

# The triumph of failed ideas

## Introduction<sup>1</sup>

**Steffen Lehndorff**

'Self-regulation that manages everything, that's finished. Laissez-faire, that's finished. The market which is always right, that's finished.'

Nicolas Sarkozy, 25 September 2008<sup>2</sup>

Trichet: 'The market is always right. And it has to be fully respected at all times.'

Question: 'I am sorry, you said that the market is always right?'

Trichet: 'Yes, I said the market is always right.'

Jean-Claude Trichet at a press conference, 8 April 2010<sup>3</sup>

## 1. Introduction

Some might argue that neither President Sarkozy nor (then) President of the European Central Bank (ECB) Trichet were entirely serious when they made the statements quoted above. Sarkozy knew what many people wanted to hear in the autumn of 2008, quite apart from the fact that he would never agree that anything or anybody should be allowed to regulate itself or even to be right unless he himself gave the order or advice. Naturally, that also applies to any notion of a 'refoundation of capitalism'. Thus, his statement had a tactical aspect. Trichet, too, was

---

1. I am grateful to the other contributors to this book for their valuable contributions and comments. Needless to say, responsibility for the views expressed and conclusions drawn in this introductory chapter is all mine. Many thanks also to Janine Leschke for her extremely efficient coordination of the publication and to James Patterson for his careful copyediting of the text. It was a great pleasure to collaborate with them and with all other people who made this publication possible.
2. 'Le président de la République veut refonder le capitalisme.' Discours du 25 Septembre à Toulon. Available at: <http://www.gouvernement.fr/gouvernement/le-president-de-la-republique-veut-refonder-le-capitalisme>
3. Jean-Claude Trichet, President of the ECB, Frankfurt am Main, 8 April 2010. Introductory statement with Q&A. Available at: <http://www.ecb.int/press/pressconf/2010/html/is100408.en.html>

to some extent arguing tactically when he insisted that the ECB President would never comment on bond or currency market movements.<sup>4</sup> On the other hand, both were serious insofar as they reflected, or even reinforced, a dominant trend at the time, either in public debate or – in the case of Trichet – elite circles. While the public debate has been diffuse, multi-faceted and erratic from the beginning, core elements of elite opinion have maintained a determined course throughout the crisis, albeit cautiously at the beginning. It is precisely this ‘strange’ combination of anti-neoliberal rhetoric on the one hand, and the stubbornness of those in power amidst chaos and disorientation on the other, which inspired Colin Crouch (2011) to write about ‘the strange non-death of neoliberalism’, and Paul Krugman (2010) to comment in his New York Times column on ‘the strange triumph of failed ideas’ (a phrase which provides us with our title). In the present publication we consider the implications of this non-death and triumph for the economies and labour markets of ten European countries.

## **2. What brought us together**

To publish such a book in these times is a delicate operation. As an editor, authors have to be issued with deadlines and in one e-mail I reminded some of them that we should try to finish before the euro collapsed. It was intended as a joke, but who knows. One author replied that it was so difficult to finish because new developments were succeeding one another so rapidly. Indeed, the present volume does suffer from this difficulty. However, when we started our joint work we knew that this was unavoidable, but also that in any case our topic goes beyond the economic policy roller-coaster ride of the past three years. What concerns us are the changing models on the basis of which Europe’s economies and labour markets are organised. The background of our undertaking is the intense academic debate on the persistence and importance of the various ways in which capitalism is organised, including the institutions that shape welfare regimes, labour markets and national production systems. While neoliberalism had gained its

---

4. Moreover, during his last year in office in 2011, he demonstrated his tactical abilities when he deviated from his own beliefs by occasionally allowing the ECB to interfere with sovereign bond markets against the fierce resistance of Bundesbank dogmatists.

political and economic as well as media domination in the 1990s, the academic literature on the various ‘worlds of welfare capitalism’ (Esping-Andersen 1990) and ‘varieties of capitalism’ (Hall and Soskice 2001) began to make a strong point against mainstream ‘one best way’ and ‘there is no alternative’ (TINA) thinking. One crucial aspect of this literature was that, while individual capitalist countries may achieve similar economic success despite different institutional settings, these settings – or ‘models’ – may impact substantially on the quality of social outcomes. Hence the message that institutions still matter.

