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'Crisis and Choice in European Social Democracy': The New Political Economy of Europe's Social Model(s)

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In this brief lecture at the Friedrich Ebert Stiftung Annual Summer School in Berlin, I want to address two compelling themes for the future of European social democracy.

The first is social democratic 'renewal': how our parties revitalise themselves in office to become natural parties of government, rather than governing for brief periods against otherwise uninterrupted phases of conservative rule. The German SPD has a special place in this process of ideological reformulation. Your party was among the first to abandon Marxist doctrine in 1959 at Bad Godesberg, striking an explicit compromise with capitalism and launching the slogan, "planning where necessary, the market wherever possible". A new wave of re-thinking is ever more necessary today.

Second, the future of the European social model: the welfare institutions and public services in the EU member-states that ensure a solid platform of opportunity and security for all our citizens. The proposition of this lecture is that strengthening the social model should be at the core of social democratic renewal in Europe; but to achieve both requires a further fundamental re-thinking of policy and strategy for the future.

The post-1945 welfare state settlement is no longer adequate for today's world. The scale of the future challenges is self-evident: the intensification of international competition, an ageing population, changing gender roles in households and labour markets, new technologies, rising

Η προαγωγή των υπαρχόντων, εάν οι συνθήκες δεν είναι
κατάλληλες, είναι η καλύτερη οδός προσαρμογής για τις περιφέρειες
για τους μόνους που ασκούν επιρροή σε βάρους των
των αλλαγών.

social tensions and deeper inequalities. If the centre-left merely defends existing welfare state entitlements and distributive arrangements, it will be incapable of responding adequately.

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Πολλοί για
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Η επένδυση
στη ζωή είναι
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Instead, social democrats have to begin by shaping a new political strategy as distinct from the policy agenda.[1] This involves four strategic shifts:

1. Social democrats need a progressive narrative that connects economic and social policy.

At the heart of the social democratic argument is the idea that a strong welfare state complements, and is a prerequisite for, an enterprising economy. That requires active labour market policy, childcare, and work-life balance as the route to economic success. As Göran Persson, the Swedish Prime Minister puts it, "The welfare state contributes to people's freedom and enterprise. It is people that are secure, that dare to try new wings".

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2. Social democrats have to focus on building progressive institutions for the future, as they have done for the past half-century: an inclusive pension system, universal childcare, strong parental leave provision. In the UK, the Labour Government is building a national infrastructure of childcare centres. These not only provide support for parents and children, but also embed social capital. They hard-wire social democratic values into the fabric of society, and are unlikely to be dismantled or undone by future governments.

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3. In a globalising world, social democrats have to fashion policy instruments and co-ordinate action across the traditional boundaries of the nation-state. The aspiration for social democratic 'Keynesianism in one country' has been proved illusory. The EU and the international institutions more generically are increasingly pivotal to realising our ambitions for social justice in the 21st century.

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4. Finally, social democrats must entrench welfare states that cater to the needs of the majority, not simply the minority who are poor. In areas such as childcare and pensions, it is necessary to give the majority a stake in progressive institutions.

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Above all, social democrats need an enduring vision of the good society based on an ethos of security and solidarity that is sustained through argument, analysis, policy and politics. They need to keep winning the big progressive arguments against the Right.

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In addressing the social model specifically, our starting-point should be a recognition that the reform debate in Europe has focused wrongly on the question of welfare state sustainability: will the European Social Model survive and does it deserve to? There are, of course, very real economic and competitiveness challenges confronting the European Union. But this is the wrong starting-point; the centre-right has created a false choice, justifying the scaling-back of the welfare state to facilitate globalisation, world trade, and adaptation to economic change.

There is no compelling evidence of any kind, however, that suggests the welfare state is becoming uncompetitive or unaffordable due to these external pressures. In fact, the debate about the reform of the ESM should be about how reform of those models re-distributes opportunity, assists the vulnerable, protects the marginalised and strengthens social justice in Europe. Indeed, reform is the friend of greater social justice in Europe, not the enemy.

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But social democrats need to frame the arguments for reform more persuasively, reflecting these core priorities of social justice. This is a notoriously elusive concept, but the German political scientist Wolfgang Merkel has listed five priorities of social justice in a post-industrial society:

1. The fight against poverty - not just economic inequality itself, but on the grounds that poverty (above all enduring poverty) limits the individual's capacity for autonomy and self-esteem.
2. Creating the highest possible standards of education and training, rooted in equal and fair access for all.
3. Ensuring employment for all those willing and able.
4. A welfare state that provides protection and dignity.
5. Limiting inequalities of income and wealth if they hinder the realisation of the first four goals or endanger the cohesion of society.

