

A decorative graphic consisting of a grid of dots in various shades of gray and red, arranged in a pattern that suggests a map of Europe or a network of connections.

# Market and State in European Social Democracy

Progressive Perspectives on Developing a  
Social and Sustainable Market Model

**ANKE HASSEL AND CHRISTOPH POHLMANN (EDS)**

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- The global economic and financial crisis not only demonstrates the inadequacy and riskiness of unconstrained market liberalism as a political ideology and economic theory. It also marks a turning point in the development of what European social democracy stands for. The »Third Way« as an attempt to re-orient social democracy with its emphasis on the benefits of market liberalisation within the context of globalisation has proved insufficient.
- The Friedrich-Ebert-Stiftung would like to make a contribution to the programmatic development of a European market model that combines social justice and solidarity with economic dynamism, the modernisation of society and ecological sustainability. This is why this publication provides several European perspectives and an East Asian »external perspective«, shedding light on the different dimensions of newly defining the relationship between market and state.
- Three areas are of particular importance for re-conceptualising market-state relations: the preservation of the welfare state and social cohesion, the basic assumption of an »active state« and the development of a new socio-economic paradigm for the 21st century which separates social progress from the traditional concept of economic growth.





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Christoph Pohlmann and Anke Hassel

## Market and State in European Social Democracy: Contours of a Progressive Economic and Social Policy for the 21st Century

### The Global Economic and Financial Crisis and the »Third Way«

The global economic and financial crisis not only demonstrates the inadequacy and riskiness of unconstrained market liberalism as a political ideology and economic theory. It also marks a turning point in the development of what European social democracy stands for. There can be little argument that, due to the economic and financial crisis, the attempt by leading European social democrats to re-orient social democracy has ended up a dead-end (see Mulas-Granados and Sommestad). This has been carried out under the guise of the »Third Way« and with an emphasis on the benefits of market liberalisation within the context of globalisation. Sommestad emphasises that the Third Way, with its fixation on a »new centre«, identified modernisation too closely with economic liberalisation and, in the process, accepted core arguments of the neoliberal side too readily.<sup>1</sup> Examples of this include the relinquishment of public goods through privatisation and deregulation in the hope of efficiency gains through market-oriented forms of organisation, a focus on equal opportunities at the expense of distributive justice, and the conversion of social security systems into rudimentary basic insurance under the suppression of the solidarity principle.

The economic and financial crisis has catalysed a re-evaluation of the relationship between market and state by bringing the state back onto the scene as guarantor of the economic and social order. Industrialised countries all over the world have implemented this strategy and, to facilitate it, accepted a massive increase in public debt. At the same time, the economic crisis has accelerated the political crisis of European social democracy, although this seems a paradox to many observers, and the social democratic parties have lost voters both to the right and to the left. Evidently, the economic and social policy pragmatism adopted by European social democrats is neither going to win over those disappointed, financially disadvantaged people at the margins of society nor a majority of progressive minded voters in the centre.

1. For a detailed look at the »Third Way« and the influence of this political movement within Britain's New Labour, see the commentary by Mark Wickham-Jones in this volume.

European social democracy therefore finds itself confronted with the task of developing a logical counter model to market liberalism. The Third Way was, after all, an attempt in this direction, but no further effort has been made to date. An alternative plan must be sufficiently concrete to be implemented in practical, future-oriented policies in various national contexts, as well as at the supranational level.

Laurent Baumel writes from a French perspective, »Of all the questions on the renewal agenda, the most decisive for the redefinition of the Left today is the question concerning the relationship between market and state«. This also applies with regard to the confrontation with neoliberalism, which at its core addresses the relationship between market and state. The commentaries by social democratically inclined authors, written from various national viewpoints and appearing in this publication, indicate a certain degree of common ground with regard to the further development of a social democratic platform. But they also illustrate European social democracy's ongoing search for its own meaning.

Despite their different perspectives, the commentaries concentrate on three areas which are of particular significance for the development of a progressive economic and social policy, subject to a redefinition of relations between market and state for social democracy:

- (1) the preservation of the welfare state and social cohesion;
- (2) the basic assumption of an active state; and
- (3) the development of a new socio-economic paradigm for the 21st century which separates social progress from the traditional concept of economic growth.

