

# *Still a Future for the European Social Model?*

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## **ABSTRACT**

The 2008/9 financial and economic crisis has discredited the neoliberal narrative which claims that the market is self-correcting and that private enterprise is superior to the public sector. In Europe, it turned out that the crisis highlighted the social and the democratic (as well as the ecological) deficits which have arisen over the past 30 years and which finally had eroded some of the most distinctive features of the European Social Model (ESM). However, the crisis has at least opened up space in the political discourse for alternative ideas concerning the creation of a more socially sustainable economy. In the essay it is argued that a renewed ESM is indispensable for a type of European integration based on social equality and environmental responsibility. After a short reference to Polanyi's concepts of decommodification and disembedded capitalism the paper summarises the debate about the ESM and tries to capture its essence as it developed during the postwar decades. In the next section, the erosion of the ESM is described and important drivers of neoliberal restructuring in the EU are identified. The following part outlines major objectives in 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.

## **KEYWORDS**

decommodification, democracy, equality, public services, welfare states

## *1. Introduction*

For a brief moment during the 2008/9 financial crisis it looked as if the European Social Model could experience a revival. In the wake of the crisis even the British government, since the late 1970s one of the most radical pro-market and pro-private capital governments in Europe, nationalized failing banks. Given the scale of the crisis, the elites were shocked about the fragility of disembedded capitalism and its market-based solutions for almost all aspects of social life, including job-based healthcare, credit-financed homes and stock-market dependent retirement incomes. European politicians from all political backgrounds were demanding new and more regulations, while governments were passing emergency budgets with deficit spending to kick-start the economy. One year later, the situation could not be more contrasting: The financial crisis was replaced by the European budget crisis and governments across Europe have started to cut-back the public sector in order to please the financial markets, which caused the problem in the first instance. Hence what started as a moment of hope for the European Social Model may

very well be the last stage in a several decade long process of decay. On the other hand, what else than a revival of the ESM can actually save the economy and result in a new phase of prosperity?

In this essay we argue that the essence of the European Social Model is the comparable advanced degree of decommodification attained by European countries during the postwar decades. With the rise of neoliberalism in the 1970s this movement came to a halt and was actually reversed. Despite frequent references to the importance of the ESM, the policies adopted in the last four decades, including most notably the privatisation and commodification of public services, resulted in a substantial recommodification of European societies, eroding the very foundations of the ESM. The financial crisis, which is also a crisis of neoliberal economic policy, presented an opportunity to resurrect some of the features of the initial ESM, including a strong public sector and encompassing public services. While in the wake of growing budget deficits, governments seem determined to erase the last remains of social Europe, we argue that a renewed ESM is indispensable towards a type of European integration based on social equality and environmental responsibility – instead of boundless competition and market deregulation. By emphasizing the need for far-reaching decommodification, coupled with a thorough democratization of European societies, we also argue that (neo-) Keynesian deficit spending alone will not provide an opportunity for starting a socio-ecological transition or transformation.

The first section of the paper discusses the concepts of decommodification and disembedded capitalism by using Polanyi's insights. The second part summaries the debate about the European Social Model and tries to capture the essence of the ESM as it developed during the postwar decades. The following section, then, describes the erosion of the ESM following the neoliberal turn in the 1970s. The next part outlines major objectives in 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. The article ends with a brief conclusion.

## *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 2001: 225). 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 2004).<sup>1</sup>

In as much as market mechanisms are suspended or severely restricted, social embedding amounts to a decommodification of the social existence of workers and citizens. Decommodification, in Gøsta Esping-Andersen's (1990) view, means a relative independence of

individuals from markets. There are multiple sources of decommodification. 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 decommodification. Of course, decommodification 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, decommodification 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 decommodification 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>2</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 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.

### *3. The Essence of the European Social Model*

The invention of the term European Social Model (ESM) is commonly attributed to Jacques Delors. Then president of the European Commission, the social democrat Delors introduced the ESM in the early 1980s to distinguish Europe from the United States – and to some extent Thatcher-ruled Britain (Hermann and Hofbauer 2007:126). Hence, initially the ESM was a political intervention, launched to strengthen the rather fragile European identity and to propose an alternative to the ultraliberal capitalisms of the United States and the United Kingdom (ibid.) With the prevalence of the neoliberal forces in Europe, the ESM subsequently became a tool to gear support for the European project despite the neoliberal content of European integration (Hermann 2007). Trade unions and social democratic parties frequently made reference to the ESM when they talked about Europe (Hermann and Hofbauer 2007: 128-31). While in political terms the ESM was used as an affirmative concept, as an idea how Europe should look in a globalized world, soon an academic debate emerged in which scholars attempted to define the concept analytically. There are three main strands to this debate: One that attempts to measure the ESM in quantitative terms using indicators such as GDP per capita (for wealth), unemployment, inequality and poverty (Hermann 2009: 83-4). A second one that emphasises common institutional settings, reaching from the Varieties of Capitalism Approach to comparative welfare state and industrial relations concepts (ibid 84-7). A third strand of literature

focuses on the 'Europeanization' of institutions and cultures as a result of the integration process (Featherstone and Radaelli 2003).

All three approaches have serious problems: While a number of European countries display a much higher degree of equality and a much smaller proportion of poverty than the United States, differences between EU member states are often greater than the difference between the European mean and the US (Albers, 2006: 412). The institutionalist literature often overlooks the fact that Britain is also part of liberal capitalism and has a liberal welfare state (Schmid 2010: 9-10). The European literature, furthermore, lacks a deeper knowledge of the American situation and usually ignores the profound changes that have taken place in the United States since the 1960s. Precisely because the integration process primarily promoted liberalization, including the liberalisation of public services, it arguably led to an 'Americanization' rather than 'Europeanization' of institutions and policies in the member states (Wincott 2003: 293).

