

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title text.

# The Tasks of the State and Its Responsibility for the Future

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- Against the background of excessive criticisms of the state characteristic of economic policy in recent decades and the global financial crisis, the social democratic conception of the state must be renewed.
- Social democratic policy should be based on a participatory conception of the state with all social groups benefiting from it in an equitable manner. The state must not become prey to individual, particularly powerful interest groups. This will also lead to more informed, more widely-accepted and sustainable decision-making and improved credibility for democracy.
- The conception of the state based on complete national autonomy and hierarchical top-down government that excludes society is obsolete. Instead, the social democratic conception of the state must, beyond the nation-state, take into account EU integration and the need for global cooperation.
- In order to increase prosperity and to distribute opportunities for social participation more fairly, while at the same time boosting economic competitiveness, public goods must be strategically developed and expanded.
- Politics must have primacy over market economic processes. The role of the state as guarantor of economic and social stability must be reinforced by extending its relevant competences and endeavours and by providing for an adequate revenue base, even in times of crisis.





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## Foreword<sup>1</sup>

After three decades in which public debates were dominated by a more or less radical critique of the state, and in which first the UK, then the USA and finally all Western industrialised countries sought to »roll back the frontiers of the state« and the role of »the market« was enhanced both nationally and internationally, the world financial crisis brought home even to those who had failed to see it already the instability of a deregulated global economy. Without a regulatory framework for which the state is responsible »the market« is prone to crises and fails in the face of such major challenges as social inclusion, environmental sustainability and responsibility for the future. Social Democrats differ from their political rivals, among other things, in that they have always assigned a central role to the state in ensuring equality and freedom, social justice and stability. This paper outlines the central tasks of the state and aims to contribute to its social democratic reconception.

Social democracy stands for a strong state because only the better off can manage when the state is weak. It also stands for a responsible state that safeguards justice with regard to future generations. Social democratic policies are distinguished from those of both conservatives and economic liberals in that they prioritise the provision of public goods in order to ensure equal freedom, social inclusion and stability. Quality of life for the individual is not merely a function of private income or wealth, but depends to a considerable degree on public infrastructure, educational and cultural provisions, social security, the stability of society as a whole and a common sense of justice. A society in which the rich get richer and the poor always poorer; in which large sections of the population have lost touch with the labour market; and in which insecurity is growing and common ground is shrinking does not provide the conditions needed for a satisfactory life in equal freedom, equal respect and equal autonomy.

Social democracy does not allow the state to renounce its responsibility to provide the conditions necessary for an equally satisfying life for all. The primacy of politics means that democratically legitimised decisions must establish the framework of governance for both society and the economy overall. Politics is not the economy's

dogsbody. We need efficient markets, competition to provide the best products and technological rivalry for the sake of progress. However, we must also ensure that we safeguard the conditions needed for a humane society. The state may not relinquish this task.

But social democracy stands not only for a strong state, but also for a state which is democratic and participatory. State institutions are subject to government control and democracy is possible only if this takes place not only through elections, but also substantively, by means of information and participation. Social democracy is the engine of a social and democratic state which does not shirk its responsibilities. In this paper we try to define the responsibility of the state and outline the conditions that must be fulfilled so that it can do justice to it.

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<sup>1</sup> This paper has been originally developed as a position paper by the Basic Values Commission of the SPD National Executive.



## 1. The Global Crisis and Its Consequences

### 1.1 Comeback of the State?

In the past three decades it has been fashionable to preach the rolling back of the state. Some promised in this way to solve problems allegedly caused by the welfare state, such as inflation, state indebtedness and unemployment, while others predicted that competition between countries for business locations and the race to the bottom in terms of labour costs driven by international financial capital would do the trick. In the wake of the global financial crisis everyone is talking about the state again. Is it true that the state is back?

Certainly, in response to the crisis massive state intervention in the economy was needed, which previously would have been considered a sin against proper economic governance. Evidently, the basic lesson of the world economic crisis of the 1930s that followed the financial crash in 1929, with all its political consequences, had been learned: capitalism is not self-correcting in a crisis. This time, a coordinated global stimulus programme prevented a protracted depression and revived the global economy. At present, the German economy is benefiting from this, in particular the export sector, so that not only did Germany get through the bottom of the recession rapidly, but in spring 2011 there was even a dynamic upturn.

What the further after-effects of the crisis will turn out to be, however, cannot be predicted with certainty. One would have expected that the global crisis would have spelt the end of the line for the hegemony of market fundamentalist neoliberalism as an influential ideology. However, neoliberalism will not just vanish of its own accord. The understanding that the market cannot heal itself – in other words, that it needs the state for the sake of economic and social stability – has already been masked by a different interpretation of the crisis and thus repressed: now it is alleged that the state, not least because of the debts it incurred by intervening in the crisis, is the problem. Instead of those who caused the debt crisis being asked to pay up, the state is being repudiated once more. This puts us right back where we started. It is clear, however, that if no fundamental lessons are learned from the crisis the global economy will be continually prone to crisis, with all the political consequences that this brings with it.

### 1.2 The State in the Ideology of Neoliberal Capitalism

The ideology of neoliberalism has exerted enormous influence over the past three decades. In essence, so-called neoliberalism claims that:

- Freedom is the freedom of the individual. This means that »there is no such thing as society«, only individuals who pursue their own interests, without consideration for their social and cultural environment.
- The ideal forum for exercising individual freedom is provided by the market, because it is realised in competition, not in cooperation and responsibility for one another.
- The state must therefore be limited to the absolute minimum: individuals know better than the state what serves their interests.

Contemporary neoliberalism or market fundamentalism thus proceeds from a view of man as seeking to maximise his interests (so-called »homo oeconomicus«). Ultimately, therefore, all relevant decisions can be interpreted in microeconomic terms. Because neoliberalism recognises only individual property rights and acknowledges the market as the sole legitimate form of interaction, and because it puts the market in place of the state and consumers in place of citizens, there remains nothing more for the state to do, in its eyes, than to guarantee property rights (besides such obvious things as life and freedom from injury).