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Η κοινωνική αλληλεγγύη νέα γαμύματα είναι ζωτικής
για υλοποίηση δικαιώσεων. Η γαμύτη
το ωραίο, γιατί νέα προβλήματα δημιουργεί
προς το συμφέρον των ~~καταναλωτών~~ αγωγών διαρκούς

What defenders of the status quo must appreciate is that Europe's models of welfare capitalism do not fully match up to these basic principles of social justice. At present: [2]

- Full employment no longer exists in most EU Member-States. Even high employment countries like Sweden and the UK have problems of working age inactivity and rising claims for sickness and invalidity benefit.
- Security against social risks is very partial: welfare systems insure against 'old' risks such as short-term unemployment, sickness and poverty in old age, but not so well against 'new' risks - single parenthood, relationship breakdown, and incapacity in old age.
- Fairness between the generations has broken down as pensioners fare better, but poverty among families with children and child poverty is rising throughout the EU.
- The industrial relations system protects privileged labour market insiders through strong trade unions and collective agreements, but excludes weaker and more vulnerable workers in the competitive service economy.
- Inequalities of income and wealth are rising in the EU as Esping-Anderson reports, while the inheritance of social disadvantage among children is becoming more rather than less embedded. The rate of child poverty in the EU continues to accelerate.

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The New Challenges of the Welfare State

Another set of factors provoking a crisis in the welfare state is the emergence of enormous actuarial and structural challenges over the last 20 years.

Welfare in the future will have to confront massive exogenous changes - the ageing society requiring traditional conceptions of retirement to be re-thought; the emergence of post-scarcity lifestyles; social changes such as the decline of the traditional family; and the weaker performance of the European economy since the early 1990s.

- Consider the ageing population. In the EU-25 today, more than 70 million people are aged 60 or over, making up 20 per cent of the population. Over 30 per cent are aged 50 or more. On average, people are living longer, but the main reason is the low birth rate. If we compare the EU to the US, although the EU has a population of 455 million compared to 295 million in the US, the US will have virtually caught up by the middle of this century if present trends continue.
- The proportion of obese people in the EU today is 18 per cent, compared to 25 per cent in America. Obesity leads to diabetes, placing intense pressure on healthcare systems. Generally, chronic diseases - smoking, heart disease, diabetes, and cancer - which make up 75 per cent of all conditions are caused by lifestyle rather than infection.
- In most EU countries, rates of divorce are higher, and rates of marriage lower, than in the past. Families are much more mobile and lack the extended kin relations that were once a source of social support. We are also witnessing a rise in the proportion of 'non-conventional families': women having children alone, and same-sex couples. In 1980 in the UK, 12 per cent of all births were outside marriage; in 2004, this had increased to 42 per cent.
- There are new clusters of poverty and deprivation in all the industrialised countries: migrants, legal or otherwise, vulnerable to exploitation; fractured families and weak family substitutes; the mentally ill; and victims of violence, especially women who suffer domestic violence, as Geoff Mulgan has recently uncovered in a report for the Young Foundation (<http://www.youngfoundation.org.uk/>). For women in the UK between the ages of 19 and 44, domestic violence today is the leading cause of death - higher than cancer or car accidents. There are many young people who also have huge unmet needs.
- There has been a sharp decline in the growth potential of the EU in the last 20 years, from 2.4 per cent in the early 1990s to less than one per cent in 2000-03 according to pessimistic commentators, placing renewed strains on public expenditure.

So there are massive pressures growing in and on all societies. In truth, battling to sustain the status quo welfare states and social models of Europe is no longer sufficient to strengthen social justice.

The Social Democratic Future

There is no reason at all why social democrats should lose confidence in the idea of the active state as an efficient instrument of social justice and economic modernisation. The enduring

Νέο γαμύματα
Ευρωπαϊκή
κοινωνία

ideals of the welfare state – solidarity, equality, liberty – are as valid today as a century ago – but the institutions and programmes have to be updated for the 21st century.