### Preservation of the Welfare State and Social Cohesion

The Western European welfare state is, in all its national variety, an achievement of civilisation and a major contribution to the socially responsible regulation of the market economy. Social democrats and trade unions played a decisive political role in its achievement and despite increasing social inequality, the system greatly contributes



to social peace in Western European societies. This has once more become evident in the economic and financial crisis. However, in the past 30 years the welfare state has been put under increasing pressure, mainly due to demographic developments (pension and health care systems) and the transformation of labour markets at the European and global levels (relocation of production, development of the service economy and women's employment participation). The response to this has largely involved the more or less radical application of market liberal policy measures: privatisation of public services, cutbacks in social security systems in favour of private provision and wage restraint. At the same time, social inequality with regard to both income and assets has increased significantly.

These developments were not inevitable but are rather the consequences of political decisions. To that extent, they can be changed and, at the very least, the burden can be distributed more fairly throughout society. Social democracy can emerge as the political force which actively defends social achievements and takes up the sword for social cohesion. The economisation of all areas of life, both public and private, is increasingly perceived as problematic, not least because the private provision of services has often not lived up to expectations. That applies both to services of general interest and funded social insurance. The financial and economic crisis offers social democrats, as well as trade unions and civil society, an opportunity to highlight the value of social cohesion and areas of life which are not organised on a market basis.

## The Active State

The economic and financial crisis has compelled the state to intervene deeply in the economy. The state has been activated against its will. In the next few years, the new role of the state with regard to the market will have to be further developed. For social democrats, the role of the new »active state«<sup>2</sup> is of particular significance in three areas: social policy, industrial policy and the regulation of markets.

2. With the notion of the »active state« we are taking up related ideas presented by Ernst Hillebrand (Hillebrand 2009) and Patrick Diamond and Roger Liddle (Diamond/Liddle 2010).

## The Active State and Social Policy

The free and globally networked market economy and the open and modern form of society continue to develop dynamically. Accordingly, social policy in a social market economy must constantly be adjusted to changing socio-economic realities. In the 1980s and 1990s – that is, after the fleeting apex of social democratic reforms in the 1970s – Western European social systems were unable to prevent both mass unemployment and social exclusion, despite rising social spending. The efficiency problems of a welfare state too fixated on the provision of support and redistribution, in turn, cleared a path for neoliberals to impose cutbacks and privatise social services.

The active social state should therefore set its sights on the facilitative dimension of social policy. This links up with the notion of the preventive welfare state. This approach is based on a broad understanding of social policy which, above all, regards education policy – from early childhood through school and vocational training to university and vocational further training – as the key to empowering as many members of society as possible to shape their own lives. But this focus on education is not enough: better reconciliation of work and family life, facilitation of employment tailored to older people, an active labour market policy with more emphasis on support than on the imposition of conditions, and guaranteeing the provision of services of general interest are also essential.

If the welfare state is to be preserved, the consent of the broad middle classes is indispensable. Services should not be limited to combating poverty, but also seek to facilitate social participation across the board. People are willing to pay for the welfare state if they themselves benefit from its services and if the welfare state proves its worth to society as a whole. For that reason, it is also important to prevent the permanent establishment of a new social »underclass« which does not share in social progress (cf. Györi/Desseffwy 2010: 5). Here, energetic activation on the part of the state in cooperation with, for example, welfare organisations or private foundations and initiatives comes into play.

As the 21st century unfolds, widening access to the various dimensions of the knowledge society for as many people as possible will be of particular importance. An active social policy helps enable people to take charge of



their own lives, via properly functioning collective systems of security and facilitation.

### The Active State and Industrial or Sectoral Policy

Although the market is potentially the most efficient allocation mechanism, it does require regulation, since it does not regulate itself. On the one hand, the active state is tasked with ensuring competitive conditions for private sector companies (cf. Baumel 2010: 5). This includes public investment in infrastructure. On the other hand, the state should be an active player in the economy which, by means of incentive and sanction mechanisms, not only guarantees fair competition, but also participates in the shaping of future »megatrends« (on this see the contributions by Baumel, Gyori/Deseffwy and Mulas-Granados in this volume). Examples include the promotion of environmental technologies and measures to increase energy efficiency, as well as the expansion of high quality services, especially in the areas of health and care. An active, social democratic economic policy should show a clear commitment to the real economy, as opposed to the financial economy, and strengthen it, among other things with appropriately targeted taxation. This applies particularly to the middle classes. The one-sided orientation of economic policy towards financial services and the financial sector overall, as in the UK, is no model for a renewed social democratic economic policy in Europe.

