financial markets unattractive and thus reduce financial market fluctuations.

Germany's traditional tripartite banking system is to be retained and fostered because it has proved its worth – in particular thanks to the savings bank and cooperative sector – in the crisis as a stability anchor. Nevertheless, *Land* banks (*Landesbanken*) should be consolidated and new, long-term sustainable business models should be developed (Noack/Schrooten 2009). Effective regulation of the financial markets is also a key condition for a growth-oriented monetary policy. Without effective regulation this would be hopelessly swamped in its efforts to ensure both price stability and financial market stability solely by means of interest rate policy. With effective financial market regulation in place, however, it should avail itself of the room to manoeuvre this provides and pursue a growth-oriented monetary policy (Winkler 2008; Illing 2011).

5.2 Use Education Policy to Boost the Forces of Growth and Expand Opportunities for All

On the supply side, social growth is dependent on good initial and further training. Education and knowledge increase labour productivity and thus contribute to growth and prosperity (Prognos 2011a; Blossfeld et al. 2011). Education is a public good and enhances people's life chances. Market failure means that there will be insufficient provision of education via the market and the private sector. Only government education policy can adequately provide the investment in education needed for growth and employment, without which social inequality will increase and social cohesion will be jeopardised. International comparative studies on educational standards show that Germany's education expenditure is only around the OECD average and that it is increasingly falling behind that of the frontrunners. The provision of lifelong learning is similarly unfavourable: this must be expanded if there is to be sufficient provision of productive employment until a high/increased retirement age. In future, therefore, Germany must invest more in initial and further training, but also carry out structural adjustment in education (Borgwardt 2011; Wernstedt/John-Ohnesorg 2010; Autorengruppe Bildungsberichterstattung 2010).

The aim of education policy must be a socially just and high performing education system, ranging from early childhood education to lifelong learning. It is not enough for this purpose to have individual good schools or universities: there needs to be nationwide provision, including both urban and rural areas. Only broad public provision will reach all children, young people, trainees and students, regardless of parental income. Only in this way can we reduce the strong correlation between educational success and social origin, the number of young people without qualifications and the high dropout rate. The following measures are necessary to that end (Baumert 2010; John-Ohnesorg 2009; Wernstedt 2010):

- The division of tasks between the federal government, the *Länder* and municipalities (with regard to schools, higher education and research) needs to be redefined in order to ensure an adequate financial basis for the tasks ahead.

■ Education must be more individualised at all levels: so-called at-risk students are not a homogeneous group. More language training is particularly important.

■ Education must begin earlier since early learning and support leave their mark on every subsequent learning stage. Early support, especially for the under-threes, must therefore be expanded: there must therefore be more childcare places in so-called »Kitas« (childcare centres for children whose parents are in full-time employment) and kindergartens, opening and childcare periods must be adapted (also to improve reconciliation of work and family life) and pedagogical approaches and staff must be improved, with better qualified people.

■ The school system must be oriented towards a longer period before any kind of selection occurs and inclusive education, as well as towards more horizontal and vertical permeability. The tendency nationally must be towards a two-tier school system.

■ The number of all-day schools that not only provide childcare, but also inclusive education and afternoon lessons from qualified staff must be increased and their infrastructure – premises, heating, new media, canteens and so on – must be modernised. They should be integrated in local education networks in order to provide individual support.

■ Training places and full-time occupational training schools should be expanded in order to meet the need for trainees in the dual and vocational training system. In order to reduce the number of those who do not meet the minimum conditions for training for an occupation that will continue to be viable in the future, sustainable measures must be taken as early as possible, for example, intensification of support for young people with an immigrant background.

■ Spending on education, research and science for this reason must be further increased (target: 10 per cent of GDP).

Technological change means that more qualified personnel are needed in all areas. Closely connected to that for individual workers is the possibility of improving their earnings. For this reason both those in work and the unemployed with low, intermediate and high qualifications must receive further and higher training at all stages of employment and life, not only in order to address the looming shortage of qualified workers but also the higher retirement age. Active labour market policy should also focus on the goal of further and higher training. Unemployment insurance should be developed into employment insurance (Schmid 2008). Rights related to holidays, leave of absence and return to work for employees in training should be improved and industry-wide training funds laid down in collective agreements for small and medium-sized enterprises must be supported (Bosch 2010). Finally, everyone should have the right to training and individual support.

