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# The Past and Future of the European Social Model

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# **The Past and Future of the European Social Model**

Christoph Hermann and Birgit Mahnkopf

## **Abstract**

This paper should be understood as a modest contribution to an emerging debate about the conclusions from the crisis and the future of the European Social Model. Inspired by the writings of Karl Polanyi, the first section of the paper discusses the nature and some of the main characteristics of the European Social Model. In the second part we summarise major changes that have been introduced in the last three decades and which amount to an erosion of the ESM. Special attention in this process is paid to the role of the European Union. The third part of the paper then discusses a possible revitalisation of the ESM based on three major projects: the renewal of the European welfare states, the reconstruction and expansion of the public sector and the democratisation of the EU and of European societies.

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## 1. Introduction

The financial crisis, which started in summer 2007 as a housing crisis in the United States and quickly pushed the global economy into a sustained worldwide slump, has once more shown the risks of an economy that is disembedded from all social bonds. Such a system is characterised by a population that in multiple ways depends on capital accumulation for its livelihood and a state that focuses on creating beneficial conditions for accumulation rather than providing alternative or complementary means of existence. As the example of the US shows, in disembedded capitalism the crisis not only causes falling economic growth rates and rising unemployment; workers who lose their jobs also lose their health insurance (often linked to the job), their pension income (invested on the stock market) and their homes (bought on credit). Because of the lack of social welfare and of public services, even middle-class families have problems maintaining their living standards and continuing to participate in their established social networks; as citizens who increasingly rely on poor relief, even if it is obviously not due to their own fault, they tend to disappear from the surface, rather than starting to organise collectively against mass layoffs and home foreclosures.

In this paper we take the financial crisis as an opportunity to discuss the past and possible future of the European Social Model.<sup>1</sup> We assume that (Western) Europe has indeed developed a distinctive social model after the Second World War. However, this model did not emerge in opposition to the US model. Instead, the varieties of capitalisms that existed on both sides of the Atlantic in the post-war decades had strong similarities and were in both cases socially more advanced than today's capitalism, or, in Karl Polanyi's (1979: 153) terminology, the respective economies were socially embedded. The European Social Model was distinctive in the sense that the social dimension was even more pronounced than in the US, following the establishment of comprehensive welfare states, comparatively strong forms of labour protection and the existence of a large public sector including comprehensive public services. Europe consequently reached an unprecedented level of de-commodification during the post-war period. However, embedded capitalism has come under pressure on both sides of the Atlantic since the 1970s. As a result of thirty years of neoliberal restructuring, some of the most distinctive features of the European Social Model have been eroded.

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In the current crisis even the neoliberal elites have been shocked by the economic and social risks created by the disembedding of the economy. So far, the temporary uncertainty has not been sufficiently grave to cause a profound shift in neoliberal policies, let alone the replacement of neoliberalism with an alternative political project. However, the crisis has at least opened up space in the political discourse for alternative ideas. The following analysis should be understood as a modest contribution to an emerging debate about the conclusions from the crisis and the future of the European Social Model. Inspired by the writings of Karl Polanyi, the first section of the paper discusses the nature and some of the main characteristics of the European Social Model. In the second part we summarise major changes that have been introduced in the last three decades and which amount to an erosion of the ESM. Special attention in this process is paid to the role of the European Union. The third part of the paper then discusses a possible revitalisation of the ESM based on three major projects: the renewal of the European welfare states, the reconstruction and expansion of the public sector and the democratisation of the EU and of European societies.

## **2. Market interference and decommodification**

Following the work of Karl Marx, who revealed the fundamental contradictions in capitalist economies, Karl Polanyi came to the conclusion that market societies need to be protected from self-regulated markets in order to prevent them from collapsing. The “protection of man, nature, and productive organisation” is only possible through “an interference with markets for labour and land as well as for the medium of exchange, money and thereby ipso facto, impaired the self-regulation of the system” (Polanyi 1978: 189f). In order to rehabilitate the lives of men and women and their environments, political intervention must necessarily aim at “reducing the flexibility of wages and the mobility of labour, giving stability to incomes, continuity to production, introducing public control of national resources and the management of currencies” (ibid.). What Polanyi concludes for labour, land and money holds for a large variety of goods that are essential for human reproduction. However, while Polanyi stresses the need to restrict market forces, an even more radical form of social embedding takes place

when goods and services are provided outside the market – by public institutions in pursuit of a public interest rather than of the interest of maximising profits (Altvater 2003).<sup>2</sup>