This was already the view of the liberal »nightwatchman state« of the nineteenth century, which was supposed to be limited to police and military matters. This approach has failed before, not least because of its inability to solve social issues. The political pressure organised by the workers' movement gradually changed people's views on the responsibility of the state, the most striking manifestation of which was the development of the welfare state in the twentieth century. Finally, the »need for the state« (*Staatsbedürftigkeit*) became a characteristic of modern society at the height of this development at the beginning of the 1970s. For a long time, this concerned not only the traditional welfare state safeguards: the state was supposed to create the conditions in which

the challenges of a modern economy and society could be overcome.

The new neoliberal model of capitalism characteristic of the past three decades was therefore understood as a reaction to the previously dominant demand-oriented economic policy and the development of the welfare state. Basically, it amounted to an assault on the predominantly positive view of state action in the economy and society in general. And it worked. Since then, neoliberal ideology has been able to oust the positive view of the role of the state and to bring about the hegemony of a view critical of the state. Step by step, its representatives were able to assert their demands for a withdrawal of the state from economic life, primarily by restricting the state's scope of action by systematically squeezing state bodies financially, including the social security system.

In this way, the state was forced to privatise a large proportion of public assets, which further reduced national state control of economic developments. Of course, this did not occur everywhere to the same degree. How differently this adjustment could be carried out is shown by comparing, for example, Sweden, with an expenditure-to-GDP ratio of 56 per cent, and the USA, with 34 per cent. Contrary to neoliberal expectations, Sweden did not suffer economically from this approach. In Germany, the expenditure-to-GDP ratio had already fallen significantly in the run up to the crisis. Nevertheless, the demands for a further reduction in government expenditure have not died away.

However, the heart of the problem with regard to government finances is not on the spending side, but on the revenues side: in other words, taxation. When during an economic upswing a debate commences on whether taxes are too high budget consolidation does not ensue, but rather a downward spiral in government finances is set in motion: lower taxes generate higher deficits, leading to calls for spending cuts. As a result of this long-term neoliberal finance policy the economic significance of the state is constantly pushed back. In other words, it is a matter neither of too high taxes nor of too high deficits, but of the far-reaching retreat of the state from economic life. However, this jeopardises the humane, stable, just and inclusive development of the economy.

### 1.3 Results and Lessons of Three Decades of Neoliberal Dominance

The most conspicuous outcome of these decades is that the gap between rich and poor has widened significantly in Germany, too. Regardless of the recent crisis unmistakable income disparities can be observed which threaten social cohesion and the principle of justice based on individual performance. Social justice must urgently be given priority in political decision-making and state action.

The growing inequality of income and wealth, however, is not only socially unjust but also economically problematic. One reason for this is that since the beginning of the 1980s profits and investment have not been in harmony. That means that profits are no longer reinvested but increasingly funnelled into the financial markets. In this way the hierarchy of the markets has also changed. The financial markets dictate conditions to the markets for products and services and these in turn dictate to the labour market. Profits are no longer company results less costs, but expectations have arisen of a minimum yield on invested capital. The pressure for yield has been passed on to suppliers and workers. In this way performance and reward – or share in the prosperity of the economy as a whole – have been decoupled.

The bloated financial sector, which is also a result of increasingly unequal income distribution, boosts speculation and corresponding promises of high returns far in excess of what is possible in the so-called »real economy«. The increasing demand for financial products on account of these promises of returns on the one hand reduces demand for consumer goods and on the other hand increases demand for goods whose prices are formed speculatively and promise profits in the future. In such circumstances, speculation ranges through commodities, real estate, stocks and, lately, government bonds, until the bubble bursts, as we can see in the crises which have succeeded one another at short intervals since the 1980s.

In contrast to the recent global financial crisis previous crises were more or less limited regionally or by branch. The global financial crisis arising from the US real estate market in 2007, however, affected the largest economy in the world and its growth model, which up until then had been decisive for the world economy. As a result of the crisis there were sometimes dramatic slumps in growth in all the larger economies. For example, in 2009

Germany experienced a fall in GDP of 4.7 per cent, by far the deepest recession of the post-War period. During this time the state had to take on a heavy burden in order to revive the economy, a policy which succeeded marvellously. However, the government debt ratio is now around 20 percentage points, in absolute terms about 500 billion euros above its pre-crisis level.

In order to reduce the resulting burden on the public budget and to give the state more scope for investment projects a long-term consolidation policy is needed. However, this will be successful only if the economy develops positively and tax revenues flow abundantly. Even that will probably not be sufficient so a political decision must be taken concerning whether the state will cease to perform certain tasks or whether taxes must be increased.

What general conclusions can be drawn about the crisis?

- Clearly, it is not possible without the state. The recent global financial market crisis showed that only by means of massive state intervention and coordinated government action, including the nationalisation of banks, was it possible to prevent an even bigger crash.
- Belief in the rationality and effectiveness of free markets was permanently shattered. This is reflected in a sea change in social attitudes: a majority of people in Germany take the view that a more capable state is more important than further tax cuts.

If the state must take on a stabilising role in times of crisis it must have a broad range of stability-policy instruments at its disposal, not confined to extremely costly crisis responses. The role of the state cannot be solely reactive if trust in democracy is not to suffer permanent harm. If dramatic inequalities of income and wealth tempt the higher income and wealth-owning strata to undertake ever riskier financial investments the danger is that whole economies could be seriously damaged. Democracies themselves are in danger from too much social uncertainty and economic inequality. Democracies must therefore respond to the economic and social uncertainties that have accompanied the crisis by providing an answer to the question of how the economy can be developed in the interests of people and public welfare.

What does this mean for social democracy and for social democratic policies?

1. The social democratic conception of the state must be renewed against the background of the excessive criticisms of the state characteristic of economic policy in recent decades and of the global financial crisis.

2. Social democratic policy should be based on a participatory conception of the state which all social groups can benefit from in an equitable manner so that the state does not become prey to individual, particularly powerful interest groups.

3. The social democratic conception of the state must, beyond the nation-state, take into account integration in the European Union and the need for global cooperation. Social democrats must become advocates of democratic and cooperative structures at the transnational level.

4. Politics must have primacy over market economic processes. The role of the state as guarantor of economic and social stability must be reinforced by extending its relevant competences and endeavours and by providing for an adequate revenue base.