But what about the changes, or even ruptures, experienced by such models? This simple question brought together the present group of researchers from ten European countries to look at the ‘dynamics of national employment models’, as we called our three-year research project, which ended in 2007. The country-specific findings indicated that, over the past 20 years, most existing national models had been driven – albeit on the basis of different premises and to varying extents – to develop growing tensions and vulnerabilities due to increasing inconsistencies within their institutional architectures. Core elements of the EU single market strategy had contributed to destabilise existing models (‘negative integration’), given the weakness of countervailing powers aimed at social institution building at both national and EU levels. The bottom-line of our findings, therefore, given both external (for example, ‘globalisation’ and ‘Europeanisation’) and internal (for example, demographic change) pressure for change and their interaction within a neoliberal mainstream, was that there was a growing need for ‘multi-level institution building’ aimed at revitalising national employment models in Europe.<sup>5</sup>

When our research project ended, the crisis began. This experience made us wonder whether our findings might be useful in developing a better understanding of what has been happening since 2008. To exchange views on this topic we met again, in spring 2011, with

---

5. The main findings of the EU-funded DYNAMO project were published in Bosch, Lehndorff and Rubery (2009). A second book (Anxo, Bosch and Rubery 2010) focused on the welfare state. Sector-focused cross-country comparisons have been published in the journal *Work Organisation Labour and Globalisation* (Huws, Lehndorff and Grimshaw 2010). For other publications and further details, see <http://www.iaq.uni-due.de/projekt/iat/dynamo.php>

extremely helpful financial and organisational support from the Foundation of the European Left, *Transform! European Network for Alternative Thinking and Political Dialogue*. The discussion focused on three questions:

- To what extent did changes in national models before the crisis help to prepare the ground for the crisis?
- How have the models fared during the crisis?
- Which lessons have been drawn, and what are the challenges and choices faced by national actors regarding the future of the respective socioeconomic development models?

The following chapters of the present book include the ten country analyses whose main ideas were discussed at the meeting, as well as the contribution by Hans-Jürgen Urban, member of the executive board of the German metalworkers union IG Metall, on the prospects of trade union policy in Europe. Last but not least, it also includes a study on current austerity policies and their interaction with the new approaches to economic governance at the EU level, written by Janine Leschke, Sotiria Theodoropoulou and Andrew Watt of the ETUI. This analysis provides an important complementary view and we are more than grateful that the ETUI was interested in contributing to – not to mention funding and publishing – the present book.

While it is definitely far too early to expect profound foresights, the present status-quo analyses provide insights into national ways of coping – or non-coping – with the ongoing crisis. These insights will hopefully provide a better understanding across borders at a time when European rhetoric is being used as a smokescreen for national egoism.

### **3. Varieties of vulnerability**

The chapters of the present volume underscore that it is both misleading and superficial to summarise the current economic turbulence – as is now routine in mainstream media and politics – under the heading of ‘public debt crisis’. What is happening now is rooted – to be sure, in a variety of ways, depending on the country – in the destabilisation of national models of capitalism due to the predominance of neoliberalism since the demise of the post-war ‘golden

age'. More precisely, the combination of 'financialisation' (Foster and Magdoff 2009), EU internal market policy and European Monetary Union, on the one hand, and the weakening of regulatory and welfare institutions within most EU countries, on the other, have given rise to serious imbalances within the EU and contributed to imbalances in the world economy (Krugman 2008; Coates 2011). It is nothing less than the very concept and architecture of the Eurozone that have been overwhelmed by a deep crisis. Becker and Jäger (2011) portray it in terms of the 'unfolding contradictions between different national capitalisms, characterised by [broadly] financialised or by neo-mercantilist regimes of accumulation': in other words, a monetary union between an export-focused and surplus-oriented core and a periphery that is dependent on imports and capital inflow has proven to be fatally flawed and unsustainable.

The country chapters reveal the extent to which the respective country-specific socio-economic development models (to go beyond the possibly limited scope of the term 'growth model') are either unsustainable for the respective country or unsustainable for other countries. The chapter on Greece gives the most impressive example of the former, the one on Germany the most striking example of the latter. Moreover, in the case of Germany – but arguably also in the case of the United Kingdom due to the supreme importance of the City of London – these socio-economic models are sustainable neither for the country in question nor for the rest of Europe.

Unfortunately, the short intermezzo of massive stimulus packages, while extremely important for short-run recovery, by and large failed to include expenditure geared to fostering more sustainable structural change. Indeed, as Leschke, Theodoropoulou and Watt (in this volume) conclude, 'the crisis could and should have been used as an opportunity to introduce corrections to the previous growth model, in which rising inequality was a prominent feature'. It is in the same vein that Hans-Jürgen Urban argues that the social pacts in some countries – most notably Germany and Austria – while proving essential in preventing the crisis from doing serious damage to the labour market, have failed to pave the way for future pre-emptive policy approaches.

It is clearly important to reveal the ill-advised economic policy approaches which are currently leading the Eurozone and the rest of the

EU towards disaster. The emphasis of the present publication, however, is different and may be regarded as a complementary contribution to current non-mainstream economic analyses. The analyses of individual countries highlight the importance of *interaction between economic and institutional changes* both within countries and between countries and the EU. In retrospective, it is this interaction that helped to prepare the ground for the expansion of the combined financial crisis and deep recession of 2008 into a chain reaction of interrelated crises in financial markets, public finances and – in some countries – ongoing recessions. Moreover, as demonstrated in the chapter on EU-level economic governance, the same happened – and the situation continues to deteriorate – with regard to the formation of a Eurozone fiscal policy authority without democratic legitimacy. Our earlier joint research project recommended ‘multi-level institution building’ in Europe and this need is being driven home every day as the European crisis deepens. In fact, both at the EU and the national level, the interaction between unsustainable growth models and the deficiencies of welfare, labour market and economic governance institutions makes it particularly difficult to find ways out of the crisis. This, in a nutshell, is the story told in the ten country chapters, summarised in Table 1.