5.3 Open Up New Areas of Growth with Industrial Policy

Like any growth process, social growth is not structure-preserving but characterised by structural change. In order to be able to meet the challenges of environmental restructuring and environmental renewal of the economy and society – climate change, destruction of the environment, finite natural resources – in future an environmental industrial policy will be needed to identify and promote growth areas early on, but also to ensure that social and environmental sustainability is not lost sight of (Schepelmann 2010). Germany's environmental industry is a good example of successful industrial policy (BMU 2009). However, without political intervention – setting demanding environmental targets and translating them into parameters and ceilings for resource consumption and their constant extrapolation into different areas of production and private consumption – this important industrial sector would not have emerged (Fischedick/Bechberger 2009). The state, by means of legal regulation, its purchasing and market power and its environmental, research, infrastructure, tax and economic policy, can and should play an active role and thus function as an important technology driver and motor of innovation. Within this framework it should promote the development and introduction onto the market of innovative and sustainable products by means of significant economic investment incentives (Meyer-Stamer 2009).

In future, in the area of climate and environmental protection, instead of expensive direct state support programmes whose results are often uncertain, environmental consumption should, for example, be fully incorporated in prices through trade in CO_2 emission rights that is as global as possible (Löschel 2009; Knopf et al. 2011). A nationwide climate protection law would also be worth considering, which lays down specific guidelines for all local authorities and economic sectors in an implementation plan. The aim would be to fundamentally change the behaviour of all economic actors and to ecologise all production structures and value creation chains. With clear energy efficiency guidelines and CO_2 reduction targets further impetus could be given in respect of supply and demand within the framework of public procurement directives and contract allocation (Pfaller/Fink 2011).

The local level should enjoy particular priority in this. Within the framework of social dialogue needs should be determined, and solutions worked out and tried. This will make it possible to closely integrate and link-up network consumers, enterprises, scientists, politicians and administrators. Overall, in this way government guidelines on climate protection and on resource and energy consumption could help to reach national climate targets and to improve companies' international competitiveness on emerging green markets. Furthermore, this dialogue process can contribute to the mutual reconciliation of the winners and the losers of modernisation. Radical structural change can lead to social hardship affecting society as a whole, which must be dealt with as quickly as possible (Pfaller/Fink 2011; Bär et al. 2011).

Future growth will depend to a considerable extent on the development of the service sector. A modern industrial policy must therefore end the support policy and financial discrimination against non-physical goods. Besides the development of more value added-intensive industry-related services social growth depends primarily on the growth of high quality social services. Germany, by international comparison, has a significant employment gap in this respect. Of all services, it is high quality social and society-oriented services – besides business services – that are showing the most employment growth in the EU15. Not least against the background of demographic change considerable needs are arising in this regard – for example, in the area of caring for the sick and old people, and in the social and education systems – and thus there is substantial growth and employment potential.

Demand for social services is often weak on free markets as a result of the so-called Baumol effect (Baumol 1967) – also known as »Baumol's cost disease« –. Private companies therefore often fail to meet this demand adequately. This market failure can be overcome by a smart services policy, however (Bienzeisler et al. 2011; Schettkat 2010). This should not be taken to imply a low-road strategy of services development, which seeks to increase potential demand and enable further expansion of services by way of cost reductions in the course of boosting the low wage sector and sharpening wage differentiation. This strategy ultimately leads only to low paid and precarious jobs and thus also to poor quality services and low value creation. Expansion of high quality social services, as the Scandinavian countries demonstrate, is also possible together with more moderate wage differentiation, higher wages and lower social inequality. However, such a high road strategy requires a more active state in the roles of financier, producer and/or employer in this sector. In particular, state funding mechanisms, such as social security systems, can contribute, first, to the development of demand for (social) services in general, and then to adequate provision and opening up access to it for all. The Scandinavian example also shows in this context that a high ratio of government expenditure to gross national product is no obstacle to successful aggregate economic development (Heintze 2011; Schettkat 2011).

Education, family and tax policies must in future be better coordinated with the creation and promotion of decent work with good wages in the social services sector. In education policy, care must be taken to ensure that employees are better trained by supporting and establishing state-recognised educational and vocational qualifications. Higher quality can increase acceptance and willingness to pay among potential customers. Family policy, in turn, can boost women's employment and create new employment opportunities in social services on both the demand and the supply side (Luci 2011). In particular, the integration of well trained and qualified women in the labour market increases demand for and the supply of social services. Currently, these are often performed by women in the home. In future, the focus of family policy should be less on transfer benefits, such as child benefit and child-raising allowance, and more on in-kind benefits, such as the expansion of child care (crèches, day-care centres for the under threes) that is responsive to people's needs and, as far as possible, free.