## 2. Democracy, State and Market: The Primacy of Politics

### 2.1 The State as Political Self-Organisation of a Democratic Society

The goal of the Social Democratic Party is the »realisation of a society based on freedom, justice and solidarity«. So says the Hamburg Programme of 2007, from which it follows directly that: »because we adhere to this goal we insist on the primacy of democratic politics and repudiate the subordination of the political to the economic. We have a broad conception of the political which may not be reduced to the state, but includes civil society alliances and networks, as well as freedom and self-determination for people. Politics must ensure that certain things are not reduced to commodities: law, security, education, health, culture and the natural environment«.

The rule of law and the welfare state are the »fundamentals« of democracy for the Social Democratic Party. To our way of thinking, therefore, democracy requires a basic provision for all citizens of equal political and social rights, as well as access to public and collective goods that afford them the necessary individual and so-



cial opportunities with regard to freedom and the ability to shape their own lives. Accordingly, the state, as Social Democrats understand it, has more than a servicing function in the (economic) liberal sense. Nor is it, as in the conservative view, a kind of »board of directors«. For us, it is an instrument citizens can use to shape their own society in the general interest. It bears responsibility for guaranteeing public goods in sufficient quantities and in the necessary quality.

In a democracy, the Constitution and democratic legislation shape relations between the state and the (market) economy, civil society and the associated public sphere. The state must be defined with regard to its relations with the citizens and – more generally – those people for whom it implements the law it makes, performs the tasks expected of it and provides the corresponding services.

Social democratic policies have always been based on the assumption that the state is an indispensable instrument of modern societies which is not to be used to constrict the freedom of its citizens but, on the contrary, to increase it. However, this requires that the users of public goods do not have less influence over whether or not they are provided and also their quality than the customers of private economic goods to whom a certain range of options are available. On the contrary, they should have more influence, not least because the quality of public goods tends to be superior to that of private goods precisely because of such influence.

Modern society defines itself, therefore, not by the level of its need for the state but by the fact that it assigns the state the role of guaranteeing an optimum level of participation for and by citizens: the modern state, in order to function properly, has an equally strong need of social codetermination. With good reason the SPD's Hamburg Programme of 2007 espouses a »broad conception of the political which may not be reduced to the state, but includes civil society alliances and networks, as well as freedom and self-determination for people«.

At the latest from the end of the 1980s it became increasingly clear that state governance processes were undergoing considerable change. Statehood, the ability to make and implement binding rules for the economy and society up until then had been almost entirely concentrated in national government. Successful political governance is no longer possible on this basis.

Under the influence of globalisation and regionalisation competences as regards political governance are distributed not only between civil society and national governments, but equally between the global, regional and national levels. Increasingly, their functioning is in the hands of political and government-like organisations beyond national borders, such as the UN or the transnational regulatory systems of the WTO. In Europe, the European Union is developing into a new kind of regional state. An increasing number of state tasks can be carried out effectively only at transnational level. If these state tasks are to be performed successfully everything now depends on whether the political division of labour between global, regional and national levels is undertaken effectively and in good time, in keeping with the problems in question.

Societal or private actors have long been involved at all levels of the state, including in the definition of objectives. We are therefore observing a development in the way the state acts from regulatory hierarchy to societal cooperation. This is happening for a variety of reasons and has various consequences that must be carefully noted and critically evaluated from a social democratic standpoint. The task of social democratic policy is to shape the opening up of the state to societal actors as a process accessible to all social groups in a fair manner and not to allow individual, particularly powerful interest groups to »capture« the state. The considerable influence of the financial sector on regulatory policy in the run up to the crisis may serve as a warning in this respect. Social democratic policy must ultimately operate in the public interest.

## 2.2 Need for an Up-to-Date Conception of the State

In principle, citizens' need for participation has increased considerably. This is entirely in keeping with the social democratic conception of the state. Furthermore, the complexity of modern states has grown so much that state policy – both in the executive and in the legislature – depends on the cooperation of societal actors if its decisions are to correspond to reality and citizens' political preferences. For the sake of successful state action and its long-term feasibility a need has emerged for cooperation and consensus that could lead to tensions in relation to party competition in a parliamentary democracy. Party competition leads to modes of behaviour – rejection out

of hand of the proposals of rival parties, personalisation and political short-termism – which put citizens off, especially those with no party affiliation, and bring party democracy into disrepute. On the other hand, such competition is indispensable for parliamentary democracy in a free society.

The increasing cooperation between state and societal/private actors, moreover, emerged during a period in which state policy towards the governance of the market economy for obvious reasons generally came under suspicion of incompetence and bureaucratic opacity. The reasons given for this were unfounded but came to be formulated in terms of a general political position, according to which the market appeared to be more transparent and more effective than any form of politics, so that in broad terms politics should be replaced by market processes.

However, the baby was thrown out with the bathwater and, as a consequence, the state was weakened considerably. One example of this is the wave of privatisations – also propagated by many social democrats – for example, of municipal undertakings, which, while filling municipal coffers in the short term, in many instances took away the instruments required for effective state policy.

In this connection there has quite rightly been a rethink in favour of the significance of the state and of public goods. However, the general insight that effective state action requires the cooperation of organised civil society and also the private sector cannot be gainsaid.

As Social Democrats we are therefore calling, in order to reassert the primacy of democratic politics, not for a return to an obsolete, illusorily autonomous and latently authoritarian conception of the state, focused narrowly on the national level, but for a new, participatory and global quality with regard to state policy.

In the face of the mistakes of the past two decades this policy puts the focus once more on the public tasks and goods that we need for human welfare and at the same time retains the gains with regard to citizen participation and cooperation with the private sector. Admittedly, with regard to the latter the question of the legitimacy of decisions taken in this way arises constantly since neither organised civil society (citizens' initiatives) nor the private

sector, in contrast to state institutions, have democratic legitimacy.