Inasmuch as market mechanisms are suspended or severely restricted, social embedding amounts to a de-commodification of the social existence of workers and citizens. De-commodification, in Gøsta Esping-Andersen's (1990) view, means a relative independence of individuals from markets. There are multiple sources of de-commodification. Modern welfare states that provide a certain amount of income allowing their citizens to exist without selling their labour power on the labour market are another important source of de-commodification. Of course, de-commodification does not mean that the commodity form as dominant mode of socialisation (*Vergesellschaftung*) is abolished – otherwise the respective society can no longer be called capitalist. Instead, de-commodification is always relative and describes not an ultimate state of society but a process in which the social reproduction of society and its members becomes gradually less dependent on market-mediated exchange and private accumulation. As will be pointed out in the remainder of this paper, relative de-commodification critically shapes expectations, survival strategies and, hence, the mode of living of citizens in capitalist societies.

Polanyi came to his conclusions after studying the big agrarian crisis and the subsequent depression of 1873-1886 and living through the Great Depression of 1929-1931. The New Deal, which followed the Great Depression in the United States, can be seen as an attempt to re-embed the economic system in a set of social relations. The large number of statutory regulations introduced during the New Deal years, many of which directly interfered in markets, reduced fluctuations and flexibility and thereby restored social stability.<sup>3</sup> To this extent, the changes indeed amounted to a shift towards “organised capitalism” (Offe 1989), although the deeper contradictions of capitalist accumulation were not solved. And although it is true that the period of economic growth following the crisis was primarily the result of a simultaneous boom in demand created by the Second World War and the modernisation of production following the spread of Fordist mass production techniques, the social embedding

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<sup>2</sup> Although Polanyi did not elaborate specifically on public goods and services, his comments on Red Vienna after the First World War and the large public housing projects (which he experienced first hand as Vienna resident) shows that he was well aware of the role of public goods and services in socially embedding the economy. At some point he even suggested that the experiment of Vienna was not only an attempt to embed but to transcend the market economy.

<sup>3</sup> Alongside the introduction of a minimum wage and the 40-hour week, part of the New Deal was the drawing up of more than 500 industry codes, which served to limit the “excessive” competition which, in the view of the Roosevelt administration, was partly responsible for the crisis.

of markets was also a constitutive element in what became known as the “golden years” of capitalism. New rules for trade and international capital transfers and the introduction of a rule-based and therefore stable international currency exchange system (Bretton Woods) were complemented by new norms regulating the use of labour power.

Western Europe adopted many of the New Deal features, including minimum wages and maximum working hours, yet the process of social embedding did not stop at interfering with market mechanisms. Instead, most European countries developed large public sectors, comprising classic public services such as energy supply, transport and health and education, but also key enterprises in mining, industrial production and in the banking sector (Frangakis et al. 2009). Nationalised companies did not necessarily operate outside the market system, yet they differed from private companies insofar as they met a number of non-commercial objectives. Public companies, in other words, served a broader public interest (Millward 2005). This is not only true of public services, where public providers were required to offer the same terms of access to services users regardless of their individual purchasing power, but also for banks and industrial companies. While public banks provided credits on favourable conditions, nationalised industries frequently sold their products below world market prices, and because the products were often resources or semi-finished goods, not only citizens but also private capital profited from this behaviour. At the same time, nationalised banks and industries gave governments the opportunity to intervene directly in the economy instead of relying on tax incentives and government subsidies as indirect forms of market steering. The public banking sector is a good example. Through public banks the state could channel streams of investment into the broader economy. The problems faced by current governments of convincing private banks to lend at least some of the money they have received as part of the banking sector bailout packages to their clients clearly shows the merits of a public banking system.