5.4 Strengthen the Position of Employees by means of Minimum Wages and Codetermination

Social growth requires a wage policy that ensures employees' participation in value creation and thus high mass purchasing power. Stagnating real wages and increasing income inequality are not to be abjured merely on the grounds of social justice, but also because they contribute to stagnating domestic demand and, consequently, to low aggregate growth rates and increasing external imbalances (Joebges 2010; Joebges et al. 2010). Wage policy must in future be oriented more strongly towards productivity – nominal wage increases in proportion to longer-term aggregate productivity gains plus the central bank's target inflation rate – not only in Germany, but in Europe and indeed globally. Only in this way can domestic demand be reinforced sustainably and the danger of emerging imbalances within the European Monetary Union reduced (Busch 2010; Busch/Hirschel 2011; Pusch 2011). Although free collective bargaining sets limits on government wage policy in Germany, the government can influence wage development:

- A general, comprehensive statutory minimum wage underpins the position of each individual worker in wage bargaining and thus helps to prevent pay scales from drifting downwards and the development of low wages in the direction of poverty wages that threaten people's ability to make ends meet (Bosch et al. 2009a; Bosch et al. 2009b). Minimum wages compel companies to compete on the basis of higher productivity and innovation instead of low wages. A statutory minimum wage of, for example, 8.5 euros per hour would not only improve the income situation of five million people, but also raise the earnings of around 14.5 million private households. It would also ease the burden on the German public budget to the tune of around 7 billion euros (for example, lower income support and higher tax revenues) (Ehrentraut et al. 2011).

- The government should cease to promote so-called mini- and midi-jobs and reintroduce the general social security obligation in order to correct the undesirable developments on the labour market in recent years.

- Codetermination at the plant and company levels should be extended and general collective agreements should be reinforced by compelling enterprises to join employers' associations or by declaring collective agreements to be generally binding. Government can and must also give substantive help to reinforce trade unions so that they are able to take full advantage of the macroeconomic margin of distribution and obtain good working conditions (Hörisch 2010; Greifenstein 2011; Greifenstein/Weber 2009, 2008).

- Furthermore, in future government can and must be a more powerful presence as an employer, not only because public services and services of general interest in particular are characterised by significant needs and shortcomings, but also because the state has the potential to set standards for decent, well-paid jobs in an important segment of the labour market, thereby sending out important positive signals to other labour market segments. Similar positive effects can be achieved by tying public contracts to compliance with minimum standards on decent wages and working conditions.

5.5 Fund Public Tasks Properly and Fairly by Reforming Tax Policy

The concept of social growth is based on the fact that the state and the community are responsible for a significant number of qualitatively demanding tasks. State action must make up for market failure in many areas and thus create the conditions for balanced growth in the economy and for financially, environmentally and socially sustainable economic and social development. In order to overcome underfunding in key policy areas – for example, education, where there is a shortfall of at least 25 billion euros – and to be able to make the requisite investment for the future the state must have sufficient financial resources. Against the background of the current budget deficit and high government debt the funding of additional expenditure by means of a further increase in public debt is hardly tenable. What is required is sustainable budget consolidation in the future.

Although all aspects of the state must certainly be subjected to critical consideration and examination, the state's planned investments in the future and funding problems cannot be solved solely by spending cuts. Public investment in Germany, together with the tax ratio, has fallen to an all-time low by international comparison. A responsible, future-oriented and sustainable budget strategy should therefore optimise the revenue side and improve the funding base. In other words, the aim should be to raise taxes in some areas. In particular, the revenue situation of the municipalities and the *Länder* must be improved since in future considerable public investments must be made there and goods and services of general interest must be provided.

Within the framework of tax policy, therefore, all parts of society and all income groups must participate, on the basis of solidarity and social justice, in providing the public revenues needed for these policies (Corneo 2010). Besides considerations of justice (basic principle: taxation in accordance with ability to pay) tax increases must always take into consideration incentive effects (environmental renewal, avoiding financial crises). Based on considerations of distribution and justice, but also stabilisation, in future primarily higher earners should bear the brunt of tax increases. Against the background of increasing inequality of income and wealth and the fact that income from assets and capital in Germany is barely taxed by international comparison, income from financial assets should also be taxed regularly and more heavily. The following measures are reasonable and appropriate (Mende et al. 2011):

- An increase in the top rate of income tax: this would not have a negative effect on the demand side since higher earners save a higher proportion of their income. Raising the taxation rate to 49 per cent again on a taxable income of 100,000 euros or 200,000 euros would bring in around 7 billion euros a year. Furthermore, for particularly high incomes a »balcony« of a further 3 per cent on top of the top rate for incomes of 250,000 or 500,000 euros (a tax on the wealthy) might be imagined, explicitly connected to funding the requisite education expenditure.

