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The Social is Modern, The Social is Economical

The Statue of Liberty in front of the old New York Harbour Entrance measures, together with its socket, almost 100 metres in height. The Goddess stands on the broken chains of slavery and, with its right hand, raises the torch of liberty; in her left hand, she carries the American Declaration of Independence. Originally a present to the US by France, she is at the same time the expression for the mutual influences among the American War of Independence and French Revolution as well as of the two first great Declarations of Liberty and Human Rights, the “Virginia Bill of Rights” (1776) and the “Declaration of Human and Citizens’ Rights” (1789). Symbolic power and iconography of the statue of liberty can hardly be topped. More than two-hundred years later, the idea (however, not necessarily the reality) of freedom and human rights has won the day.

In front of the European Parliament in Brussels, there also stands a statue, also representing a woman, who also raises an arm. The only difference is: she is, together with her socket, only maybe three metres high, ducks herself in the shadow of the buildings left and right of the Rue Wiertz, so that her existence has not even come to the notice of a few deputies of parliament, and in her hand, she does not hold a symbol of a society-founding and identity-creating idea, but the Euro sign.

It matters essentially to the European dilemma that the original great impulses and goals of European integration (peace, stability, overcoming of nationality) are being realised, but as a result are also spent as integration forces to considerable extents. The constitutional draft submitted was, despite the Charta of Basic Rights and other advances, to a large degree not able to eliminate this deficit threatening the perspective of integration.

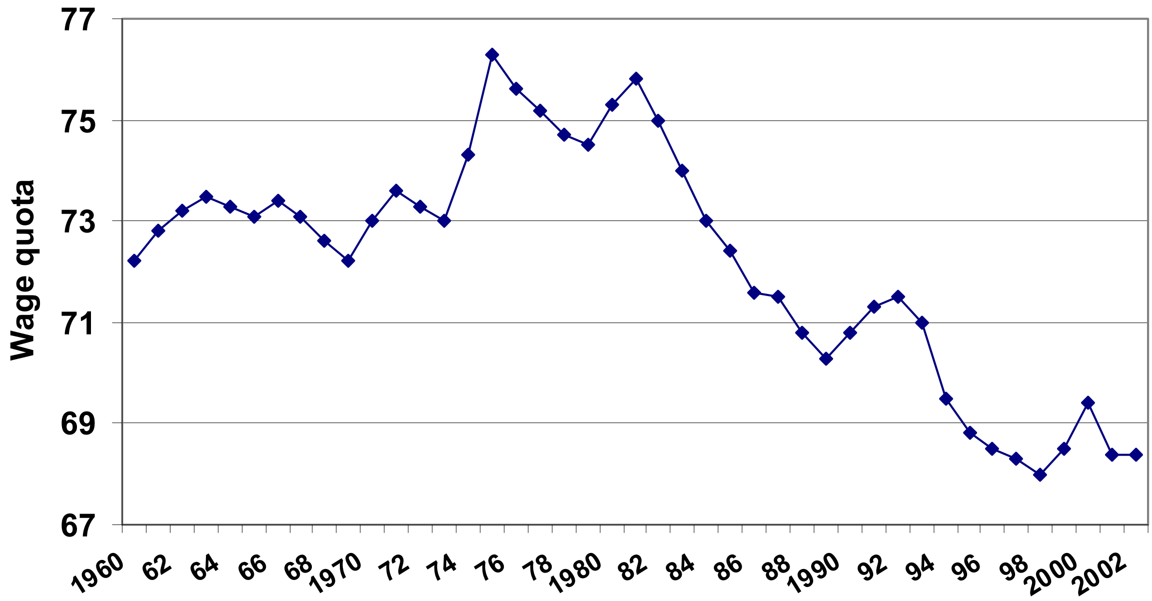
European integration and unity is, by its civilisational and historical claim, doubtlessly comparable to the American Declaration of Independence and the Great French Revolution. From my point of view, the constitution should have given expression to this and have allowed a permanent, strong identification of the European citizens, women and men, with the European Union. A confrontation with this (in my view) lost chance is not possible here. I allow myself this excursion for another reason: The goals of peace and liberty remain permanent tasks of European integration; the European idea, however, could draw its new identity-founding impulse above all from the concept of social cohesion and solidarity.