Apart from the large public sector, the most notable difference between the US and Europe lies in the development of comprehensive welfare states. While American trade unions focused on the creation of a “private welfare state” for their members in the core industries, in Europe social benefits such as pensions and health care are not provided by companies but by the state, and as public services they cover the vast majority of the population. Furthermore, although there are important differences in terms of funding, accessibility and generosity, western European welfare regimes share the common characteristic that all (national) citizens



are entitled (*de jure* or *de facto*) to income and resources that grant a socially defined minimum existence (Kronauer 2007). In the United States, in contrast, entitlement to many benefits is limited to a relatively short time span, while long-term benefits are reserved for specific social groups without sufficient income, such as elderly citizens or single mothers with children (Katz 2004). Differences also emerged in labour regulation: again, despite a series of national peculiarities, labour regulations in western Europe went further than in the US, generally as a result of stronger labour protection legislation and the establishment of sector-wide collective bargaining systems that went beyond the industrial and public parts of the economy (Hyman 2005). In several countries, trade unions and works councils also gained certain co-determination rights in private companies.

Despite important institutional differences and differences in policies, the combination of a large public sector, including public services, strong labour protection and comprehensive welfare states meant that western European societies reached a level of de-commodification during the post-war period that was unmatched by any other capitalist economy at the time and by European capitalism today – despite the emergence of a new mode of accumulation based on mass consumption, which integrated ever-greater parts of working-class reproduction into the cycle of capitalist accumulation (private homes, cars, leisure activities etc.). Hence, if there is an essence of the European Social Model it is the comparatively high level of de-commodification provided by the institutionally and politically highly disparate European social systems. In quantitative terms the effect can primarily be seen in higher levels of equality. Because they were financed through taxes or income-dependent insurance contributions, public services and welfare states had a redistributive and equalising effect. As such they were also an expression of solidarity – while contributions were based on economic potential, benefits were derived from social needs (Mahnkopf 2007: 99).

It is important to note that the European development can only be understood as a result of strong and institutionalised trade unions and, for a long time, highly influential social democratic and communist parties, as well as by the existence of a non-capitalist alternative in Eastern Europe. Hence it was not a different institutional path (these have changed more than once on both sides of the Atlantic) or cultural values that led to the emergence of a distinctive European Social Model, but social struggles. In contrast to Europe, the United States never had a significant countrywide working-class party; communists were prosecuted and tried before courts, and after the big successes of the late 1930s and in the years after the Second

World War the trade union movement was already in decline in the late 1950s. Yet it is also important to see that de-commodification had strengthened the solidarity and therefore the position of trade unions and progressive forces. Conversely, the wave of re-commodification that has taken place in the last thirty years has induced people primarily to care only for their individual interests. Under such circumstances it has become more and more difficult to find support for progressive policies. As a sad irony of history, the reformist European social democratic parties, which had widely propagated a policy of individual responsibility in recent decades, has become the main victim of this shift in attitudes. What reason do voters have to vote for social democratic parties in a society that increasingly lacks a sense of solidarity?

#### **4. The erosion of the European Social Model**

The social models on both sides of the Atlantic have come under growing pressure since the 1970s. The thirty years of neoliberal restructuring has profoundly changed the functioning of what used to be post-war capitalism. This is not the place to discuss the political background. It should be sufficient to mention that the restructuring was enabled by a shift in power relations, the most obvious outcomes of which were the takeover or participation of conservative parties in various national governments (including Margaret Thatcher in the United Kingdom). Interestingly, the term European Social Model was introduced into public discourse just at a time when the distinctive features of the western European social models were starting to fade (Hermann/Hofbauer 2007). The following period saw the liberalisation of international trade, the abolition of capital controls as well as the restructuring of welfare states, a weakening of labour protection and the privatisation of public enterprises and services. As a result, market mechanisms were introduced into areas of social provision that had previously been based on planning and coordination rather than on competition, while at the same time new spheres were opened up and subsequently subjugated to capital accumulation.

The restructuring took place at several levels; the European level which simultaneously gained importance through the European integration process played a particularly important role (Huffs Schmid 2008; Bieling, Deckwirth and Schmalz 2008). Precisely because the changes were often contested at national and local level, they were introduced at the European

level through a series of sector directives. These affected the telecommunication and post sectors, railways, electricity and gas supply, and with certain qualifications local public transport. Although the directives were primarily meant to create competition between various public-service providers and in principle did not concern ownership questions, the result of the liberalisation processes was in many cases an increase in private ownership, whereas competition remained moderate as public monopolies were often replaced by private oligopolies (Hermann and Verhoest 2008).