There can therefore be no question of replacing the state with societal actors or of considering them to be of equivalent legitimacy. Rather the involvement of societal interests in state – parliamentary and ministerial – decision-making is being enlarged. In the form of lobbying, this has always been part of parliamentary democracy, but now it is assuming the form of procedurally active cooperation with a wider range of societal groups. Partly they are the legitimate representatives of particular interests – in keeping with the traditional lobbying of associations – and partly they are »advocacy« NGOs, oriented towards the common good in the interest of overarching social objectives (environment, fight against poverty and so on).

This cooperation is by no means without conflict. Rather it could be described as »antagonistic« cooperation, reminiscent of West Germany's »social market economy« in the 1970s (at that time between capital and labour). This is because in a pluralistic society conflicts of interest are not eliminated by such cooperation, but only ameliorated in particular instances.

When state policy cooperates in this way with social partners »antagonistically« it in no way loses its special character, oriented towards the common good, and its pre-eminent status legitimised by democratic elections. However, its decision-making can become more informed, find wider acceptance and be more long-lasting and thus the input legitimisation of elections can be strengthened by the better output legitimisation of decisions that enjoy societal support. This could help democracy to halt the erosion of its credibility which it is currently experiencing.

Another reason why social democracy cannot return to an obsolete conception of the state based on complete national autonomy and hierarchical, top-down government that excludes society is the transnationalisation of political challenges and regulatory needs. When the nation-state wishes to carry out its public functions, for example, by means of higher revenues today that can be done successfully only in association with other states in order to prevent individuals or economic actors from »jumping ship« to other states where tax conditions are more favourable for them. One of the most prominent causes of the depletion of state revenues in recent times,

especially in the European Union, is the »location competition« for capital investment into which countries have been plunged.

In order for cooperation between states to work, socially responsible democratic politics needs transnational social actors that, in contrast to particular national interests, are committed to public goods, climate issues and a resource-conserving energy policy and are able to overcome nation-states' temptation to relapse into sole dependence on national lobbies and electorates. That applies especially to the European Union.

Today, governments are not politically sovereign either domestically or globally when they wish to favour democratic and welfare state policies. However, although they are no longer capable of mobilising alone nor of exerting control they remain indispensable for the legitimation of political decisions. Democratic politics must be broadened to encompass good governance, both domestic and global, which defines the processes described above, if social democrats in future wish to assert the primacy of democratic politics in favour of public interest obligations as against uninhibited particularist interests and the danger of unregulated markets.

For these reasons it makes more sense than hitherto for social democrats to reach out, actively and »preventively«, to NGOs and the private sector when in government, prioritising public interest obligations, without arrogance but rather in the spirit of civil engagement and cooperation. This form of increasing citizen participation is both effective and in keeping with representative democracy. It offers – in contrast to referendums – the best chance to win back citizens for democracy (not to mention for social democracy) within the framework of practical politics, not merely as a »front« but as serious partners for sustainable politics in our pluralist societies.

### 2.3 Is the Social Market Economy on Its Way Out?

The state cannot replace the market. However, to the extent that pursuing a preventive social and environmental policy for the sake of the life chances of certain social strata, but also of future generations, the state's role is increasing. The state must coordinate and complement – this is because the market fails, even under ideal condi-

tions of perfect competition and transparency because it is social and environmentally blind. The market can offer neither security nor public infrastructure without excluding those parts of society or the economy which cannot afford scarce goods. Nor can the market take into consideration the interests of future generations, which of course do not generate demand today.

The anchoring of the principle of the welfare state in the Constitution has over the past five decades ensured that the state has counteracted market failures; it has also provided for more equality of opportunity, made available collective protection against life's contingencies and combated tendencies towards social division. The long successful balance between market, state and society pursued during this period – a balance which characterised the Federal Republic – is known as the social market economy. The Social Democratic Party played a decisive role in its development (among other things with the Stability and Growth Act of 1967, the Employment Promotion Act of 1969, the further development of codetermination in 1972 and 1976, as well as Social Democratic education reforms).

There is broad agreement on the economic order labelled the social market economy even today. Support is becoming increasingly vocal for the supplementing of private provision of goods and services with high quality provision of public goods and services oriented towards social needs. However, the model has also lost public trust. Only one-third of the population is happy with the social market economy as it currently stands, especially because they deem that the promise of social mobility, fair shares and social security is no longer being kept. As many as 59 per cent are in favour of the government intervening in economic life more strongly. The question is only, how?

Germany's model of the social market economy, which is conceived essentially in terms of the nation-state, is enormously affected by Europeanisation and globalisation. To date, it has not come up with a satisfactory response to the new global capitalism. The nation-state's options with regard to managing economic processes have diminished. Large national companies have been superseded by global production networks and the state itself has been weakened as an economic actor by the privatisation of public property.

Although a great deal can be effectively accomplished only at the transnational level the nation-state has by no means lost its decisive significance. It continues to play a key role both in decision-making on regulation beyond the nation-state and in its implementation and also internally retains broad autonomous decision-making and regulatory competence, even under conditions of globalisation and regionalisation.

The European single market and the continuing globalisation of markets require regulations and policy instruments in keeping with the intensive integration of national economies via the capital and commodities markets in order to implement an economic order oriented towards social rights. If and as long as this is not possible the alternative is negative location competition, a strategy based on pursuit of the lowest social costs.

Politics therefore faces the task of establishing a new balance between capital and labour, but also between financial capital and the real economy, at every level of the state and with a variety of instruments. On top of this a number of new and acute problems have come to the fore, primarily the environmental restructuring of the economy under the aegis of climate protection and resource scarcity, and the long-term reduction of the national debt. All this means that we need a new comprehensive and coordinated government strategy for stability and sustainable growth. If we are to be able to cope with future challenges, such as social and environmental issues, we need a new economic order. Politics is indispensable in both developing and managing all this.

The social market economy, understood as a model that combines economic performance with a social orientation for economic policy, has very much proven its worth in the global financial market crisis. Social justice and economic performance are not opposites, but complement one another. An economic policy oriented towards social justice and competition will increase both competitiveness and motivation. This is demonstrated by the fact that people who are insured against social risk are prepared to incur higher economic risk. Similarly, an economic policy oriented towards social inclusion tends to result in more people with better qualifications, which in turn benefits the labour market. The social market economy is thus a model for the future which combines economic success with social security.