Table 1: From North to South: pen sketches of European models of capitalism before and during the current crisis

	Type of model*	Characteristic change in the 1990s and 2000s	Tensions/unresolved issues before crisis	New trends/emerging tensions since 2008
Sweden	CME Social democratic welfare state	Revitalisation through reestablishment of model (macroeconomic controls, social contract) plus new pillars, such as innovation	Combining labour standards with product market deregulation but under threat from EU. High taxes still a political challenge	Core components of model only marginally modified, and rise in public deficit limited; but increasing duality of labour market, deteriorating employment prospects for young people/immigrants/low skilled, weakening of trade unions through unemployment insurance reform
United Kingdom	LME Residual welfare state	Reinforcement of market model. Revitalisation through new social pillars	Fragility of model based on financialisation, housing and consumer credit. Segmentation of labour market continues despite improved public services/higher minimum social guarantees	Massive turn towards austerity, weakening of public services and welfare, withdrawal of state in favour of private sector. Policies likely to cause rise in poverty and regional inequality

Table 1 (cont.)

	Type of model*	Characteristic change in the 1990s and 2000s	Tensions/unresolved issues before crisis	New trends/emerging tensions since 2008
Ireland	LME Residual welfare state	Hailed as role model for neoliberal development (low tax, flexible labour market), legitimated by substantial rises in cash wages and employment, eased by 'social partnership'	Model depends on continual inflow of FDI but this in turn involves zero sum competition with EU member states; low social investment means immigration instead of development of labour force; commitment to light-touch regulation ensured Eurozone entry but opened door to massive speculative lending and hence property bubble	Way out of the crisis seen as consolidation of 'Boston not Berlin'; even deeper reliance on (US) FDI as saviour; further marginalisation of trade unions
Germany	CME Conservative welfare state	Upheaval and fragmentation; neoliberal reorientation of major actors in the wake of unification	Successful reform of production system but model challenged by rise of less regulated service sector, problems of unification, lack of universal labour standards and an outdated family/welfare model, deepening labour market segmentation and social inequalities	Strong pressure for 'green growth' but ever growing dependency on exports, deficient public investment and services aggravated by austerity approach, ongoing resistance to statutory minimum wages and modernisation of family/welfare model
France	CME/state-led Continental welfare state	Conversion – from state-led to state-enhancing	Privatisation and decentralisation of the state but the state has expanded role in providing minimum income guarantees and other forms of support for the unemployed, particularly the young	Persistent unemployment and increasing dualisation of labour market; upcoming issues: public spending cuts, tax reforms, ever increasing social and regional inequalities
Austria	CME Conservative welfare state	Conversion – from demand-led to supply-led corporatism	Continuity of corporatism, with continuing regulation of labour standards associated with major changes in political context. Failure to modernise family and welfare policy	Revival of social partnership, ever increasing dependency on exports and on Germany, banks highly dependant on CEE

Table 1 (cont.)

	Type of model*	Characteristic change in the 1990s and 2000s	Tensions/unresolved issues before crisis	New trends/emerging tensions since 2008
Hungary	Post-transition Legacy welfare state	In search of a model- oscillating between Anglo-Saxon and Rhenish models	Period of high FDI inflows has left country exposed to credit crisis; problem of reconciling demand for strong welfare state with poor value added base	Heavy public and private indebtedness, severe cuts in public services and welfare transfers, weakening of labour market regulation and industrial relations, taxation favouring upper-middle class, centralisation of government power/right-wing populism
Greece	State-led Familialist welfare state	Tensions between increase in female employment rate and familialist model. From state-led to liberal, shrinking core and enlarging periphery	Liberal reforms not leading to new forms of comparative advantage. Limited de-familialisation, in part because of low tax base	Collapse of the socio-economic model, acceleration of transition to liberal capitalism with residual welfare state. The problem of comparative advantage remains unresolved
Italy	CME (north – under-developed south) Familialist welfare state	Tensions between development and familialist model – shrinking core, enlarging periphery	Only 'limping reformism': problems of 'frozen specialisation' in consumer goods vulnerable to delocalisation, continuing problem of segmented/incomplete welfare coverage. Widening regional inequalities (North/South divide). Low tax base to support reforms	'Delayed reforms and misguided policies': further increase in income and regional inequalities and labour market dualisation, lack of industrial policy; bureaucracy, tax evasion and regressive taxation
Spain	CME Familialist welfare state	From CME to liberal. Tensions between development and familialist model.	Liberalisation of model resisted at national level only by trade unions – limited influence in workplace. Strong dualisation of labour market. Some recent but limited changes to familialist welfare model. Reliance on housing market resulting in exposure to the credit crunch	After bursting of real estate bubble: very high (youth) unemployment, absence of industrial policy incl. vocational training, fragmentation of collective bargaining fostering low-wage strategies, significant public spending cuts, 'prospects are dramatic'

Note: \* According to typologies in literature on varieties of capitalism (LME = liberal market economy, CME = coordinated market economy) and varieties of welfare state.