- Withdrawal of the tax advantages introduced under the »Growth Acceleration Law«: this would leave the budget 5.6 billion euros better off.

- Reform company taxation: cutting the last reduction in corporation tax and higher taxes on capital gains could bring in up to 40 billion euros. On the other hand, tax concessions should be used to encourage enterprises that invest in real capital and in research and development (R&D), in particular in future-oriented sectors and lead markets, such as the permanent introduction of degressive depreciation at 30 per cent.

- Raise business tax: in order to improve the financial situation of cities, municipalities and districts the business tax should be raised, especially by widening the basis of assessment as part of including all those who are economically active, in particular the self-employed and professionals.

- Raise property tax: the same applies to the property tax whose basis of assessment should be modernised.

- Increase capital gains tax: this should be raised again, from its current 25 per cent to 29 per cent (not including the tax on the rich) or 32 per cent (including the tax on the rich), or replaced by the reintroduction of synthetic taxation.

- Reform inheritance tax: by reforming inheritance tax, leaving small and medium-sized inheritances and gifts within the family circle tax-free, but once again adequately taxing major transfers of assets up to 5 billion euros could be mobilised.

- Reintroduce the wealth tax: this alone could bring in around 16 to 20 billion euros and make a significant contribution to reducing inequality of income and wealth (Schratzenstaller 2011).

- Introduce a financial transaction tax: this would also make a major contribution to reducing inequality of income and wealth – as well as to getting those responsible for the financial crisis to share in the cost of dealing with it – and also to preventing future crises. Introduced at the European level, even with relatively low tax rates (for example, 0.05 per cent) it could boost revenues by around 12 to 20 billion euros per year (Paul/Neumann 2011).

- Abolish the splitting of income tax between couples and introduce individual taxation (Färber et al. 2008).

- Tax more heavily non-renewable energy and resources, as well as emissions (Eco taxes): this could further strengthen the public finances and also achieve important and useful environmental incentive effects (Pfaller 2010a).

- There should be a consistent effort against tax evasion and international tax havens, and tax loopholes should be closed.

The additional revenues from these measures would in future enable the state to carry out the activities and finance the spending needed for social growth and achieve the redistribution of income and wealth required for more sustainable economic development. Fair and transparent taxation would also help to halt the alienation of citizens from the state that has been going on for years. New tax revenues would make it possible to provide, besides social security, more high quality public social services which would enable everyone to participate better in economic and social life.

The state's ability to raise taxes must be protected against international competition. This applies in particular to company taxation in Europe. In order to reduce competition based on the lowest corporation tax and thus to ensure the state's viability with regard to tax revenues, the tax structure and effects on other forms of tax, agreement should be reached in Europe on framework regulations for uniform company taxation. This requires the introduction of an obligatory EU-wide consolidated basis of assessment and a minimum tax rate (Hull/Risen 2007; Risen/Hull 2011).

5.6 Stabilise the Economy and the Debt Situation by means of an Anti-cyclical Fiscal Policy

In the crisis, states implementing anti-cyclical fiscal policies have been able to limit the economic downturn and to bring the world economy quickly back on to a growth path. Economic stimulus policies were long frowned-upon because they were supposed to be ineffective, drive up government expenditure relative to GDP and the debt rate and thus leave future generations with an even higher debt mountain. In fact, anti-cyclical fiscal policy in the past was markedly successful, both in Germany and, even more, in other economies. A successful economic stimulus policy does not have to leave behind permanent debt if the surpluses arising in the boom following every downturn are used to service and reduce the debt. Anti-cyclical policy not only stabilises short-term economic growth, but also strengthens longer term growth because company expenditure which is very sensitive to economic fluctuations, such as R&D investment, is not suspended during the crisis and instead continues to be invested in capital and know-how and thus in the economy's growth potential. Prolonging an economic upturn as far as possible enables precarious employees and the long-term unemployed access to »normal« employment.