## 2.4 The State as Guarantor of Economic and Social Stability

The crisis has once more brought home to us in no uncertain terms that economic activity is fraught with uncertainty. Rational economic behaviour in the conventional sense, given inherent ignorance of what the future holds, is simply not possible. This applies particularly to how market participants cope with uncertainties during crisis periods. Panic selling on capital markets and precautionary saving in the face of unemployment on product markets are typical signs of an uncertainty that a crisis only intensifies. »Irrational exuberance« with regard to investments in risky investment vehicles is the optimistic side of the same coin. Both destabilise the market and generate social risks which cannot be managed on the individual level.

The state does not embody superior knowledge. Nor is it a question of glorifying state action of the kind once so eagerly cultivated by the political left. It is simply a matter of macroeconomic rationality. This cannot be expected from individuals because of the herd instinct, the pressure for higher yields and oppressive uncertainty. The herd instinct and the pressure for higher yields are not characteristic of the state. There will be uncertainty about the economic situation, sure, but the state has instruments at its disposal with which it is able to counteract the excesses of the private sector. It can therefore at least steer things in the right direction, even if it does not know precisely how far it will have to go.

In other words, state intervention is not necessary because the private sector is less well-informed than the state. This can be the case, but that is not relevant here. The point is that the private sector, even when its information is perfect, will pursue its private-sector economic logic and it is precisely this that exacerbates the crisis. State intervention is needed, in other words, not because the state knows more, but because in both crisis and boom periods it is not constrained by microeconomic logic.

- Stability, therefore, cannot come from the private sector. There is only one authority capable of taking action against the collective economic irrationality of rationally acting individuals, and that is the state.

- The task of a stabilisation policy is therefore primarily to combat uncertainty and euphoria. The anti-cyclical economic policy proposed by Keynes must be seen in this context, not, so to speak, as a hydraulic instrument to stimulate the economy. It is primarily an instrument for diminishing – understandably – profound uncertainty during periods of crisis. By doing this, anti-cyclical policy supports private expectations and breaks up waves of panic – but also of euphoria.

- When and to what extent state instruments are to be deployed can and must be the object of political and economic argument. There is no one-size-fits-all answer here. What is critical is that all sides recognise that responsibility for economic stability belongs to the state.

## 2.5 Public Goods and Social Justice

Instruments available to the state for shaping a stable economy and a just society are not limited to crisis intervention or sanctions, taxes or subsidies as means of prevention. Sharing and participating fairly in society, social security, equality of opportunity and fair reward can be ensured pretty much exclusively by the whole infrastructure of concrete public goods, ranging from state education to nursing care. The importance of such concrete public services is increasing as a measure of distributive justice within society in place of monetary transfers.

Notwithstanding the increasingly critical debate on the use of monetary benefits to make up for social disadvantages, the provision of public goods – in other words, services accessible and affordable to all – has not grown in recent decades. The great – by both historical and international comparison – wealth of Germany today, accompanied by tremendous opportunities for most of the people living there, is based primarily on goods and services most of which are provided and utilised in the private sector. This is to be set against a public consumption that has remained comparatively underdeveloped and indeed has declined over the years. Absent, unsatisfactory or downright poor public goods cannot entirely be compensated by private consumption, however. This restricts the opportunities and impedes the futures of many people and access to social participation remains unequal. The chances of future generations are also impaired if the necessary investment is not made in child raising and

education, preserving society's natural resources and infrastructure.

In order to improve the prosperity of people living in Germany and to distribute opportunities for social participation more fairly, while at the same time boosting economic competitiveness, the domain of public goods must be strategically developed and expanded. This is possible because in economic terms most public goods are infrastructural goods, which benefit the economy by increasing productivity and competitiveness, human capital and mobility, as well as the sustainable use of natural resources, the economic relevance of which is growing. These factors contain the key to a modern growth strategy. This is based not only on the supply side of the labour market and production location, but also refers to location and performance factors that can be strengthened only by means of public goods, such as people's willingness to cooperate and creativity that is not subject to commercial constraints.

A just society is possible only if public goods are made available in sufficient quantity and variety. A democratic society needs the cultural and social cohesion that these collective goods provide and the structure of cooperation that goes with a flourishing civil society. Finally, all of this is needed to preserve cultural pluralism and thus the fruitful soil required for successful social integration.

For this reason, education is a crucial public good. It is the key to the successful integration of the individual, whether in society or working life. It is a task of the state because not only does it make possible a self-determined life, but it is also a condition of the proper cultural, social and economic development of society as a whole.

Because the broad and properly developed provision of public goods and services makes sense for both the economy and society the neoliberal vision of the lean state must be rejected. On the other hand, public goods are by no means only state goods. In Germany, over the decades a mixed system of state, societal and private-sector producers of public goods has developed and proved itself. This system must be further developed. In it, the state and its institutions:

- mobilise the resources needed to provide these goods or stimulate their production to the requisite degree if they do not produce them themselves; and

- ensure equal access to public goods, as well as their adequate quality.

This is in keeping with our image of a state which – under democratic control – performs its tasks in cooperation with societal institutions and organisations, as well as private sector actors, provides them with the necessary support and makes available opportunities for development.

Besides and complementary to the state, therefore, the involvement of civil society in the economy should also be promoted. Civil society can make collective goods available in competition with the private sector, not only taking into account considerations of economic return, but possibly also more in line with people's ideas about forms of production and participation. One example of this is local energy generation. The joining together of cooperatives serves this purpose. With regard to collective goods, therefore, it is not a matter of substituting for state activities but of complementing purely private provision.

### 3. Current Challenges

We live in a time characterised by the reciprocal interpenetration of the global economy, global society and global culture. As a result, we are experiencing rapid societal change which is giving rise to major challenges to which we must find a response if a just and democratic society based on solidarity will also be possible in the future.

Although Germans live in the richest region in the world and in a country that possesses outstanding economic, scientific and cultural potential, our society must find ways of overcoming growing social inequality and exclusion, and indeed within the framework of competition for ever diminishing natural resources. We deliberately frame the global question of the age together with the social question because solving them is crucial if peace and freedom are to have a future. We are convinced that we will be able to deal with global challenges if we can overcome the problems of our society and unleash new potential.