Sources: Bosch, Lehndorff and Rubery (2009); authors of present publication; own portrayal

The bottom-line of the pen sketches in Table 1 is that, with very few exceptions, the ‘varieties of capitalism’ in Europe can today be depicted as ‘varieties of vulnerability’. The nature and depth of the specific economic and social problems of the countries analysed do differ substantially, even with regard to the magnitude and importance of sovereign debt whose country-specific causes are highlighted in the respective chapters. What all national models have in common, however, is that they have become increasingly vulnerable in the course of the current crisis, if sometimes for very different reasons.

Most disturbingly, the chapters on Hungary and Greece, but also the one on Spain suggest that the term ‘vulnerability’ may be an understatement. In these countries, the very foundations of future economic and social development are at stake. Italy differs from this group of countries due to its still dynamic manufacturing industry in the north, but this potential could be developed and exploited for the benefit of the country as a whole only through massive reforms of the state. The United Kingdom, in turn, will be more dependent on the City of London than ever, given the ongoing massive job cuts in the public sector which, in the decade before the crisis, had made a disproportionately high contribution to job growth compared to the private sector. Ireland, arguably, is providing the most contradictory picture of all the countries analysed in the present book, as the catastrophic conversion of private debts into public ones has triggered massive cuts in public expenditure, while the reliance on export-driven FDI, as James Wickham puts it, has become a ‘national fetish’ (turning the interrelated low corporate tax rate into a ‘symbol of national independence’).

In contrast to the sometimes devastating prospects described in these chapters, Eurozone countries Austria, France and Germany (together with Sweden) appear to be performing much better. However, while the French economy has been less affected by the recession than the other two because it is more dependent on the domestic market, social and regional inequalities are on the rise and long-standing deficiencies – youth unemployment in particular – justify serious doubts about sustainability. Austria, in turn, is becoming more and more dependent on its export industries and on the ups and downs in Germany, while its banking system is particularly exposed to the future of the highly indebted private sectors in Central and Eastern Europe. With regard to Germany, it is important to understand how the weakening and

neoliberal modification of labour market and welfare institutions over the past ten years have exerted enormous downward pressure on average wages, thus contributing to the paradoxical effect that this alleged growth engine in fact functions as a major millstone for Europe.

Sweden may be regarded as the only outlier in our present set of countries as its social equity model has survived the recession basically undamaged and continues to enjoy undiminished support among large segments of society. Nevertheless, unemployment (in particular among young people, immigrants and low-skilled workers) remains at levels unacceptable for this country, giving rise to attempts by the present government to cautiously weaken some pillars of the traditional model through the back door (most prominently by a reform of the unemployment insurance system geared to reduce trade union influence), leading to even more problematic social outcomes. After the recession there may be another push towards greater duality between insiders and outsiders in the Swedish labour market, which leaves Dominique Anxo concerned about the possibility of a 'progressive decline of the Swedish model, its coherence and the robustness of its social cohesion' in the future.

Apart from Sweden, with its – if only when compared to other countries – modest changes, the following chapters provide a clear overall picture. Things were far from perfect before the crisis, but now they are rapidly getting worse. In the aftermath of the 'great recession', austerity policy dominates the scene. The obsession with cutting public expenditure is undermining or even blocking the road to recovery and the revitalisation of socio-economic models. These roads are different in each country, but they are being obstructed almost everywhere. What we are witnessing is the resurrection of a neoliberal 'There is no alternative' approach under a new heading.

#### **4. TINA reloaded: like lemmings to the sea**

In most of the countries analysed in the present volume, the outcomes of the 2008/2009 crisis are being tackled in practice on the basis of core guidelines of neoliberalism. Free-market fundamentalism is being called into question rhetorically, but neoliberalism is being resurrected,

despite the strong public feeling that ‘those who are responsible for the crisis should pay the bill’.

This balancing act is based on the assumption that curbing public debt is essential for everything: in the short term, it is the prerequisite for putting an end to speculative attacks on the government bonds of ‘endangered’ countries; in the short and medium terms, it is needed to provide the ‘confidence’ needed to clear a path for economic recovery; and in the medium and long terms it is the only way of preventing ‘our children and grandchildren from paying the bill for us living beyond our means’. Hence, once again there is no alternative’ (TINA). And if this dogma loses support among believers and the power of the myth starts to fade, it will be as Goethe puts it in his poem ‘Erlkönig’: ‘And if you’re not willing I will use force’<sup>6</sup>

The all-encompassing focus on public debt is remarkable, not least because this implies that the victim is declared guilty. Public debt is not at the root of the current crisis, and anybody who has the slightest doubt in this respect should look at the figures and arguments presented by Leschke, Theodoropoulou and Watt in their chapter on EU-level policy. Joseph Stiglitz made a good point in an interview with a conservative German newspaper that ‘no government has ever wasted so much money as the U.S. financial industry’ (FAZ 2011).