The European social state, with its many forms, has emerged in contradictory social and political conflicts in the 19th and 20th century. Its economic precondition was the transgression of the pre-modern local markets by the technological and economic developments new back then and the crystallisation of supra-regional national markets, economic circulation and national economies. The political consequence of these developments and the political framework for the realisation of social-state regulation was the modern (nation) state. Also where, as in the United States, the social state elements remained rudimentary or where social security was accorded primarily by way of the life-long work place guarantee in the large enterprises (Japan), growing mass purchasing power and demand were the decisive bases of economic growth.

Ecological reason commands categorically to end pure material resource growth and even to reverse it, but modern economies are not imaginable without growing mass consumption and public investments. This aspect is almost completely eclipsed in the prevalent current debates around economic, social and socio-political modernisation projects. Instead business economic thinking (decreasing costs, locational competition, deregulation, roll-back of the public sphere) as well as the quite real problems of demographical development (primarily as cost factor for the social security system) and of economic globalisation (as cost competition) are being raised to the absolute.

This policy has, mainly in the past one-and-a half decades, already led to a clear turn-around in the primary distribution (falling back of the wage share, increase in the economy-wide profit rate of businesses) without unleashing the promised new economic dynamic. Although the propagated positive results for growth, employment, public finances have failed to show, its continuation is considered the non-plus-ultra of contemporary economic policy.

Graph 1: Wage quota in the EU-15, 1960-2002



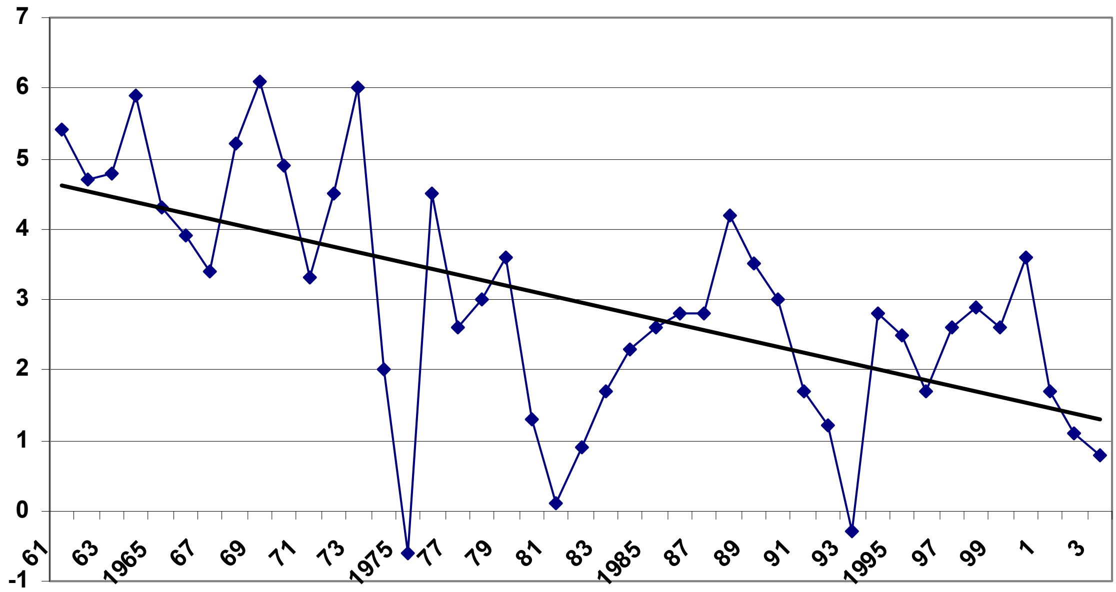
Source: European Economy, no. 73, 2001: 358f.

Graph 2: The Economy-wide Profit Rate of the EU-15, 1960-2002

Source: European Economy, nr. 63, 1997, p. 28, European Commission: EC economic data book, several years, own calculations by Jörg Huffschmid.

Also the “Lisbon process” of the European Union is ruled by this conception. It is therefore only natural that 5 years after the Lisbon resolutions, despite all cost reductions in the public and social spheres, Europe is far removed from the goal to become, until the year 2010, the most dynamic economic region of the world. Lacking private and public purchasing and investment power nowadays can also not be compensated by export successes on the world market; all the less so, since by the progressive international division of labour, a large share of the economic value creation of export goods is realised outside the EU or its member countries. The economic reality has little to do with the Lisbon vision:

Graph 3: Economic Growth in the EU-15, 1960-2003



Source: European Economy, no. 71, 2001, Statistical Appendix, Table 3, European Economy: Autumn Forecast 2003, Statistical Annex, Table 1.