Longer-term experiences in Germany and the most recent events in the Eurozone clearly demonstrate that public debts are not to be reduced by compulsive austerity in the crisis, but only by long sustained growth after the crisis has been overcome. Reducing deficits by lowering spending and raising revenues in the midst of a crisis does not achieve the declared aim but rather merely prolongs the economic slowdown and is ultimately counterproductive. Structural reforms on the labour market, without the right macroeconomic environment, also dampen consumption and thus growth. Here too therefore an anti-cyclical policy is called for as an accompanying measure to help to keep the economic upturn going as long as possible (Dauderstädt 2007; Lenz 2011; Heise/Leers 2011).

Anti-cyclical policy therefore belongs in the toolbox of any economic policy aiming at stability. It should not be merely discretionary: automatic stabilisers should be built into the economic system – for example, in the tax and social system – and not weakened, for example, by reductions in social security contributions in an economic upturn which in a subsequent economic downturn then have to be clawed back. Against this background, the new debt brake is highly questionable. It threatens to stymie important investments in the future within the framework of a pro-cyclical budgetary policy.

The public deficit cannot ultimately be decisively influenced by budgetary policy because it is the result of economic development and the interaction of private companies, private households and other countries. It would therefore be better, from a growth and stability policy standpoint, to orient financial policy to a longer-term expenditure path than to deficit targets. While the cyclical fluctuations of revenue and spending can thus be tolerated and thus their stabilising effect can be exploited, policy would only stipulate state spending compatible with the long-term growth trend. Accordingly, sufficient investment in education and infrastructure could be planned and the emerging aggregate balance would not be a reason for deviating from this path, either upwards or downwards. Orienting financial policy to a longer-term spending path would not only prevent procyclical influences and thus stabilise the economic situation and the longer-term growth path, but also stabilise the government debt ratio. Exactly for that reason what matters is that government finances or public debt must be sustainable and not debt reduction in absolute terms (Vesper 2008, 2011; von der Vring 2010; Fischer et al. 2010).

5.7 Strengthen Forces for Growth in Europe by means of a Robust Public Financial Architecture

As the crisis has made clear, there are particular problems in the Eurozone with regard to state financing, but also more generally with regard to the supply of capital in member state economies. States must, on the one hand, be able to borrow in order to finance public investments and in the course of an anti-cyclical fiscal policy. On the other hand, however, they are also the guarantors of their national banking systems, although they are closely integrated in the European capital market. In the crisis this has proved to be a particular hindrance and the main reason for the sharp rise in debts. Although better banking regulation (see Section 5.1) would reduce these risks, ultimately further guarantees and the provision of liquidity are required.

Sustainable and social growth in Europe must establish credit supply on a stable foundation, independent of irrational market currents. European institutions are necessary for this purpose that ensure the liquidity of states and – at least systemically important – banks. These institutions must therefore have available to them capital resources independent of the market, as well as clear supervisory and regulatory competences. Ultimately, the European Central Bank, with its in principle unlimited monetary and credit creating possibilities, must be the guarantor of the whole system. In this respect amendments to the statutes can be envisaged to abolish the restrictions – imposed on the basis of a now obsolete monetary policy philosophy – which during the crisis were already surmounted (through the purchasing of government bonds and so on). A clear signal to the markets that speculation against important Eurozone institutions must always reckon on the resistance of the Central Bank would massively reduce the risk of such market behaviour (Dauderstädt 2011d and 2011e; Schreyer 2011).

The second important safeguard of these institutions of European capital supply are the solidaristic guarantees of all member states, first and foremost within the Eurozone. A key instrument could be a European Monetary Fund that issued Community bonds (eurobonds), guaranteed jointly by the Eurozone member states and issued at a uniform and thus low interest rate. In order to avoid the problem of moral hazard, however, there should be a ceiling on indebtedness in eurobonds set at a maximum 60 per cent of GDP (blue bonds). Borrowing above this ceiling – red bonds – would be purely the national responsibility of the relevant state and in the case of a lack of fiscal discipline and creditworthiness it would be correspondingly expensive. The central concept underlying blue bonds and red bonds is Europe-wide solidarity between the member states, although this does not absolve individual countries of their specific responsibility (Delpla/von Weizsäcker 2011; Deubner 2010).