In addition to sector directives that effectively forced member states to create public-service markets, there were also a number of indirect processes that gave rise to similar results. Among them is the European public procurement directive, which forces public authorities to tender contracts to competing providers. Here the widespread tendency to outsource public services in independent subsidiaries to save costs has come full circle. These subsidiaries must now compete with private, profit-oriented companies for public-service contracts. Yet it is not always outsourcing that has created the problem. In some European member states there is a long tradition of voluntary organisations providing public services. These organisations are now forced to operate under the same constraints as private, profit-maximising companies. The problem has become worse since the adoption of the European service directive, which grants companies from other member states the same status in the tendering process as local providers. The first draft of the service directive would have subjected health care to the same mechanism. Only fierce resistance from social movements, trade unions and left-wing parties at the national level and in the European Parliament caused the European Commission to withdraw its plan and remove healthcare from the scope of the directive. Ever since, the Commission has been attempting to promote the liberalisation of health care through the adoption of a separate directive on cross-border health care (Hermann 2009).

In an indirect way, the Growth and Stability Pact with its strict budget deficit targets has also promoted privatisation. Numerous municipalities, but also regional and national governments, have sold public services to the private sector because they counted as financial liabilities in their balance sheets (Rügemer 2008; Truger 2009: 548-555). In Germany, the result was a systematic sale of public hospitals to private investors (Böhlke et al. forthcoming). In the United Kingdom, hospitals have remained public but for more than ten years now almost all new hospitals built in England have been financed through what is called a *Private Finance*

*Initiative.* Instead of taking up public debt to build and run the hospitals, hospital management pays annual fees to their PFI partners in contracts of thirty years or longer. There is mounting evidence that the private-sector involvement means that total costs are far greater than they would have been if the money had been borrowed by the government, and a number of hospitals have already started to reduce bed numbers in order to pay back higher than expected PFI charges (Pollock 2009). The sale of public hospitals or the recourse to private money for public investment are only two examples of a far-reaching process in which the nature of public services has been altered. Less radical but nevertheless influential forms of “cost savings” include the creation of cost and profit-centres, the introduction of internal markets, outsourcing and various forms of private-public partnerships.

Mounting budgetary austerity also left its marks on the traditional welfare system, and although social policy is still overwhelmingly the responsibility of the member states various European institutions have persistently argued for the flexibilisation of labour markets and the adoption of supply-side oriented labour-market policies. The subsequent restructuring of the European welfare states has had two major components: On the one hand the level of welfare payments was lowered to the point where it no longer covered minimum living expenses. At the same time support became increasingly means-tested and linked to a series of obligations. Overall, the reform of the welfare systems amounted to a shift away from welfare as enabler of a social existence independent of capital accumulation towards welfare as an instrument to (re)integrate people into the labour market as quickly as possible (Lessenich 2008). The gradual shift from welfare to workfare was complemented by the flexibilisation of labour markets, the weakening of labour protection as well as the promotion of atypical and often precarious forms of employment. As result, some members of society who have a paid job no longer enjoy an adequate level of economic and social security.

The changes were justified through powerful public campaigns, supported by conservatives, liberals and third-way social democrats, discrediting solidarity and instead advocating individual responsibility. The erosion of the European Social Model was further accelerated through the economic and social transformation in Eastern Europe. While many citizens in the new member states were looking for a variation of the western European social models of the post-war decades, they received a particularly liberal and hence disembedded form of capitalism. However, while the distinctive features of the European Social Model faded, references to the ESM became ever more popular. Politicians of various colours used the

somewhat cynical argument that “painful” reforms were necessary in order to “rescue” the European Social Model (Hermann and Hofbauer 2007). A good example for this attitude is the discourse on pension reforms. The typical justification for cuts in public pensions and the promotion of private retirement funds (which were crucial for the stock market boom leading up to the current crisis) was that they were necessary in order to ensure that future generations will still receive some public support after retirement. In reality the so-called welfare reforms, the flexibilisation of labour markets and the liberalisation and privatisation of public services amounted to a profound and far-reaching re-commodification of European societies and brought continental Europe a good deal closer to the disembedded capitalism that had emerged after the 1970s crisis in the US and in the UK. Pensioners who lost significant parts of their pension income in the last stock market crash can bear witness to the risks and consequences of such a system. The fact that the former president of the European Commission, Jacques Delors, introduced the term European Social Model in the early 1980s to articulate an alternative to the increasingly dominant Anglo-Saxon capitalism has been erased from public memory (ibid).