From the example of the USA, ever again used in the European debate, there are highlighted the lower public costs for social security, social-political deregulation, the insignificant role of the trade unions, the far-reaching flexibilisation of the employment relationships and their low social quality as reasons for success. A fundamentally different distinction between economic policy in the United States and in Europe, however, was not discussed, and in particular not taken into account in the Lisbon strategy.

The German politician Oskar Lafontaine, SPD candidate for chancellor in 1990, defeated by Kohl, pointed to this fundamental mistake in thinking of European economic philosophy already years ago: “It is strange that the Americans do not get the idea to make their economy dependent on Europe. The foreign trade intertwining of the USA, the EU and the Japanese economies lies at respectively 10 percent. That means, the music is still composed on the domestic market.”[1]

Important general conditions for decisive policy areas are defined today at the European level. Monetary policy is already completely Europeanised for 12 countries, the budgetary policy of the member states, despite some minor modifications, are to a large extent predetermined by the “stability pact”, and also the European domestic market is being fashioned by the approaches of the Commission and the Council. Instead of simply waiting until competition in the USA starts up again and the EU economy pulls along, Europe has to remember its own potentials.

Under the conditions of globalisation and other serious transformations, the national state (by itself) is really no longer an adequate political and economic space for action any longer. The EU, on the other hand, could be the framework for maintenance and modern continued development of the social state, and derive, from this claim, both a new, lasting

[1] Oskar Lafontaine: Der Abschwung ist hausgemacht (The decline is home-made), in *Freitag*, no. 29 of July 13, 2001.

legitimacy with the women and men citizens as well as a renewed, effective goal of integration. In my opinion, a strong and direct (European) social dimension of Union policy is, first of all, a decisive condition for its modernisation: the decisive condition for the deepening of integration and the defence against the everything but small, present danger of disintegration (the more or less far-reaching replacement of integration by a free trade zone) and, second, for the economic success of the EU and its member countries. Put in another way: The increasing narrowing of European policy and of the economic policy in the European countries to neoliberal, market-oriented concepts I not only deem antisocial, but I consider them to be a threat to integration and economically unreasonable, wrong and counterproductive. Their justification by the example of the US economy is only convincing from a business economic point of view, but from a macroeconomic standpoint – to say it openly – it is foolish.

Economic policy in Euroland could concentrate much more strongly on the European domestic economy and domestic demand without having to fear negative consequences such as shrinking competitiveness on the world market or a growing inflow of "foreign" exports. The demand by domestic businesses and private households can get realised, up to 92%, in products and services *made in Europe*. If the East European space is integrated into this macroeconomic cooperation, Europe will, as a matter of fact, win back the kind of sovereignty over economic policy, which its national states have lost for a good part due to the neoliberal globalisation strategies.

Europe could, therefore, with a domestically-oriented industrial, structural, environmental and employment policy, engage on an ecologically sound developmental path. At the centre, there stands in this respect a modern regionalisation policy for the strengthening of regional economic circuits and of ecological management. Sustainable regionalisation policy aims at a higher regional contribution to the provision with energy, food, leisure, culture, tourism and transport etc. It establishes new cooperation and financing relationships between the public sector, private companies and a reinforced sector in between market and state.

The EU could harmonise the taxation of businesses and wealth, reinstate the capability for action of the welfare state and level out income and developmental differences. Euroland even supplies the potential for a synchronised, active budgetary policy of all of its member state as an alternative to the savings policy of the neoliberal era. Each Euro reasonably well invested by the public authorities, due to the size of the European domestic market, stimulates approximately 3€ in private investment and consumption expenditures in its wake. Public investments would be, at an effective average tax rate of 30%, to a large extent self-financing. The expansive budgetary policy can thus be designed, in the medium term, without incurring new debt.

The EU urgently needs and an alternative economy-wide policy mix:
■ an cooperation on economic policy between the European Central Bank, the economic and fiscal policy of the member states and wage policy;
■ a more relaxed monetary policy;
■ a wage policy aligned with productivity;
■ a domestic-policy oriented strategy for sustainability and
■ a budgetary policy, which strengthens public investments, research and education as well as the development of human resources;
■ a common social dimension.