Poorer regions should have priority when it comes to credit allocation in Europe. Since the capital stock must grow in such places – and a tendency towards higher marginal productivity is to be expected – investments in the periphery have greater economic value. The most urgent task is to conduct crisis-hit states back onto a growth path as soon as possible. A crisis fund would be helpful here to finance investments in real capital, innovations and education and could be fed by an earmarked solidarity or wealth levy in the euro countries (Hacker 2011a). Such a levy is justified because past experience shows that asset values were protected against rapid devaluation in the crisis by state intervention – and in future they will be able to preserve their value long term only if there is growth. This European investment fund should be closely tied to a reoriented growth strategy for the EU. The Lisbon and Europe 2020 Strategies have led to a race to the bottom among the member states. It should be replaced by an economically strong, socially just and environmentally sustainable policy mix that focuses on increasing quality of life (Arbeitskreis Europa 2010a; Collignon 2008; Kellermann et al. 2009).

In the long term, however, much more is needed than solely corrective measures to reduce competitive pressure. The currently dominant approach that »maintains sovereignty« and accepts constitutional realities as given is inevitably coming to its limits, if more than a correction of current circumstances is required. Instead, an active and creative European policy is now called for. The EU over the long term must therefore be given its own tax competences and be able to use the resources of the Community budget, via expanded or newly created regional, structural and other investment funds in order to ensure convergence of economic and labour conditions and living standards.

Far-reaching proposals, such as enabling financial transfers between the member states or setting up joint European unemployment insurance to balance out regional boom and bust cycles, require the establishment of a culture of solidarity within the EU. In future, this will become more important to prevent some states from benefiting significantly from the integration process, while others are left behind. Possible instruments range from a European solidarity levy to a European transfer and fiscal union. The objective of this would not be to align economic and productive structures, but a policy of social growth adapted to particular national contexts. The individual EU states will not disintegrate as a result and their comparative national economic advantages will not be levelled down. In a future, more robustly federal arrangement, which must develop from a European union of states into a federal European state, equality of living standards must be the long-term goal.

5.8 Provide for More Stability in the Eurozone by means of Economic-policy Coordination

Europe's central crisis problem can be resolved sustainably only by reducing current account imbalances (Münchau 2010; Spahn 2010). A strategy of budget consolidation or wage restraint in the deficit countries alone, with the aim of boosting competitiveness and registering budget and export surpluses, by contrast, will not succeed, since this will dampen aggregate demand and further increase indebtedness in the crisis-hit countries. On the contrary, the countries that have pursued this strategy bear considerable joint responsibility for the outbreak of the crisis in the Eurozone (Dullien 2010b). In order to deal with the current crisis phenomena, to avoid macroeconomic imbalances and to encourage social growth in Germany and Europe, in future both private and public debt growth, as well as the macroeconomic errors that underlie them, must be controlled or corrected as early as possible. For that purpose, further political integration steps must be taken, especially stronger European coordination and control of national economic, financial, wage, taxation and social policies (including the establishment of uniform framework guidelines and minimum social standards). These measures go far beyond a one-sided orientation towards public debt criteria (Hacker/van Treeck 2010; Arbeitskreis Europa 2010b; Heise/Heise 2010; Hacker 2011b).

The Stability and Growth Pact should therefore be developed into a current-account stability pact – in other words, extended to take in the goal of current account balance and thus the debt situation of a country's private households and enterprises. In the case of current account imbalances of more than 3 per cent of GDP automatic sanctions should kick in, whereby the necessary adjustment measures should follow a symmetrical approach: in other words, both surplus and deficit countries should be obliged to reduce current account imbalances (Dullien 2010b).

Besides financial and tax policy, wage and social policy are an important part of any policy mix to correct macroeconomic imbalances in Europe (Fischer et al. 2010; Joebges 2010). In order to boost workers' purchasing power and thus to contribute to social growth in Europe nominal wage increases in the member states must in future be more closely oriented to long-term aggregate productivity growth rates plus central bank inflation rates in order to avoid price-related distortions of competition. With regard to unit labour cost developments this entails, depending on the situation, not only adjustments downwards – in the countries with current account deficits – but also upwards (in countries with current account surpluses). Wage policy should be more strongly coordinated to that end and existing national wage negotiation networks should be expanded into transnational wage negotiation networks (Pusch 2011; Busch 2010). Stronger institutional and organisational Europeanisation of trade unions and employers' organisations is therefore indispensable (Platzer 2010; Busemeyer et al. 2007).