The changes introduced to “save” the European Social Model severely weakened the redistributive mechanisms built in the post-war social systems. The outcome was therefore first and foremost mounting inequality (Mahnkopf 2005). Following the example of the US, inequality has increased substantially in Europe since the 1970s. In an analysis of the development of the Gini coefficient (a measurement of inequality), Jens Alber (2006) shows that in eight out of twelve EU member states for which data was available inequality has increased since the mid 1980s; in five countries inequality has increased even faster than in the United States. The situation would be even worse if one were to include the breathtaking growth of inequality in central and eastern Europe (Lóránt 2009). More detailed analyses show that in most countries it is a tiny fraction at the top of the income scale that has made the biggest gains. The redistribution of wealth can also be seen in the falling wage rates – that is, the decreasing proportion of wages and increasing proportion of profits and other non-work-dependent income in relation to the development of national GDP.

The main reasons for the redistribution from the bottom to the top of the income scale were cuts in welfare spending coupled with tax cuts for the rich, stagnating or only marginally increasing wages, the growth of unemployment and precarious employment as well as the privatisation and marketisation of public enterprises and services. In the case of the network

industries, providers were no longer required to supply the services to all users on the same conditions. Large customers in the electricity industry and in postal services can meanwhile negotiate individual price discounts, while in several cases tariffs for households have increased since liberalisation and privatisation. In postal services, access to services has become more costly for service-users in certain mostly rural areas since a large number of post offices have been closed. Similar effects were caused by the closures of local railways, which has left a number of areas with no or unsatisfactory access to public transport. Here, too, it is low-income earners who cannot afford a car for each working family member that are most affected. In the case of private pensions, existing inequalities have been amplified while low-income earners pay higher fees for private health insurance because they are statistically less healthy. Inequality has not only accelerated in the monetary sphere. In the most extreme cases the reforms have led to the provision of different services for different groups of service users. The emergence of a two-tier healthcare system in central and eastern Europe, where only those without sufficient personal funds rely on the heavily underfunded and rapidly deteriorating public system, is a drastic example of such a development. Experience suggests that services provided for the poor are mostly poor services (Mahnkopf 2009).

Liberalisation and privatisation have not only increased inequality among public-service users. At the same time inequality between public-service workers has also grown. In the past, public services not only offered stable employment relations and relatively reasonable wages, but the public employment system was also characterised by greater income equality between different groups of workers. One reason for greater equality was that public-sector managers earned significantly less than their counterparts in the private economy; public-sector managers were therefore among the main winners of the liberalisation and privatisation processes (Schulten, Brandt and Hermann 2008). Differences within and between workforces have increased substantially as a result of the fragmentation and erosion of collective bargaining, the shift towards performance-based wage components and the attitude of unions in protecting the gains of the long-established workers at the cost of new employees.

## **5. The future of the European Social Model**

Despite the far-reaching restructuring of post-war capitalism there are still remnants of the European Social Model. The welfare regimes were cut back, but never fully abolished. Workers still have rights and despite heavy losses in membership the European trade union movement is still stronger than its American counterpart; and although marketisation processes have penetrated large parts of public services, health, education and social services are still mainly provided by public or voluntary organisations. Above all, the elites in Europe, despite persistently appealing to individual responsibility, have failed to wipe out the confidence of Europeans in the state as a collective problem-solving instrument. This has the important effect that poverty or social need in Europe is not necessarily seen as an expression of individual failure – a widespread attitude in the United States. The positive connotation the term European Social Model still enjoys among Europeans despite consistent attempts by the elites to change its meaning is primarily due to the fact that Europeans associate with it something different from the US social model and the related individualisation and commodification of the modes of living (Hermann und Hofbauer 2007).