The following current challenges and problems have to be prioritised by politics, state action and societal actors:

#### 3.1 Inclusion

Inclusion is the major challenge of social democratic policy. We must prevent society from splitting increasingly into winners and losers and the growing threat to ever larger sections of the population of educational deprivation, unemployment and exclusion.

In keeping with its obligation to ensure societal affiliation and equal participation the welfare state must take into account a range of dimensions, focusing, in other words, on an »inclusion mix«. Inclusion cannot be brought about by means of monetary benefits alone. Depending on the specific problems, it requires answers that can be provided only through an appropriate labour market and employment policy, education and promotion of education or through social care. Inclusion includes both preventive and remedial, activating and protective provisions – depending on the variety of causes of exclusion and the typical upheavals and sets of problems that arise from that.

In Germany, social affiliation and equal participation have traditionally – and also in the future – been determined by the values and institutions characteristic of a work-oriented society. Gainful employment, therefore, is and remains the key to social affiliation and equal participation. Persons affected by unemployment must be given access to the labour market. Adequate support must be provided for this, including appropriate measures on the second and third labour markets.

Integration-policy problems are also predominantly economic and social, not cultural. The fact that a high proportion of young people from an immigrant background leave school without qualifications and experience higher unemployment and dependence on transfer benefits represents a challenge for education policy, economic policy and social policy.

#### 3.2 Education

Education is key to a preventive social policy. An inclusive society calls for educational institutions which bring people in rather than shut them out. The German education system is selective to a considerable degree: in other words, social origin plays a major role in the distribution of educational opportunities. The consequences of disad-



vantage and exclusion for a person's education are grave. There is a close connection between educational attainment and occupation, failure and unemployment.

Education policy as preventive social policy means that individual needs and cultural differences must be taken into account and that schools, besides being places where knowledge is acquired, must also be places of social cooperation, solidarity and empathy. Schools should be a habitat in which individual personalities can be developed, but where consideration and cooperation can also be learned. All-day schools have more scope for including the ethical, aesthetic and physical dimensions of education. Teachers should also be supported by social education workers and psychologists.

Switching schools to all-day operation would also be a very effective integration policy measure. Differences with regard to language skills would be reduced and cultural segregation counteracted. Furthermore, it is to be expected, from a socio-economic perspective, that in Germany inclusive education and training can counteract existing divisive tendencies, such as the high proportion of early school leavers from immigrant families.

### 3.3 Equality

Gender equality has (largely) been achieved in legal terms, but not in the life world, care activities and employment. The low employment participation of women in Germany is in striking contrast to women's high qualifications. The majority of students today are female and their school-leaving qualifications are generally better than those of boys, a state of affairs which continues up until their final studies. There are many reasons why, after the completion of education and training, many men draw ahead of women with the same or better qualifications. It is not merely a matter of discrimination. Given the wish expressed by many younger women for reconciliation of work and family life – which is also becoming a matter of course for many younger males – women's low employment participation cannot be justified on the basis of different priorities.

Facilitating the full-time employment of men and women from completion of education or training until retirement as late as possible (with flexible transitions and a high degree of control for employees) can be enabled by the

democratic fundamental values of equal freedom and ensuring autonomy for all, regardless of gender, ethnicity or religion. Alternative conceptions, such as an unconditional basic income, would merely prolong or even widen divisions by gender, social status and origin.

### 3.4 Demographic Change

Life expectancy is rising worldwide, but as in the past also in the advanced industrialised countries, such as Germany. Since sickness and the need for care are correlated less with age than with time of death this does not necessarily place a heavier burden on the health care system. However, demographic change does call for a major restructuring of public infrastructure. As a result, priorities are shifting in favour of the needs of older people. Although for younger people, on the one hand, the demand for infrastructure is diminishing, the leeway arising from this should partly be used for the sake of qualitative improvements. Since the proportion of older people is increasing significantly additional provisions should be made available on a large scale in order to meet the expected needs.

But the goal of inclusion should also take centre-stage here too. Many older people have valuable knowledge to contribute and the willingness to get involved both inside and outside the workforce. More account must be taken of these capabilities and needs than hitherto. This applies not only to the funding of old age pensions but also to the possibility of a self-determined and active life in old age. Given the age structure, society and the economy cannot afford to do without the capabilities of older people.

### 3.5 Sustainability

Climate change, energy crisis and resource scarcity, both already and in the future, epitomise the consequences of a form of economy and lifestyle which represent probably the greatest challenge of our time with regard to the natural environment and our social, political and economic systems. The fact that within a very short period of time, in historical terms, a profound transformation is needed in our way of life, together with the restructuring of our economy in accordance with sustainability criteria, politics must play the key role in mobilising the forces in the

economy and society needed to enable sustainable management of limited resources without deepening existing social inequalities throughout the world.

Sustainability means measuring economic decision-making, social agenda setting and technological innovation in terms of their contribution to a good life for all people in the future. Naturally this encounters resistance when habits and short-term profit interests are affected. The environmentally necessary structural change in the economy may impair competitiveness of individual companies in the short term, but for the economy as a whole it brings long-term cost benefits. Most of the objectives of sustainable production can best be achieved in accordance with specific local possibilities which are decentralised and close to consumers. A start can be made everywhere and people should get involved: citizen participation is the key to success. Best suited to bring this about is a cooperative state, both in relation to potential social actors and together with the various levels, from local level to the European Union and the United Nations.

## 4. Priority Tasks of the State

The tasks of the state must always be adapted to the needs of society and the challenges of the time. That is the decisive criterion, not the incessantly debated ratio of government expenditure to gross national product. On the one hand, this needs to be reduced in order to create more room for private economic activity; but on the other hand, it should be increased in order to improve the provision of public goods. This debate does not lead anywhere because the connection between the level of the spending ratio and economic dynamics is ambiguous. Economic policy should therefore not target a specific level of the spending ratio, but concentrate on determining what tasks the state should perform. Carrying out these tasks must be ensured by an appropriately high expenditure level with corresponding tax revenues.