This critical stance has meanwhile found support from large-scale analyses published by the IMF in which it is concluded that short-run fiscal consolidation has proved to be ‘contractionary, not expansionary’, thus boosting unemployment and income inequality and ‘adding to the pain of those who are likely to be already suffering the most’ (Ball *et al.* 2011, p. 22).<sup>7</sup> What is more, in the same IMF publication Kumhof and Rancière (2011) present their data evaluation showing that countries in which inequality has increased saw a corresponding worsening of their

---

6. According to the myth the ‘Erlkönig’ is an evil spirit that lies in wait for unsuspecting travellers. However, unlike in Goethe’s poem, Europe’s contemporary Erlking – or perhaps one might say ‘Erlqueen’ – is visible to everyone. Nevertheless reality comes close to Goethe’s concept as Erlqueen and all minor Erlkings alike never tire of emphasising that it is ‘the markets’ that have to be ‘convinced’, which assumes implicitly that actors are invisible.

7. These authors plead for a ‘slower pace of consolidation combined with policies to support growth’, referring to IMF director Christine Lagarde (*ibid.*, p. 23).

current account: 'As income shares of the top 5 percent increased between the early 1980s and the end of the millennium, current account balances worsened' (ibid., p. 25). It should be noted at this point that, irrespective of whether this leads directly to soaring public debts or primarily to private debts in the first instance (as is shown in the chapters on Ireland and Hungary), the latter have been transformed into public debt. Hence the lesson of these authors neglected so far by the dominant policy approaches: 'In the long run, there is therefore simply no way to avoid addressing the income inequality problem head-on' (ibid., p. 27).

It is reasonable to ask why the focus of dominant policy approaches is on the outcome rather than the causes. However, if one limits one's thinking to logic, sometimes one fails to understand what is happening. Once one takes into account the dimension of power, however, it makes sense. This is what Annamaria Simonazzi in her chapter on Italy describes as 'welfare being replaced by bankfare'. Furthermore, as deplored by Josep Banyuls and Albert Recio in their chapter on Spain, it is also the 'absence of a credible project with clearly designed alternative proposals' at the political level that 'has allowed adjustment policies to be presented as the only realistic response'.

The fundamental importance of the universal focus on austerity can best be underscored by remembering that the 'road to serfdom' as envisaged by Hayek was allegedly paved by the modern (welfare) state that was said to put individuals under tutelage. The notion of the 'small state' has been the core of the neoliberal agenda from its very beginning – a contemporary example is the 'Big Society' approach of the present UK government. Since the early 1980s, justification for the small state agenda has been sought in the free market paradigm. Since 2008, however, this paradigm has lost much of its persuasive power in most European countries. Thus, it has been put into 'just-in-case mode': if you do not believe the blunt message that public debt reflects that 'we' are living beyond our means, you will be convinced by the experience that 'the markets' are punishing us for our lack of belief. The diversion has worked fairly well so far and for the time being it represents a strong sheet anchor for the reinforcement of neoliberalism.

While the 'indignados' in Athens, Madrid and elsewhere are shouting 'We will not pay for your crisis' to their governments and banks,

German (and Dutch, French, Finnish and Austrian) taxpayers are being encouraged by their governments and banks (and their media mouthpieces) to shout back ‘We will not pay for your debt’. True, not everyone has joined in the chorus, which shows the ambiguity of the situation in Germany, as well as in other parts of Europe. However, what has dominated the scene so far is an economic policy approach that puts European integration at risk. The economic foundations of the latter, which over recent decades have increasingly been shaped by the unbalanced agenda of a single market without an equal emphasis on social rights, are proving to be fragile and now may even be turning into a threat to the democratic future of the European Union. Democracy is being endangered by the rise of right-wing populism and EU-scepticism in many countries (Baier 2011) and equally by the lack of democratic foundations for economic governance at EU level, which has begun to interfere with fundamental democratic rights within member states.<sup>8</sup>

For the time being, Hungary may be regarded as the most striking example for the combination of austerity policy and right-wing populism. The present government, with a parliamentary majority sufficient to change the Constitution, is erecting an authoritarian regime intent on protecting the wealthier layers of society while cutting deep into social security, labour market regulation and labour standards. The neoliberal agenda is combined with measures geared to defend the interests of the large groups of private middle class borrowers who are indebted in Swiss francs. This is a severe blow to Austrian banks but helps to safeguard political support amongst the middle classes, which so far has proved to be a particularly smart way to cover up the simultaneous dismantling of welfare institutions protecting the poor.