There are certainly points of departure for this in the European policy. The "Lisbon strategy" of the EU, for instance, raises the claim of wanting to coherently coordinate economic, employment and social policy. Ever since the EU summit of Lisbon (2000), the spring session of the European Council each time is devoted to these economic and social questions and prepared by a "synthetic report" by the European Commission. In this context, a whole variety of coordination processes at the EU level is integrated into the observation, which are partly mentioned in the EU treaty and partly rely on the method of *open coordination*. They lack, however, **in the first place**, a greater binding force in the sense of the earlier concepts by Delors. In that respect, I am not concerned with a European super state, but with the use of the opportunities for regaining political, economic and socio-political capability for action, which are no longer adequately given at the national level due to the internationalisation processes. **Second**, the social, employment and environmental policy orientations are (also in the constitutional treaty) subordinated to competition policy. The "New European Social Model", which can be seen emerging, is thus not a renewal or continued development of the (different) European welfare state models, but the European contribution to their demolition (which is euphemistically called restructuring). The already clearly shaken Keynesian welfare state is being wound down on the basis of the developments introduced by the neoliberal revolution. Even though the guiding ideas of the "modernisation of the social state" are the same on a European-wide scale, their realisation is likely to result not only in convergence, but also in further differentiation of the national "social states". Its "implementation" by the nation states is mostly still coupled in a "path-dependent way" to the national welfare state tradition, as it has historically developed. New "systems logic" (capital coverage principle for pensions, liberalisation and competition in the health sector and in long-term care, private job referral etc.) are intertwined with the downsized remains of the old structures.

On the one hand, there asserts itself more and more of a hole-riddled social protection, as we know it already from the *liberal welfare state*. Yet, the "modernisation of the social state" clearly goes beyond the known liberal model. Partial privatisation and individualisation of the pension system (capital-covered columns) turn the former "solidarity-based system" into a vehicle for speculation and a play-ball for the financial markets. The health system is increasingly steered by competitive imperatives.

While the social state (and even more so the extended Keynesian welfare states) formerly put reins on capitalism to protect it against itself, the film now runs backward: unleashing of the market forces, buttressed by the cut-down state social policy. Liberal modernisation, may I venture to say, thus threatens to become the way backward into the laissez-faire capitalism of the 19th century.

So as to nonetheless return to the thought of my introduction: Many consider the confrontation over the social state almost exclusively through the glasses of "social justice". This is, in my opinion, important of course. Nevertheless: *it's the economy, stupid.*

The former German finance state secretary Heiner Flassbeck has pronounced an only seemingly bitter, but, if one accepts it, extremely productive truth: "The confrontation over justice, the social net and solidarity in society is completely meaningless in times of high and rising unemployment. In such times, any measure creating 100,000 jobs is considered social; any renunciation to wage, social security or insurance protection, which gives others their livelihood, as solidary to the highest degree."[2]

After all, it is not an accident that in the last 25 years, also large parts of the trade unions believed in the general propaganda that everybody now had to "tighten their belts" and save – from the point of view of the trade unions, however, only in a "socially just" way, so that the entrepreneurs, the high income and wealth stock holders, would also lose a few feathers. The background is the rigidified and continuously high mass unemployment, which apparently cannot be eradicated. The dispute is no longer over the economy, but over who, in the name of "solidarity", has to make what contribution to the general "belt tightening".

From the economic and last but not least from the point of view of social policy, however, the following question poses itself: If both the state as well as the private households equally restrain their expenditures, thus "save", how then are the businesses (quite regardless of whom they belong to) to expand their sales and to invest more again? If some businesses now try to improve their situation by permanent "cost reductions" (wages, supplementary wage costs etc.), they only worsen the position of other businesses and the demand potential of private households. In the respective next round, the state has less tax receipts and higher expenditures, because there are more unemployed. The strived for budgetary consolidation and debt reduction again turns to naught – new holes must be filled. This cycle is known as the "debt paradox". From the point of view of the whole economy, this policy socially as well as economically only leads to a downward spiral, by which in the end all lose. It is not only socially unjust, but wrong precisely from the economic policy point of view. Current national income in this way stays far below the possibilities, which might be given by another economic and finance policy.