The Macroeconomic Dialogue (MED), for example, could therefore be revived as a forum for the stronger coordination of diverging wage policies, as a joint body of the European Council, the European Commission, the ECB and the social partners. It must be constantly kept in view that in the European system of »market states« (Busch 2009), a policy that leads to a race to the bottom regarding wages, taxes and social contributions in the name of price competitiveness cannot offer a sustainable strategy for growth and prosperity. It does not increase quality of life, but only boosts the redistribution of income and wealth from the bottom to the top and thus heightens the danger of deflation (Arbeitskreis Europa 2010a; Evans/Coats 2011).

5.9 Ensure Decent Work for All by means of European and Global Standards

Social growth implies »decent work for all«. This must be pursued and implemented not only in Germany, but also in Europe and at the global level. At the European level this objective is obstructed by the deliberate creation of a system of market states (Busch/Hirschel 2011). In a regime of a single monetary policy, but still largely nationally determined fiscal policy the member states compete for capital investments, production locations and jobs. Low wages, social standards, social contributions and tax concessions are used as competitive advantages for this purpose, which runs counter to the aim of »decent work for all«. Instead of using tax, social contribution and wage levels as bargaining counters in a system of market states, in future, mechanisms must be introduced to return social cohesion to the centre of European coordination efforts (Hacker/van Treeck 2010).

In order to regulate intra-European competition for investment, jobs and production locations a »social stability pact« should supersede competition-driven harmonisation. It would define a corridor that prevents wages and social benefits from becoming detached from general income growth. This corridor model would, for example, introduce minimum wages, depending on economic performance – expressed as a percentage of national average income – to prevent increasing wage differentiation and expansion of the low wage sector. Wages in all EU states should ensure at least a minimum standard of living (Zitzler 2006).

Social spending in the member states should be linked to the development of national per capital income and ranges should be laid down within which total expenditure on old people, health care, incapacity to work and unemployment – among other things – may fluctuate in accordance with economic developments. This coordination mechanism would ensure that the currently still close relationship between economic and social progress in the EU is maintained, but that dangerous dumping practices, with which individual countries seek to achieve competitive advantages, are halted. The aim of all states must be to combine high productivity with a high social expenditure ratio (Busch 2011). Education spending should also be integrated in such a corridor model or in a social stability pact. As in the case of the current-account stability pact ultimately everything depends on an intelligent balance between decentrally coordinated and implemented policies, on the one hand, and central European guidelines, on the other. This could be achieved by a redesigned Open Method of Coordination within the framework of the Europe 2020 Strategy (Hacker 2009; Arbeitskreis Europa 2010b).

»Decent work for all« is also a key condition of social growth at the global level. To that end, international standards must be laid down that enable people in less developed countries to rapidly improve their income level, reverse the trend towards income disparities and dramatically growing inequality in the distribution of social wealth and in general boost employment worldwide with decent jobs. In the developing countries, social systems must be expanded for this purpose (Razavi 2011). In particular, the recent financial and economic crisis demonstrates that basic social security systems are required in the developing countries, too. Further expansion of such structures and support for relevant initiatives, such as the ILO's »social protection floor« should be given more importance in the coming years (Cichon et al. 2011).

5.10 Manage Globalisation by means of a New Economic and Monetary Order

The global financial and economic crisis has brought home the fact that closer economic policy coordination and cooperation between states is necessary not only at the European level, but also at the global level. During the financial crisis the first elements of such cooperation could be discerned. Their form and intensity were new and they could undoubtedly be deemed successful. For example, the most important states agreed on and implemented anti-cyclical fiscal policies simultaneously. At the same time, there have been internationally monitored arrangements to renounce protectionist measures. Cooperation between central banks within the framework of expansionary/loose monetary policy measures during the crisis also registered considerable success. Although all these measures were unable to prevent the sharp fall in growth in 2009, global economic recovery was comparatively rapid. Overall, therefore, states' crisis management was encouraging.

Such coordination of international monetary and fiscal policy must not remain limited to periods of crisis management. Joint macroeconomic cooperation and action must continue in the future and ideally have a structural and institutional anchorage, in particular in order to prevent new crises and to ensure social growth at the global level. Only by means of external economic safeguards – in other words, a joint solution to global problems at the global level – can a national strategy of social growth in Germany be successful. It must be the common objective to foster stable – that is, largely free of periodic or cyclical financial and economic crises – and adequate growth in the global economy.