That requires social democrats to focus with ever greater intensity on the challenges of the future; that is, those beyond the next couple of decades. The trends referred to already – the ageing society, the decline of the traditional family, the relative decline of the European economy – will remain deeply salient. But the centre-left must be determined to stay in tune with a changing world, as the political landscape is evolving fast, and new challenges are taking shape that will inevitably impact on the European Social Model.

- The impact of greater ethnic and cultural diversity on Europe's welfare states;
- The rise of cultural and economic individualism with increasing demands for autonomy and self-actualisation;
- The competitive challenge of the new Member States in Eastern Europe, India and China – arousing fears for the European way of life.

The challenges are complex, intricate, and not well understood in much of Europe – even amongst experts. There are also counter-trends, and vital nuances. At the heart of these future challenges is the theme of a new communitarianism – reconciling the individual's thirst for autonomy and freedom of choice with the benefits and responsibilities of community: a new compromise, in short, between individualism and solidarity in the modern age.

Above all, we must remember that a less deferential, increasingly democratic world threatens a crisis of legitimacy for a politics that seeks to preserve the traditional relationship between citizens and the state. Too often, social democrats fall into the trap of believing that such a relationship can be frozen in time. As institutions framed for a previous era seem less capable of responding to the pressures and challenges of today's world, so those on the Right escalate their attack. Yet our imperative must be not to reject the role of the state, but to reform it.

✓ The Impact of Greater Ethnic and Cultural Diversity

The first trend that I address in greatest detail – sure to grow in salience over the coming years – is the relationship between the welfare state, ethnicity and diversity. This is, of course, deeply complex and contested terrain.

But the statistics are revealing. The number of foreign residents in Western Europe increased from four million in 1950 to 21 million in 2000. In developed countries today, one in ten are immigrants. Non-EU nationals in Europe have increased from 8.4 to 13 million since 1985. We should, of course, be committed to integration on the Left:

- Recognising diversity in both immigrants and host populations.
- Preventing discrimination, racism and exploitation.
- Ensuring equal access to government services.
- Encouraging participation in all areas of society.
- Facilitating political participation and making immigrants into full citizens.

Nonetheless, we have to take into account the growing scepticism of the 'mainstream' population in western industrial societies towards the liberal multiculturalism launched in the 1960s and 1970s. Support for it has ebbed away in many countries.

It is necessary to acknowledge that a series of moral and political dilemmas have since emerged for social democrats, driven by the fusing of two historic social experiments in the past 50 years. The first is the modern welfare state and the idea of sharing resources with fellow strangers as equal citizens. The second is the growth and celebration of social, ethnic, and racial difference and diversity – and more open borders that contribute to greater human variety in modern liberal states[3].

This has given rise to several progressive dilemmas for the centre-left since the late 1970s. The most notable is the putative tension between solidarity and diversity. In essence, so the

Very important
very interesting
very interesting

argument goes, the weaker the sense of mutual belonging, the less inclined we are to support a generous welfare state.

In fact, the size of the welfare state in Europe has remained at historically high levels, even as diversity of all kinds has continued to rise. But the scholarly work of the sociologists Robert Putnam and Alberto Alesina points towards the existence of a negative trade-off between racial and ethnic diversity, and collective provision based on mutuality and solidarity.

The combined effect of growing affluence, the ageing society and the erosion of historic class and national solidarities will be to squeeze welfare, especially redistributive social spending. In the past, social democrats have been reluctant to confront security and identity issues. They assume, not unreasonably, that raising the profile of such concerns benefits the political right – but the Left has to neutralise these fears, and even turn them to its advantage if a solidaristic social model is to thrive in the future.

✓ The Rise of Cultural and Economic Individualism

The second trend is the rise of cultural and economic individualism and its impact on collective provision and state-financed public services.

The claim that social trends are making individuals less inclined towards collectivist solutions is ubiquitous today. Economic theory dictates as disposable incomes get higher, people want to invest an increasing share of their income in services such as health and education, and may do so privately rather than through the state – raising the spectre of the middle-class taxpayer revolt prevalent in the United States.

It is self-evident that in the last 50 years, individuals have become increasingly aspirational, exercising far greater control over their lives than in the mass industrial economy of the 1950s. This is not merely selfish, 'free for all' individualism, however. On the contrary, it means the desire to construct an individual life-course more actively, evident in new demands for autonomy and the liberation of personal identity over recent decades.