The absence of a large (non-military) public sector, strong labour protection outside the core industries and of a comprehensive welfare state meant that the process of re-commodification could not only start earlier in the United States but also went further than in Europe. During times of strong economic growth and low unemployment, the differences between the modes of living on both sides of the Atlantic were not really so great. Yet as the current situation shows, the difference becomes immediately noticeable in times of crisis: while a large number of Americans are currently forced to live from charity and in tent cities after losing their jobs and homes, in Europe the crisis has been mitigated by long-term unemployment payments, social assistance and public housing. If the current state continues and the United States is unable to create a new growth model, the differences will remain visible for some time: it will be very difficult for Americans to maintain their deeply commodified living standards during years of stagnation and sluggish economic growth.

The current crisis questions the dominant paradigm, even though the break with neoliberalism so far has only taken place on a semantic level. If this break is followed material changes must be expected. As it now seems, changes will focus on improving the functioning of markets. In contrast, Polanyi's anti-liberal argumentation would suggest re-embedding the

economy in the wider society institutionally and socially. Hence the objective should be to limit market forces in order to restrict dependence of social reproduction on capital accumulation instead of making markets more “efficient”. The struggle for a new European Social Model could be at the heart of a progressive project aimed at greater de-commodification. In our view, a revitalisation of the ESM (Huffs Schmid and Mazier 2009) has to focus on three main issues: firstly on welfare states and employment and working conditions; secondly on the public sector and in particular on public services; and thirdly on a far-reaching democratisation of European societies.

### *5.1. The renewal of the European welfare states*

Michael Krätke (2005: 92) writes that the European Social Model still has the future ahead of it and suggests that the European left could use the ESM as a trademark for a new political project. “In most European countries the concept of the welfare state, which is not just obliged to the owners of capital but to all citizens, still enjoys the widest support. The neoliberal idea of the minimal state, which goes back to pure relief of poverty, is a long way from having won, even if the market ideologies that are part of it dominate the minds of the so-called elite” (ibid). As a first step, the renewal of the European welfare states would have to reverse many of the reforms that were introduced in the past three decades under neoliberal hegemony. Yet this would not be sufficient. At the same time, the structural weaknesses and insufficiencies of the post-war systems must also be tackled. Among these is the reproduction of inequality inherent in the conservative welfare systems caused by the link between benefits and contributions; other insufficiencies are the means-tested elements in universal welfare states of the British type as well as the recourse to family structures implicit in the southern European welfare systems. In a number of countries it would already be a success if the national systems were to become more like the Scandinavian welfare states – although neoliberal restructuring has left its mark on these systems too. In addition to the decoupling of benefits and contributions and the still comparatively high level of support, Scandinavian welfare states differ from others through the fact that monetary benefits are complemented by support in kind (Heintze and Lehndorf 2009) The state operates kindergartens, schools and homes for elderly citizens. This has three major advantages: women, who do the vast majority of care work, can get a regular paid job; workers are given reasonable wages and working conditions, and quality and access are the same for all citizens regardless of their incomes. In



short, the renewed European welfare states must not only redistribute wealth, they must also create an extensive social infrastructure (Hirsch 2007).

The social infrastructure must be combined with provision of an unconditional basic income for all citizens who do not have sufficient other income sources. The goal should be a combination between “an expanded provision of public goods with an adequate and unconditioned and for everybody available basic income, which not only secures the material existence but enables self-development and participation in society” (Hirsch 2007: 143). A basic income is not only essential for a welfare system that grants an existence independent of markets and capital accumulation, it also gives a long overdue acknowledgement of the vast amount of work which is indispensable but is not paid in capitalist societies. However, the renewed European welfare systems should not only grant support for those outside the labour markets. Progress with respect to the status quo must also include the adoption of a different labour-market policy. Workers should still be supported in their search for new jobs, including access to training or further education, but assistance should help people to develop personal capacities rather than “activating” clients by pushing them into precarious jobs. Furthermore, the emphasis should be on the creation of job opportunities through the expansion of the welfare state and public services and the promotion of a not-for-profit-oriented social economy sector. In part, a Keynesian inspired demand-side policy can also be helpful.