The focus on public debt rather than on inequality, seconded by the emphasis on spending cuts over progressive taxation and tax rises, is truly the most striking indication of what James Wickham, in his

---

**8.** It is telling, for that matter, that before the 2011 parliamentary elections in Portugal the leading opposition party, which was about to win the elections, had to agree on the austerity plan imposed by the EU authorities (or in practice by the German and French governments) before the financial rescue package was agreed. A similar tide of events could be observed in Ireland and eventually Greece. The message sent to the electorate is clear: You may vote, if you like, but it won't really matter.

chapter on Ireland, calls the ‘paradoxes of non-learning’. In some of the countries covered by the present book, even in the short period of time in which this approach has been applied, the outcomes are already worrying. As the chapters on Ireland, Spain, Greece and Hungary demonstrate, the imposed austerity approach is driving these countries even deeper into crisis, while safeguarding ‘socialism for the rich’, as Wickham describes the conversion of private debts into public ones. The crises will persist even when (as may be the case in Spain and even more so in Ireland, in contrast to Greece) the economy, stimulated by foreign demand, picks up occasionally. They are systemic crises in the sense that they reveal the lack of sustainable economic and social development models. Or, as Maria Karamessini concludes with regard to Greece, ‘the shock therapy is killing the patient’.

Other than countries within the Eurozone or, as in the case of Hungary, countries which depend almost exclusively on its economic fortunes, austerity policy in the United Kingdom follows a slightly different rationale. With its independent currency and a central bank which (unlike the ECB) is entitled to act as a lender of last resort, thus providing more leeway for alternative approaches, the ‘Thatcher plus’ policy is being pursued primarily and bluntly on political grounds. As Damian Grimshaw and Jill Rubery make clear, the UK with a sovereign debt to GDP ratio roughly at the level of Germany is suffering an ‘austerity crisis’ rather than a public debt crisis. The ‘Big Society’ rhetoric of the current government can be regarded as complementary to the ‘small state’ but it sounds much more elegant to European ears (and the UK still is, as these authors have highlighted repeatedly, closer to Europe than to the United States). If the ‘cabinet of millionaires’ succeeds, the country’s dependency on the City of London will be greater than ever, at the expense not only of social justice and regional equity but also of the potential to pave the way for a more sustainable model of economic development.

In comparison with these countries and for the time being, austerity policy in France, Austria and Germany but also Italy has been implemented at a more moderate pace so far. However, the unsocial outcomes are obvious already, and the tide will soon rise. As Hermann and Flecker summarise, in Austria too, ‘what caused the problems in the first place are still being called for or actually used as remedies: austerity, privatisation and protection of financial assets’, priorities

which make it 'unlikely that Austria will get off as lightly in the event of a new recession'. There is no doubt, however, that Italy, as one of the countries on the shortlist for speculation against government bonds in the Eurozone, is in a much more difficult situation. On the one hand, the basic industrial structure in the northern regions provides ample potential for keeping pace with international competitors. On the other hand, bureaucracy in the public sector, not to mention corruption, cronyism and organised crime, are obstructing the development of the country as a whole. At the same time, the tax base is much too small for modernisation of the welfare state. As Annamaria Simonazzi puts it, the middle classes have 'managed to avoid paying taxes and turned their tax notices into bonds, underwriting the loans required to finance the deficit'. Under these circumstances simply raising taxes means reinforcing the degressive structure of taxation and punish those who actually pay their taxes. As Simonazzi concludes, tax evasion can be reduced only if the concept of taxes is 'reconnected to the concept of services: people need to relearn that what they pay is for their health, education, kindergartens and elderly care'.

This is proving to be equally pertinent for countries such as Austria, France and Germany, whose public services and welfare systems appear to be in much better shape than Italy's. Indeed, the stories told in the chapters on Germany and Austria put one in mind of those being crucified alongside Brian in the Monty Python film who are encouraged to sing 'always look on the bright side of life'. In Germany, to select the alleged role model, the deficiencies of public investment in education and other crucial social services are striking, given that this country has no other 'raw materials' than the skills of the people living in it. What is more, it has already become obvious in Germany, as in France, that budget cuts are being targeted on social expenditure. The so-called *Schuldenbremse* (debt brake) in Germany, for which the French President found the slightly more glamorous name of 'golden rule' – an obligation enshrined in national constitutions to keep sovereign debt within a certain limit at all times – will cut deep into these states' capacity to act in the coming years, given their predominant unwillingness to enlarge tax bases and reinforce truly progressive taxation. What will prove to be a major problem for Germany, however, will turn out to be a disaster for a number of other countries that have been forced into this cage by the fiscal dictatorship established by the German government.