Increasingly, they feel less empowered as citizens than as consumers in global markets. Take this simple statistic: in Britain today, the number of debit card transactions is ten times higher than it was in 1991, and credit card usage has trebled. People today consume incessantly, while they expect to find service in the public sector at the same level and quality as that available in the private sector.

This poses enormous challenges for the welfare states of the future.

The Challenge of Asia for Europe's Way of Life

The economic transformation of the accession countries in Eastern Europe, and of course India and China, will have profound consequences for Europe in the next ten to 20 years. There is already deep foreboding about the future of the industrialised world. Indeed, there are powerful constituencies both in Europe and America who are urging a greater emphasis on protectionist policies, fearful of the impact on growth and employment.

Such a turn to protectionism, however, would isolate Europe from global markets, just as they are being revolutionised by Asia's rising productive strength. This would have disastrous long-term consequences for Europe's ability to compete in the global economy, and ultimately erode EU living standards.

Europe's knowledge economy deficit is also growing with UK performance little better than the European average: it is not only the United States that is a competitive threat – China and India are catching up fast.

In order to sustain the active welfare states of the future, Europe has to identify and build new sources of comparative advantage. It is facile to regard social cohesion and economic competitiveness as opposites; the two go together.

That is why investment in education and training remains fundamental to Europe. At present, spending on research within the EU is spread thinly across too many institutions. In the US,

research bodies are much more disciplined and concentrate funds on a limited number of centres of excellence. America is expanding higher education at a faster rate. Europe has to change if it wants to keep pace with this accelerating rate of knowledge production.

Conclusion

Let me turn briefly to policy solutions. Social democracy has been historically concerned to combine economic efficiency and social justice. In the context of the future challenges, the welfare state of the future will be required to ensure:

1. In responding to diversity, a more explicit contract between established citizens and society. The conditionality and transparency of entitlements needs to be increased if people are to continue paying at least a third of their income to the state. This requires a national 'fairness code'[1]: benefits, for example, should be conditional on proper behaviour, such as the commitment to genuinely seek a job in return for unemployment benefit.
2. The left must channel greater cultural and economic individualism by sustaining solidaristic collective provision that also offers greater choice, increasing individual's personal control in areas such as elective surgery or schools. People should be given the power to tailor state-financed welfare and public services more directly to their own needs. Care for elderly relatives, childcare, and post-compulsory education are each areas, for example, where a direct transfer of financial resources and control should be affected through vouchers or direct payments.
3. Policies are required that advance both choice and opportunity through public services: assets and property - the fruits of our prosperity in the global economy - should be distributed more widely. In the UK, the Government is experimenting with 'Baby Bonds' - savings accounts for every child into which the state pays a substantial contribution. Our challenge is to craft a welfare state appropriate for a world of greater insecurity and change, but also higher aspirations and demands for autonomy.
4. Welfare states need to boost aspiration and social mobility, focussing for example on enabling poorer workers to break out of persistently insecure, low paid employment, shifting from active to activating welfare. That means protecting people, not just jobs, pursuing policies that equip individuals for change in the labour market, preparing them for a future of specialisation, ICT, and knowledge. We must close the digital divide: in the UK at present, 87% of homes in the highest income bracket have a home internet connection - among those on lowest incomes it is 18% .
5. In establishing European comparative advantages that meet the economic requirements of the future, the challenge for Europe lies in 'activating knowledge'. Incentives are required that will get more private funding into universities. The EU should launch a Fund that will establish new professorships, reversing the 'brain drain' to the United States. Every worker should be entitled to an annual lifelong learning increment available to pay for training or college.

What the European Social Models of the future require is not only a new type of welfare state, but a radical shift beyond the traditional concept of the welfare state itself - building the enabling or empowering state for the 21st century. Welfare risks, it is clear, are changing, but re-thinking so far has not been far-reaching enough. We have to transform the very idea of welfare and with it our preconception of the welfare state.

'Welfare' is an ambiguous term. For social democrats defending the welfare state in the post-war period came to mean the same as winning the case for social justice itself. Today, reforming the social models and welfare states of Europe is becoming absolutely necessary for securing social justice in the future.

To be blunt, the left in Europe over the last decade has too often been conservative when on the contrary - it is social democrats that today must be on the side of modernisation and change - in tune with the changing realities of people lives. That is precisely the role of institutions such as the FES and Policy Network: to keep our parties firmly fixed on the future.

If social democracy is to survive, we must do more than catch up with the changes of the last twenty years - we must chart a new path to the future that is both progressive and fair.