Precarious employment relations and a strong welfare state are mutually exclusive. Every employment contract must grant sufficient income and social security for workers and their dependants. Above all, employment must enable workers to make long-term plans for their lives. In addition to strong employment-protection legislation, this requires also strong and comprehensive collective-bargaining systems. Certainly helpful in this regard would be the establishment of common European minimum wages and maximum working hours. At the heart of a renewed European Social Model must be a substantial reduction of working hours. Shorter working hours not only help to tackle unemployment and distribute income more equally (in most countries women work part-time and men full-time), they are a first step to breaking out of the vicious circle of production and consumption for the sake of accumulation. Given the accelerating ecological crisis, a new European Social Model must develop ecologically sustainable production and consumption patterns. Shorter working hours

and the expansion of social services at the cost of industrial (mass) production will be crucial elements in a sustainable society.

### *5.2. The reconstruction and expansion of the public sector*

As mentioned above, the creation of a European social infrastructure will include the provision of public goods and services. For several reasons the public sector and in particular public services are of vital importance in a renewed European Social Model. Welfare-state redistribution can mitigate social inequality, but it does not question it in a fundamental way. In contrast, the use of public services can, indeed, be the same for all citizens regardless of individual incomes. The redistributive effects of equally and perhaps freely accessible public services can in fact be more important than welfare payments in improving social integration and cohesion. The public sector can furthermore provide high quality jobs not only for highly qualified workers, and by doing so reduce unemployment and build up pressure on private employers to improve employment and working conditions. A strong public sector would also introduce elements of planning and coordination and therefore stability to an otherwise market-mediated economy. Inasmuch as public goods and services are provided outside markets, they can even help to transcend the market economy. The public sector, furthermore, can be deployed to develop innovative products, production technologies and services, enabling the emergence of a new mode of production and consumption that is urgently needed to tackle the looming ecological crisis. A new and sustainable mode of reproduction must give collective consumption priority over individual consumption. The crisis of the automobile industry drastically shows the problems of an individualised and market-mediated consumption model. At the same time, the crisis of the automobile industry also shows that the market may not be the best way to decide what is produced for whom and under what conditions. States have a responsibility to ensure that the goods and services produced are really needed.

For these reasons the ongoing liberalisation and privatisation of public services in Europe must be stopped and reversed. Even conservative evaluations show that they have not brought the promised results. Particular attention must be paid to preventing the use of public-private partnerships and other forms of marketisation, as pressure to involve private capital in the delivery of public services will probably increase as a result of the budgetary crisis following

the bank bailouts. There is no proof that private companies can provide the same quantity and quality of services for less money. In contrast, there is mounting evidence that private-sector involvement greatly increases costs and there is plenty of proof that privatisation and marketisation increases inequality. Yet it is not enough to simply rebuild the public sector. The functioning of the sector needs to be altered. The past has shown that it is not sufficient for providers to be publicly owned. In several countries, public banks in search of exceptional returns were as heavily involved in global financial markets as private banks – and were therefore just as badly hit by the crisis. The key to avoiding the same failure again is the advancement of democratic control and user involvement.

Public services must differ from private services by focusing on use value rather than on exchange value. This is perhaps what third-way public service reformers mean when they demand for “value for money”. What these reformers do not understand, however, is that promoting use value means putting the needs of the people before the needs of the market. To ensure that the needs of the users are met, the market model must be replaced by a new public-service model that grants service-users more influence than the possibility of choosing between two or more equally unsatisfactory alternatives. Instead, the new public-service model must be based on participation in planning and provision of services. This can be organised in various ways, including the creation of public-service advisory boards with representatives from management, the workforce, service users and experts, or the establishment of new forms of service delivery with users assuming the role of co-producers. Participation and user involvement presents a better alternative to bureaucratic control and marketisation. Yet the same principle should also be applied to the internal organisation of public-service providers. This calls for a new relationship between workers and management and greater worker involvement in decision-making processes – perhaps along with the above-mentioned participation by service users. Of course such a model would have wider repercussions and serve a far-reaching democratisation of the European societies.