There is a strange rationale, as described in the chapter on Germany, which makes the leader of the lemmings believe that he or she will not be forced to jump and that, if the others do jump, he or she will not be affected (and even that there may be no abyss at all).<sup>9</sup> In fact, this rationale is light-years away from the observation of FT commentator Martin Wolf (2011) that ‘in 1815, UK public debt was 260 per cent of GDP. What followed? The industrial revolution.’ Arguably, any possible future ‘industrial revolution’, whatever its nature might be, would desperately need strategic public spending which requires a sound tax base.

## **5. Challenges ahead**

The present crisis is rooted in a combination of policy and institutional failures, and as these failures have occurred at both national and international levels, the challenges facing a reform agenda are multifaceted. What is more, national egoisms are making coordination between economic and political elites very difficult. But establishing across-the-board solidarity and coordination of political initiatives among those who are suffering from the failures of economic and political elites is no easier task. This holds for various groups of people, as can be seen in some countries in which large-scale wage cuts and dismissals are being imposed on public sector employees while workers in the private sector may be relieved by a modest economic upturn, or in those countries where the first stage of austerity measures has focused primarily on welfare benefit recipients. However, it holds even more for people who may be encouraged to maintain their respective helplessness or resignation by right-wing populists; as Tóth, Neumann and Hosszú put it in their chapter on Hungary, in some cases there may exist ‘tacit consent on the part of the majority of a disillusioned society’.

The chapters of the present book do not provide consolation. They simply describe the challenges. The pictures drawn are sometimes a little depressing but this does not necessarily mean that the authors are entirely pessimistic. Due to the widespread public discontent with free-market fundamentalism and financial industry supremacy in many

---

**9.** For further insights into what European policymakers have adopted from lemmings, cf. Watt (2010).

European countries, political leaders are walking on thin ice. It is for this reason that, by way of an example, Florence Jany-Catrice and Michel Lallement hope that the French presidential election campaign in 2012 will provide opportunities for a public debate on new approaches to tackling the European crisis and the rising social inequality. Similarly, looking ahead to the federal parliamentary elections in Germany to be held in 2013 at the latest, and the massive popular movement in 2011 against nuclear energy which forced the present government to make a sudden U-turn on one of its core issues, political prospects for Germany, too, are not only bleak. The challenges described in the following chapters, however, point to the complexity of the challenges ahead. This is what Hans-Jürgen Urban means by a 'mosaic left', namely a 'Europe-wide movement, a heterogeneous collective player, consisting of different initiatives, organisations and personalities'. He calls for a 'multi-layered perspective [which] must find its way into the trade unions' debates on strategy.'

The term 'multi-layered' is crucial. The conclusions to be drawn from Leschke, Theodoropoulou and Watt's analysis of EU economic policy governance is unambiguous. The EU single market project in general and EMU in particular are fatally flawed due to their unbalanced focus on free markets without adequate countervailing social and labour standards, and on price stability and austerity without adequate reference to sustainable economic development, employment and social equity. The current 'juggernaut of neoliberal policy reforms', as Damian Grimshaw and Jill Rubery put it, is driving the European project onto the rocks. An array of substantial reforms in both the short and the medium term is needed to prevent this from happening (for overviews on the debate on the most urgent reforms, see EuroMemo Group 2010; Degryse and Pochet 2011). Given the ongoing crisis of the financial system the most obvious measures include new EU-wide regulations on financial markets (accompanied by more radical approaches, such as the downsizing and restructuring of the banking sector under public control and governance, to be tackled at national level), as well as reform of the European Central Bank to enhance its role as lender of last resort. Equally urgent, the upcoming institutional design for a so-called 'economic government', which is to interfere with national government budgets and labour market regimes to push through public expenditure and wage cuts, must be blocked to give countries more room to breathe and, not least, for the sake of democratic legitimacy. In

addition, what is really needed for monetary union is a strategic agreement on solidarity – or transfer – mechanisms (technically based on eurobonds) between richer and poorer EU countries, and a democratic institutional foundation for this supranational decision-making process. Other than currently designed at EU level, the Eurozone needs a permanent mechanism whereby current account surpluses produced in some countries can be invested in strategically useful projects in countries with current account deficits, geared to fostering sustainable development potential. More generally, given the devastating results of the hitherto dominant single-market approach, reforms of the European treaties must establish the long-needed rebalancing of economic and social rights in order to put more emphasis on the reduction of inequality and to pave the way for more sustainable models of socio-economic development.

This perspective is ‘multi-layered’ due to the simple fact that national governments must be pushed in this direction by domestic social movements. However, there is more than this to the national ‘layer’. Annamaria Simonazzi, discussing the future fate of the euro, raises a twofold question: ‘First, is there a common interest linking surplus and deficit countries and capable of supporting a commonality of policies? ... Second, are there reforms that the southern countries should implement on their own in order to make the common currency a viable policy for them, besides reforms/policies that require a common design?’ She concludes with a bold statement that is rather uncommon among non-mainstream observers: ‘Only once we have done our homework can we seek, and demand, Europe’s help.’