The problem of global imbalances, which contributed so much to the economic and financial crisis, must be solved. The aim must be to bring about symmetrical adjustments of current account balances in both deficit and surplus countries (Priewe 2011). Only in this way can the massive structural imbalances and the deflationary bias in the global economy that goes with them be reduced. This should be accompanied by improved coordination and monitoring of macroeconomic policies in all countries. The outcome of such reforms must be that all countries commit themselves not only to keep their own houses in order, but also to keep global economic and financial stability in view. To that end, early warning systems for critical tests should be developed (for example, public debt, current account balance, currency reserves, stability of the financial system and so on). Sanctions should kick in if a country fails to keep up with its commitments or the necessary adjustment measures.

Over the longer term, there should be a gradual transition from purely national currencies – the US dollar – as global reserve currency towards a genuinely global currency and a reserve asset of the international monetary system. A key role could be played in this by the IMF's existing special drawing rights (SDR). SDR, as a currency and payment instrument that is not tied to a particular national economy, could be anchored in a stable framework and allocated or issued in accordance with clear rules. Supply should be adequate and flexible enough to enable timely adjustments to meet changing demand for liquidity. Such adjustments could be independent of sovereign interests and the macroeconomic policy of the dominant reserve currency country. An important first step would be to increase the proportion of SDRs as a global reserve currency in the US dollar-based reserve system.

The IMF has even weightier tasks to perform. Economic and financial interdependence between countries has increased enormously in the wake of globalisation. However, there is as yet no authority with the responsibility for ensuring that important economic and financial policy decisions taken at national level are mutually consistent and contribute to global stability. This key task could and should in future be performed by a reformed IMF. Such an institutional anchorage would be far better than the current ad hoc arrangements (G7/8, G20). The IMF should be expanded in the direction of an international central bank and thus a global lender of last resort, creating SDR as its own currency, issuing it as global reserve currency and managing it anti-cyclically. The possibility of granting unlimited – both conditional and unconditional – liquidity assistance would create, with an IMF reformed in this way, (more favourable) collective assurance against crises at the global level. This could, in particular, prevent developing countries from building up self-protection in the form of the accumulation of currency reserves and thus of other forms of liquidity against potential balance of payments crises (Kellermann 2009).

More political attention must therefore be paid in future to the reform and functioning of the international monetary system. It must be clear to all those involved that the solution can only consist of more comprehensive and better cooperation between nations and that this also calls for a new – enlightened – understanding of national interests. Cooperative approaches in global economic policy will therefore be indispensable in future.

6. Epilogue

The global financial crisis ushered in a decisive turnaround in the economic debate, dominated for over thirty years by the market liberal model. The promise of prosperity for all, brought about by the free play of market forces – via the triad of deregulation, privatisation and liberalisation – seems no longer tenable. The so-called »trickle-down effect« of the Washington Consensus has benefited only a few. Instead, the gap between rich and poor in almost all countries has widened and a privileged economic elite confronts a multitude of losers from globalisation. The manifest failure of the »invisible hand«

has opened up an opportunity to strike out on an alternative path, replacing the economic liberal faith in market mechanisms, touted as the only alternative, by enhanced policy action and governance capabilities.

In fact, politics regained its primacy over the market in the first phase of the crisis. The state intervened in time of need, forged economic stimulus packages, bailed out tottering banking institutions and supported the labour market. However, the public debt that accompanied this effort gave rise to fresh crisis phenomena. This enabled the representatives of the liberal economy to emphatically implement their old agenda in the second phase of the crisis, alluding to practical constraints and declaring that there was no alternative. Pro-cyclical fiscal policies, budget consolidation, austerity and cutting back the welfare state are enjoying stronger approval in the political debate as we exit the crisis than before it began. At the same time, stricter regulation of the financial markets has largely remained a declaration of intent, as has enhanced international economic policy cooperation and coordination.

What will happen if political actors do not take up the core elements of social growth, as presented above – if the opportunity to refashion economic beliefs is not seized? The global crisis has brought before our eyes the high costs of remaining on the market fundamentalist development path: collapses in growth, economic stagnation, persistent and rising unemployment in many countries, credit crunches, debt mountains, political impotence, growing social exclusion and social division. The persistence of these crisis situations and the severity of their consequences have given rise to a fundamental questioning – even among the champions of centre-right market ideologies – of the correctness of assumptions held for over thirty years about increasing individuals' dependence on the market, while rolling back the regulatory powers of the state.

The window of opportunity for replacing the market fundamentalist model is already closing fast. However, there is still a chance to transform the debate by means of a new, progressive economic policy model. This opportunity must not be missed!

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