### *5.3 Democratising the European Social Model*

“Socialism, is, essentially the tendency inherent in an industrial civilisation to transcend the self-regulating market by consciously subordinating it to a democratic society” (Polanyi 1978:311). In this quote Polanyi highlights the fundamental tension between a “free” market economy and a society in which decisions are made democratically. In contrast to the widely

held view, the disembedding of markets and the roll-back of the welfare state did not mean that (nation) states per se have become weaker. On the contrary, in several aspects states have actually become stronger and they have had no problems in breaking fierce resistance to the implementation of neoliberal policies. In fact many European states have adopted increasingly authoritarian characteristics as part of the social and political restructuring processes of the last thirty years (Kannankulam 2008). On the one hand this can be seen in a strengthening of the position of the executive branch (ministries) vis-à-vis the legislative branch (parliament); on the other in a shift of power relations within the executive branch with the ministries for security and finance becoming the power centres in the governments. A typical example is the banking-sector bailout packages: although the sums that were negotiated amounted to several billion euros of public money, the bailout packages were agreed by a small number of people, including representatives from the finance ministries, behind locked doors. Members of parliament at the best could call for some minor adjustments to otherwise fixed deals. Security is another issue where states have become increasingly authoritarian, because growing social inequality demands increasing resources to control the population at the bottom end of the income scale (and because inequality has also grown on a global scale the control of those from the global south who want to immigrate to Europe).

At the European level the lack of democratic accountability is aggravated by specific characteristics of the European integration process: the role of the European Parliament is largely limited to confirming proposals from the European Commission and Council, both organisations with disputable democratic legitimacy, while the European Court of Justice exploits the absence of a satisfactory legal foundation to persistently remove the still existing national employment and social rights.<sup>4</sup> It should be no surprise that this attitude is leading to growing frustration and a refusal to vote, as can be seen by the historically low turnout rate at the European elections in spring 2009. The growing lack of legitimacy is the result of the primacy of economic over social integration (Altvater and Mahnkopf 2007). A forward-looking European Social Model must therefore break with the established mode of integration and balance economic with social integration, or, in Polanyi's words, to embed the European economy in a European society. Perhaps this calls for a legal basis for European integration that goes beyond the common-market objectives, including legal provisions that allow for the

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<sup>4</sup> In Germany, the Ruffert case in particular caused a stir. On 3 April 2008 the ECJ ruled against the Federal State [*Land*] of Lower Saxony for insisting that a Polish company should adhere to the minimum wage laid down in collective agreement for the construction industry.

creation of a European-wide public sector and of a non-profit-oriented social economy (Huffs Schmid 2008). It is no accident that the idea of a European Social Model was born out of the recognition that nobody will fall in love with a market.

Yet while the task at the European level is to create democratic relations that already exist at the level of the nation states (Karras and Fisahn 2006), the objective at the national level is to stop the authoritarian tendencies and to strengthen the democratic and social rights of citizens in the sense of a social democracy that lives up to its name. Access to public services should be understood as a social right. Access to public education that helps citizens to develop personal capacities rather than increasing their chances to succeed as market participants plays a particular role, as it allows citizens to develop the a democratic consciousness and the social and political commitment in order to see and take up the collective challenges ahead instead of simply pursuing individual interests at others' expense (Mahnkopf 2008). In this light, taxes should not be seen as a threat to individual wealth but as a possibility to advance social cohesion and integration and to shape the future of European societies. On a longer term, the task, perhaps, is to develop participation mechanisms that go beyond the limits of representative democracy. The provision of public services could be used as a test case for the development of new participatory models, which could then spread into other parts of the economy and the wider society.

## **6. Outlook**

The future of the European Social Model will ultimately be determined in social struggles. What is needed is a “collectivist counter-movement”. Unfortunately, and in contrast to Polanyi's assumption, such movements do not develop automatically in the sense of a social reflex to life-threatening dangers. So far, the current crisis has only meant that the “truth” that has been taught in the last three decades has partly been questioned. The struggle over how to solve this crisis has only begun. The interpretation of the crisis will play an important role in this conflict. Two scenarios are emerging: On the one hand there is the resurrection of disembedded capitalism with a new set of regulations intended to improve market performance and with new and expanded fields of accumulation fuelling new bubbles. The alternative is the creation of a more socially sustainable economy. Such an economy would be characterised by the relative independence of citizens' livelihoods from capital accumulation

and market-mediated exchange. The public sector, including public services, the welfare state and labour-market policy play an important role in re-embedding markets in wider society. This does not mean that it is possible to have capitalism without crisis; but at least the crisis will not lead to the demolition of society, which disembedded capitalism will certainly do when the crisis returns and develops on an even greater scale. Polanyi (1978:329) emphasised that the economy must be embedded in social relations and not social relations in the economy. Perhaps this is what most Europeans associate with the European Social Model.

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