Instead of contrasting the United States, Europe adopted many of the New Deal features after the Second World War, 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. 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, but given the scale of the current crisis, even the US government decided to continue the payment of unemployment benefits beyond the six-month limit). 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 attained in the core of the western European countries and especially in northern Europe, where decommodification went furthest. 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.

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 (Schmidt 2010). 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 and 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 (Huffschmid 2008, Bieling and Deckwirth 2008). Precisely because the changes were often contested at national and local levels, 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 2009).

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 2009a).

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. In Germany, the result was a systematic sale of public hospitals to private investors. 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* (PFI). 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 (Hellowel and Pollock 2007). 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 mark 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 (Jepsen and Amparo 2005: 238). 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.

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. 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. These processes are changing what has been perceived as social rights into commodities. Fewer services will be provided, financed, regulated and/or controlled by the public. This translates into a considerable cut of the *social wage* and reinforces economic and social insecurities in times when unemployment, harsh working and living conditions and poverty are on the increase in one of the richest regions in the world.

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: 228).

Liberalisation and privatisation have not only increased inequality among public-service users. At the same time inequality between public-service workers has also grown. 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. There is a danger that gradually public goods such as education, healthcare or social security in times of old-age, sickness or unemployment shift from a resource the state owes to its citizens to a consumer product for which the individual must take responsibility. This development being directly linked to the essence of privatisation can be judged as a regress of a universalistic and law-based system to contractual, market-based relationships. Market-based relationships do not exclude universalistic constructions in principle, but they create obstacles for the realisation of minimum social rights



## *5. The Current Crisis and 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).

Politicians from various political backgrounds have demanded more regulation, especially of financial markets, to solve the current crisis. New regulation is supposed to make markets work better and more efficiently. This should not be confused with re-embedding of the economy in the wider society as proposed by Polanyi. Instead of making markets more 'efficient', Polanyi's anti-liberal project demands not for better regulation but for a limitation of market forces in order to restrict the dependence of social reproduction on capital accumulation. 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. 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.

The social infrastructure must be combined with provision of an unconditional basic income for all citizens who do not have sufficient other income sources. 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, 2001: 242). 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. 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 (Altvater and Mahnkopf 2007).<sup>3</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. 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 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, 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 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 four-fold crisis of capitalism, consisting of financial, economic, energy and climate crises, challenges the paradigm of an economy that is disembedded from all social and natural bonds. Rethinking policies is essential. However, even if finance-led capitalism and the neoliberal *pensée unique* (Bourdieu 1997) disgraced themselves historically, both as an economic and social model and as a role model for politics and public opinion, the break with neoliberalism so far has only taken place on a semantic level. Much worse, with the bank bailouts effecting a larger expropriation than ever before, the neoliberal program actually continued the old 'accumulation by dispossession' (Harvey 2003). In the long term the massive transfer of wealth from labour to capital that this type of capital accumulation has brought may help to undermine the functioning of capitalism. But recently, despite its failures and the damages it caused, the neoliberal doctrine still meets no opposition in the EU.

A radical social-economic change of the system is pending on the agenda. But for such a change to come about it needs a political left both willing and able to develop and present political options and systems of reference which could result in a reliable alternative to neo-liberal capitalism. In other words, what is needed is a new 'collectivist counter-movement'.<sup>4</sup> So far, in Europe there is no attractive left project for future development, which could combine the strength and the constituencies of the political parties being placed left of centre as well as trade unions, social movements and critical intellectuals willing to commit their energies to a political and strategic framework which could spread out to the society at large. It would be necessary to demonstrate that despite all their internal differences a new 'mosaic-left' (Urban 2009) could be perceived and respected as a heterogeneous collective actor.

At the hey day of 'industrial modernity' after World War II the left mainly concentrated itself on the redistribution issue and had a tendency to ignore the ecological impact of a growth-based model of social welfare as well as other forms of work than standard employment within the formal economy – which resulted in a fairly low regard for reproduction work performed mainly by women. While since the 1980s, the so-called 'post-modern left' shifted the emphasis towards self-determination as its most important political issue and was somehow ignorant towards the immense relevance of the 'social question'. Today, the approaches of both traditions have to be reconciled, in order to develop concepts for a solidaristic society which builds on principles such as: social justice and social cohesion, economic cooperation and protection of economic, social and environmental potential on the local and regional levels instead of competition on a world-wide scale, redistribution instead of economic growth as the basis of public wealth – and on a renewal of participatory democracy (see Mahnkopf 2010).

However, this will not be an easy task, neither in Europe nor in one of the other highly developed industrialised countries of the West. Numerous tensions and controversial concepts will have to be faced. Obviously, the reconstruction and expansion of the public sector would be of vital importance for a new and sustainable mode of reproduction which must give collective consumption priority over individual consumption. Yet, as has been argued in this article, it will not be enough to simply rebuild the public sector. Reclaiming solidarity to face a fair future for all requires taking as many goods and services as possible out of the market that is 'de-commodifying' them in order to free ourselves from its coercive power. But also the debate about a 'new green deal', that is a somehow 'greener capitalism' vs. options for socially sustainable economic 'de-growth' (see Schneider, Kallis and Martinez-Alier 2010) will be a hot topic for discussion. Much will depend on the further functioning of 'crisis corporatism', so far the only

option many European trade unions are familiar with and trust. However, it is highly questionable whether his option, despite its ecological short sightedness, can be sustained if fights over redistribution intensify.

## NOTES

<sup>1</sup>Although Polanyi (2001: 298-9) 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>2</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.

<sup>3</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.

<sup>4</sup>For a critical view on the perspectives of counter-movements emerging in response to the ongoing 'third-wave of marketization' see Burawoy 2010.

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