Not all tasks of the state have to remain so. At present, for example, it is advisable for the state largely to withdraw from the production of private goods which earlier were regarded almost as a sovereign task – for example, post and telecommunications – but to become increasingly involved in transport infrastructure (railways), energy supply (energy networks), education and health care.

The activities of the state should be reviewed at regular intervals with regard to whether they could be provided more efficiently in the private sector. Whether this leads to a lower spending ratio is doubtful given the already extensive privatisation of large sectors such as telecommunications and post.

When it comes to the provision of public goods, such as access to effective labour and education markets, health and old age care, account must be taken of taxation and social contributions as a whole. Without upfront investments by the state and strenuous public efforts with regard to public infrastructure, education, equality and social inclusion no sustainable progress could be made in Germany.

### 4.1 Education a Priority

The massive expansion of state educational institutions will not only make it necessary to set new priorities in budgetary policy, it will also require additional state revenue sources. Over the medium and long term state financing up front will pay for itself by means of additional jobs, in particular for women.

The expansion of educational and social occupations, the expansion of educational and social institutions and switching from transfer payments to institutional provisions is not an end in itself, but serves social justice, educational institutions and gender equality. This »Scandinavian« project corresponds to the concrete wishes of men and women, adults and children and reflects ideas about a good life in our society.

### 4.2 Priority of Reconciliation of Work and Family Life

The key to real employment equality between men and women in Germany is the expansion of child care facilities and the reorganisation of state care and education provision from kindergarten onwards on an all-day basis. Other strategies, such as the extension of part-time work and flexibilisation of working time, with more parental control over working hours, can play a complementary role, but not a central one.



The state must create the conditions for the equal employment participation of women. Millions of additional jobs are required for this purpose but they will also be created because this will stimulate growth and boost government tax revenues.

### 4.3 Priority of Public Networks

The provision of public infrastructure is among the most important state services. It is the core of local responsibility, but also of the states and of the federal government. In the past two decades, however, private operators have taken the place of public ones, which has made the question of the cost and quality of the relevant services, as well as their public control, into an explosive social issue. In particular, the question arises of whether there is insufficient competition between private operators. For that reason alone the state has a regulatory responsibility for these markets.

Another central social debate concerns energy supply, including networks for electricity transmission, energy generation and the disposal of its waste products. In the debate on the energy transition, society's overall responsibility in contrast to that of the private sector is becoming clear: owners of power stations and networks are private, although federal states and local authorities sometimes have shares in them. The disposal of atomic waste, in contrast, is public because it was not possible to privatise such a responsibility nor would it ever be permissible. In other words, the risk must be borne by society – at unpredictable cost. Given the centrality of energy supply to society it is important that this sector must be subject to societal control and that the supply network belongs in public hands, not least on the grounds of fair competition.

Other supply or transport networks are also important elements of the infrastructure of a modern technologically advanced country and should be publicly run or licensed as a matter of principle. This includes municipal water supply and sewage disposal, as well as waste management. Networks for information transfer are another, increasingly important infrastructure crucial to the economy. Access to information and information exchange is a key aspect of so-called services of general interest. Under private management, however, provision is patchy due to the differences in demand density be-

tween urban and rural areas. The planned privatisation of the railways, too, has led to a situation in which, for the sake of commercial profit, service provision is being constantly reduced and centralised, and there is insufficient investment in the network and rolling stock. However, this development could be dealt with by taking the network back into public hands and the deterioration in service arising from the monopolistic position of the railway company halted.

### 4.4 Priority of Environmental Modernisation

For the sake of sustainability, long-term, less »productive« investments are indispensable. This is why the state will play a decisive role in financing. If the intention is to finance such investments without the state incurring debt there are two possibilities: higher taxes or nationalisation of productive assets. Since the financial crisis, the latter has ceased to be taboo: as »systemically important« institutions some banks had to be taken over by the state because they were no longer sustainable in the private sector. There is nothing wrong with a higher degree of public ownership, then, if the whole economy shares in the benefits, in this case from the potential added value of environmental services. State investment in environmental assets, such as forestry or municipal infrastructure and networks, can thus be a way of obtaining revenues for refinancing.

It is absolutely clear that without specific regulatory limitation of energy consumption or a considerable price rise restructuring objectives will not be met. In turn, this requires compensatory measures in favour of the socially vulnerable. Instruments for this purpose include environmental financial reform and a genuinely binding emissions trade with no exceptions and constantly falling ceilings. A whole bundle of measures for the reorganisation of transport are particularly important: speed limit, kerosene tax, air travel levy, motor vehicle taxation based on cubic capacity and consumption, elimination of concessions on company cars, road tolls for passenger cars and the reduction of commuter allowances are acceptable if the revenues are directed towards the expansion of an environmentally sustainable, but also efficient transport infrastructure. Also important is the restructuring of urban and settlement structures in order to join together functions that are currently separated and to increase proximity. On the other hand, more favourable condi-

tions must be created for public transport systems and non-motorised mobility.

## 5. Enabling the State

Enabling the state by ensuring an adequate and robust revenue base for public budgets is a crucial objective of Social Democratic finance and tax policy. In particular against the background of the so-called »debt brake« which de facto excludes the financing of state tasks by incurring debt for the federal government from 2016 and for the states from 2020 the alternatives of cuts in government services and higher taxes are brought home with full force. It is therefore a matter of urgency to provide for adequate and, even in crisis periods, reliable funding of essential activities at all levels of the state and in statutory social security.

### 5.1 Welfare State Optimum rather than Expenditure-to-GDP Ratio

In Germany, state funded goods and services amount to around 10 per cent of all goods and services. Germany thus has a poorly developed public sector, with 12 per cent of employees and 8 per cent of total wages and salaries. In Scandinavian countries this domain is twice or three times the size. There is therefore significant room for improvement.