The punchline of this argument is that the same applies to allegedly ‘healthier’ countries in general, and for Germany in particular. With one major difference: institutional reforms within Germany would not merely be helpful, but crucial for the success of other countries. The problem that Germany poses for the EU, and most dramatically for the Eurozone, goes beyond ill-advised policy approaches imposed on other countries. The core problem is the weakening and partial dismantling of institutions over the past ten to fifteen years which, in earlier decades, provided for a combination of economic success with a – by capitalist standards – high level of social equity. As spelled out in the chapter on Germany, it is this process of dismantling which is behind average-wage stagnation in Germany and the consecutive soaring current account

surplus with the Eurozone, which obstructs economic and social development in many other Eurozone countries. Thus, curing Europe requires political *and* institutional reforms in Germany, allowing for greater equity both within and beyond Germany. As argued in the Germany chapter, both the economy and society of this country have great potential to put this into practice. For the time being, however, this potential is not being utilised, to Europe's considerable harm. This failure impacts not just on the economies of other countries, but equally on the leeway of trade unions and other movements in society calling for alternatives to austerity and a resurrected neoliberalism.

This is what makes the 'multi-layered' and 'homework' concepts so important. There will be no European reform agenda unless each country does its own homework. Equally, without a new European reform agenda, alternative approaches in individual countries may be suffocated. This is a complex challenge indeed.

## Bibliography

- Anxo, D., G. Bosch and J. Rubery (eds) (2010) *The welfare state and life transitions: a European perspective*, Cheltenham: Edward Elgar.
- Baier, W. (2011) 'Right populism in Europe', *Transform! European Journal for Alternative Thinking and Political Dialogue*, 9, 128–132.
- Ball, L., D. Leigh and L. Prakash (2011) 'Painful medicine', *Finance & Development* (September), 20–23.
- Becker, J. and J. Jäger (2011) 'From an economic crisis to a crisis of European integration', paper presented at the IIPPE Conference 'Neoliberalism and the crisis of economic science', Istanbul, 20–22 May. Available at: [http://www.iippe.org/wiki/images/b/b7/CONF\\_2011\\_Joachim\\_Becker.pdf](http://www.iippe.org/wiki/images/b/b7/CONF_2011_Joachim_Becker.pdf) (accessed 25 October 2011).
- Bosch, G., S. Lehndorff and J. Rubery (eds) (2009) *European employment models in flux: a comparison of institutional change in nine European countries*, Basingstoke: Palgrave Macmillan.
- Coates, D. (ed.) (2011) *Exiting from the crisis: towards a model of more equitable and sustainable growth*, Brussels: European Trade Union Institute (ETUI).
- Crouch, C. (2011) *The strange non-death of neoliberalism*, Cambridge: Polity Press.

- Degryse, C. and P. Pochet (2011) 'Monetary Union, economic coordination and democratic legitimacy', *ETUI Policy Brief*, Issue 5, Brussels: European Trade Union Institute. Available at: <http://www.etui.org/Publications2/Policy-Briefs/European-Social-Policy/Monetary-Union-economic-coordination-and-democratic-legitimacy> (accessed 26 October 2011).
- Esping-Andersen, G. (1990) *The three worlds of welfare capitalism*, Cambridge: Polity Press.
- EuroMemo Group (2010) *EuroMemorandum 2010/11: Confronting the Crisis: Austerity or Solidarity*. Available at: [http://www.euromemo.eu/euromemorandum/euromemorandum\\_2010\\_11/index.html](http://www.euromemo.eu/euromemorandum/euromemorandum_2010_11/index.html) (accessed 26 October 2011).
- FAZ (2011) 'Ökonom Joseph Stiglitz: "Deutschland muss mehr Schulden machen"', *Frankfurter Allgemeine Zeitung*, 28 August.
- Foster, J.B. and F. Magdoff (2009) *The great financial crisis*, New York: Monthly Review Press.
- Hall, P. A. and D. Soskice (eds) (2001) *Varieties of capitalism. The institutional foundations of comparative advantage*, New York: Oxford University Press.
- Huws, U., S. Lehndorff and D. Grimshaw (eds) (2010) *Between the rock and a hard place. The shaping of employment in a global economy. Work Organisation, Labour and Globalisation* (4) 1.
- Krugman, P. (2008) *The return of depression economics*, New York: W.W. Norton.
- Krugman, P. (2010) 'When zombies win', *New York Times*, 19 December.
- Kumhof, M. and R. Rancière (2011) 'Unequal = indebted', *Finance and Development* (September), 25–27.
- Watt, A. (2010) 'Europe's policymakers are rushing towards the edge of the cliff', *Social Europe Journal*. Available at: <http://www.social-europe.eu/2010/06/europe's-policymakers-are-rushing-towards-the-edge-of-the-cliff/> (accessed 26 October 2011).
- Wolf, M. (2011) 'We must listen to what the bond markets tell us', *Financial Times*, 6 September.