In the EU, social statehood, to start with, is only articulated at the national state level, and this in very different ways. Under the dogma of strengthening their "competitiveness", a hard regime competition among the various country's social states has unfolded. The member states are constantly tempted to obtain competitive advantages by way of dismantling social advantages. Therefore, it is – at the European level – first of all a matter of preventing a reinforced social dumping in the enlarged European Union.

To this end, there is the need to agree on a social stability pact. It would build on the simple fact that there exists a very close connection between the level of economic development of a country (measured by its gross domestic product per capita) and its social performance quota (the share of the overall social expenditures in the gross domestic product).

In the framework of a social stability pact, there would be recorded, at first, the social performance quotes of the 25 EU members states, and countries with a similar social performance quota would be put together in one respective group ("corridor"). A deviation from the value of departure downward would, for the countries concerned, provoke a consultation procedure, and if need be sanctions. A deviation upward would be allowed at any time and would result in a lifting of the corridor. In this way, the social would be coupled to the economic development. The more weakly developed national economies in the EU would not be overstressed by this reform of socio-political regulation. The more

[2] Flassbeck, Heiner (2003): Wie Deutschland wirtschaftlich ruiniert wurde. Ein Bericht aus dem Jahr 2010 (How Germany was ruined economically. A report from the year 2010); in: *Blätter für deutsche und internationale Politik*; 8/2003, pp. 955-965

they would catch up in their economic development level, the more the social performance quota in the EU will approach each other. The economically stronger member countries will therefore be prevented from exercising social dumping (under-average social performance quotas in comparison to the income level).

The EU can and must do more, however, than only prevent social dumping. It must, in the future, set binding quantitative and qualitative social political standards: for instance, for the improvement of health protection, for the minimal level of a social protection, for European minimal wage standards, for the eradication of poverty and social exclusion, for the elimination of homelessness and illiteracy. The member countries must, in the framework of this procedure, be obliged to concrete programmes of measures, whose implementation will be continuously evaluated and controlled. The EU can supplement these programmes of measures by way of European promotion. In this way, European social policy would begin to unfold an independent action, which would go beyond the mere collecting of information, the agreement on indicators, and the comparison of “best practice cases”.

In perspective, also in the area of social policy, the question needs to be asked for the “finality of European integration” – which end should it ultimately converge to? Should not there, in the framework of a federative or confederate European Union, also be created a European social union (“Social State European Union”), as the anti-fascist European movements demanded after the Second World war? Is it meaningful to stipulate, at the EU level, unified norms for benefit qualification, limits on benefits, as well as rules for adaptation? This could be envisaged, for instance, for key elements of social security, for instance, for a social basic security, for old-age and invalidity pensions, for unemployment support, family allowances and health benefits. In this way, the various practical problems in the context of the “coordination of social security systems” in the area of the free mobility and freedom of residence of persons would get settled by themselves.

The key to such a solution lies in choosing relative reference indicators: for example, in the area of a European social basic security, a benefit level of 60% of the national average income of the member country, in which a person chooses to take up his or her residence. In this way, there would be no incentives for “social tourism” – e.g. by way of “taking along”, for instance, the relatively generous social basic security of the Netherlands, when moving to regions with lower living costs, such as Apulia or Extremadura, if for example, the national state social basic security were to be made “transportable” over the whole of Europe. The economic performance capability of the respective residential member country would be correspondingly taken into account by the choice of such relative standards for comparison.

Today, this debate maybe still sounds like far remote future music. Yet, if one wants to prevent, for instance, that by way of the currently discussed increased “EU-wide patient mobility”, the way towards a EU domestic market for health services is hewed free, which would then gradually withdraw the ground from under the national state solidarity-based social security systems, already heavily hit by the various countries’ “health reforms”, then one has to think also of European solutions. European harmonisation in any case seems to me to be socially and economically much more constructive than the de-regulated pushing through of an absolute country of origin principle, as suggested in the directive proposal of the EU Commission concerning services.

In my opinion, it is the case of no more and no less but to understand that the ever so convincing business economic axiom of having to lower social and wage costs leads socially as well as economically into a dead end. The social state, its maintenance and further development (which includes quite libertarian aspects and must take into account individualisation and other social and cultural differentiation processes) is not a Keynesian anachronism overcome by new developments and dangerous from the economic point of view, but is modern and economically sensible. In this way, Europe could win a lasting economic dynamic as well as a community-founding identity for its women and men citizens.

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