From an economic standpoint there is no objective criterion – apart from avoiding extreme solutions – with regard to how high the tax and contributions burden should be. Whether the tax burden is too high or too low depends crucially on people's wishes. The relationship between taxes and contributions, on the one hand, and the quality of the citizen services funded in this way is the standard of judgement. Ultimately, however, the dispute concerning the tax and contribution burden is a political controversy about the extent and quality of public services. The two have to be viewed together. Looking at the tax burden in quantitative terms, therefore, is inadequate. The argument that the tax burden must be as low as possible in order not to endanger the German economy's international competitiveness is only superficially true. Competitiveness always results from the interaction of numerous variables, such as wage levels and productivity. The tax burden is only one element which,

furthermore, does not leave other explanatory variables unaffected. For example, if investments in infrastructure financed through higher taxes help raise productivity competitiveness can even improve.

On the assumption of a purely market-based society, if one measures the quality of a society and state in terms of the welfare of the individuals who belong to them then, the provision of public or collective goods – security, social goods, educational goods, environmental goods and so on – should lead to an increase in the aggregate of individual welfare and the level of welfare overall. Going to the other extreme of a purely state owned and managed economy which finances all goods production from taxes and contributions it can be assumed that individual welfare will fall far below the optimum. Between these two negative extremes – the purely market-based society and the purely state-based society – there must be an optimum characterised by an appropriate combination of private and state activity.

How can one measure what it's like to live in Germany? There is no generally accepted measure of individual well-being, merely a variety of indicators, such as per capita GDP or the UN's Human Development Index. A society's well-being can therefore be captured only on the basis of a bundle of indicators.

It is an interesting fact that in recent months, presumably for the first time in the history of the Federal Republic of Germany, opinion polls indicate that many people are against further tax cuts. This means that the majority of people take the view that their individual welfare gains do not offset the losses in collective goods, especially due to cuts in municipal services. There is a common interest in public infrastructure which exceeds individual welfare gains through higher disposable income as a consequence of tax cuts.

### 5.2 More Fairness with regard to Taxation and Distribution

The essential basis of Social Democratic tax policy is personal income tax in keeping with economic efficiency, local taxes oriented towards sustainability and corporate taxation which sets effective limits on tax shifting and tax structuring. The criteria, therefore, are fair burden

sharing and more distributive justice: otherwise, social acceptance of the system will decline.

Fair taxation, and together with that public acceptance of the tax system, can be ensured only if individual groups are prevented from systematically evading their tax and contribution obligations, for example, by means of so-called tax havens. Tougher sanctions are therefore needed for tax evasion, review of the approach to tax liability in order to avoid change of residence and stronger European and international coordination and harmonisation.

More distributive justice is needed because of increasing income and wealth inequalities in Germany. To counteract this, progressive taxation of personal income must be retained. This requires:

- direct taxation of high incomes and property (as an independent source of economic productivity, for example, through inheritance tax and wealth tax);
- recording of labour and capital income that is as uniform as possible; and
- the simplest possible tax system.

In order to relieve the burden – on both distributive and labour market grounds – on low income groups in particular, which is urgently required, taxes and contributions have to be approached in a much more integrated way. This would make much more money available for public tasks. In this way, too, the major economic and political disadvantages arising from the fixation on the tax element could be overcome.

Personal income tax and social contributions together make the difference between individual gross and net income. However, they are rarely perceived as distinct. In fact, the composition of the total burden of taxes and contributions differs considerably for different income groups. In lower income brackets contributions predominate: only income above the contribution assessment ceiling is subject to tax. The different treatment of single persons, married people and families with regard to taxation and contributions also gives rise to specific burden profiles. Furthermore, social security contributions, in contrast to taxes, are partly offset by individual benefit entitlements.

### 5.3 Promoting the Environmental Restructuring of the Economy and Society

The tax and contribution system must play its own part in ensuring the environmental foundations of life in the economy and society. The taxation of environmental or energy consumption can thus combine the environmental aim with raising public revenues.

Cutting back environmentally harmful subsidies is a particularly good idea. Just as it is legitimate to use subsidies to reward socially desirable behaviour, organise structural transformation and provide for equal conditions of life, it also makes sense to reduce subsidies that contradict these aims. In this way we can acquire the financial freedom for necessary investments, targeted relief for those on low or normal wages and paying down public debt.

With regard to the federal level, calculations show that between 20 and 35 billion euros a year could be saved within five years by reducing environmentally harmful subsidies. Internationally, bilateral agreements are possible, for example, on flight levies: corresponding initiatives are already under discussion at EU level. Revenues from some subsidy reductions should be used directly in relevant support programmes, for example, for inland waterway transport and lorry tolls in order to make up for current deficits. Social hardships arising from subsidy cuts can be compensated by means of targeted support: subsidies tend to have too much of a scatter-gun effect.

The development of environmental technologies has a key role in both achieving economic prosperity and sustainability. This is because German industry's growth opportunities are increasingly dependent on high innovation and investment dynamics in the lead markets of the future.

The tax and contribution system can support companies' innovation and investment efforts in two ways:

- by ensuring constant and targeted state investment activity – as a result, private investment also pays;
- direct incentives to boost private investment.

Within the framework of a sustainable growth strategy tax policy can make a contribution through an intelligent combination of such direct and indirect support.

#### 5.4 Regulating Financial Markets – Financial Sector Must Bear Its Share of the Cost

The burdens on public budgets arising from the efforts to deal with the international financial and economic crisis represent a major challenge to future capabilities at every level of the state, as well as to social security. The tax and contribution system can and should make a contribution to avoiding other crises on the financial markets; it must also help to get the financial sector to bear its fair share of financing the existing burden. Special levies would be an appropriate way of getting the financial sector to pay its share of existing costs arising from the crisis. Preventive measures include instruments such as the financial transactions tax or alternatively the securities turnover tax, complementing the requisite regulatory measures.

#### 5.5 Ending Ruinous Tax Competition

The cross-border mobility of capital and highly qualified workers has exerted increasing external pressure on the tax and contribution burden of these factors in the past two decades. A race to the bottom has been going on with regard to tax rates and tax progressivity, both worldwide and in the EU. This is eroding the financial base of all states for the sake of what are likely to be short-term competitive gains for individual states.

Besides combating tax havens there must also be international protection of fair national tax and contribution systems: the ruinous tax competition must be halted from the top down by means of extensive harmonisation of the relevant bases of assessment and European and, prospectively, also international agreements on minimum tax rates.



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