### The Active State and the Regulation of Global Financial Capitalism

The enormous increase in the importance of the global financial economy as against the real economy is at least as much the result of state failure as of the failure of market mechanisms. Ultimately, it was political decisions that made possible successive deregulation of the financial markets, the supply of liquidity, the spread of highly speculative financial transactions, excessive pursuit of returns and the formation of speculative bubbles. It is not just that social democrats can exploit this for electoral purposes; they have a real responsibility to put right what has gone awry in recent years. The regulation of financial capitalism at European and global level must be considered and hence, it is also a task for international social democracy (cf. Gyori/Deseffwy). Apart from that, this also represents a valuable starting point for tackling glo-

bal issues such as climate change, poverty and underdevelopment. By taxing financial transactions much could be done to expand social security systems and to fund measures against climate change in developing countries (cf. Busch 2009).

### Sustainability as the Socioeconomic Paradigm for the 21st Century

Neoliberalism was able to dominate the professional economic and political-ideological debates because, in the wake of the collapse of »real existing socialism«, it offered a logical interpretation of globalisation (cf. Sommestad 2010). It also provided a political reform and adjustment programme. Its dominance was so strong that social democracy worldwide endorsed its basic assumptions and, via the Third Way, sought to reconcile it with fundamental social democratic values. European social democracy will be able to counter the re-emergence of market liberalism in the debate only if it is able to develop its own socioeconomic paradigm for the 21st century. Such a paradigm must furnish an interpretation of the economic, social and environmental challenges of a further globalising world and, at the same time, make it possible to develop concrete policies.

Such a paradigm could consist of a **comprehensive concept of sustainability** of the kind developed by Carlos Mulas-Granados, from a Spanish perspective:

This new »Sustainable Way« of social democratic discourse should put the emphasis on achieving a socioeconomic model that is economically, socially and environmentally sustainable. *Economic* sustainability is about trying to ensure that future generations inherit more assets than liabilities; *social* sustainability is about future generations enjoying more opportunities than they have today; and *environmental* sustainability is about future generations having a creative instead of a destructive relationship with nature. (Mulas-Granados 2010: 3)<sup>3</sup>

It therefore involves the combination of economic, social and environmental sustainability. The compatibility of all three dimensions justifies the Social Democrats' claim to be a progressive major party.

3. The same applies to Lena Sommestad in her contribution with reference to the Brundtland Report (Sommestad 2010).



**Economic sustainability** in the abovementioned definition suggests that social democracy must rethink its traditional approach to growth with a view to developing an up-to-date concept of individual and societal progress. »New growth« in order to achieve societal progress, in this perspective, can no longer be understood merely as GDP growth, but must strongly bring to the fore hitherto neglected dimensions, such as quality of life and environmental externalities.<sup>4</sup> Social democrats should consider the development of a new concept of growth and progress as their key task because both conservatives and Greens are already trying to capture the high ground in this debate – potentially with great success, in particular among the urban »postmodern« centre.

**Social sustainability** requires an active and preventive social policy.

**Environmental sustainability** is a hotly disputed issue in politics today. For Greens, it is the essence of their »brand«, while conservatives will in future step up their efforts to seize hold of this topic in terms of their core values as the »preservation of Creation«. For social democrats, the opportunity arises to seize upon the environmental dimension of sustainability as an economic and social issue for the future. Job creation in both domestic- and export-oriented businesses through the promotion of environmental technologies and measures to increase energy efficiency are one example. In addition, this is one of the few policy fields to which social democrats can point with pride in the recent past.

This inclusive concept of sustainability offers the opportunity for social democracy once more to be taken seriously as a political force which stands for the seizing of opportunities and social progress. To that extent, this concept of sustainability is also compatible with the notion of social security, which social democrats have traditionally supported and is a key concern of traditional social democratic voters from the working and lower middle classes.

A new, progressive socioeconomic paradigm can no longer be confined within a national framework, however. »State« in the debate on »market and state« is no longer solely the nation state. The testing of new govern-

ance mechanisms beyond the nation state will determine the feasibility of the active state.

At least three concrete policy reform projects emerge from the inclusive approach to sustainability on a global scale: **economically**, the regulation of financial capitalism; **socially**, combating poverty and exclusion, principally through mechanisms of global redistribution and the extension of social security; and **environmentally**, the project of a »global green New Deal« (cf. Sommes-tad). The latter could be the beacon project of a renewed social democracy if it was able to combine all three dimensions of the new social democratic ideal-model of market and state outlined above to point the way forward.

## Civil Society and Alliances

The fact that European social democracy has not yet been able to develop its own take on globalisation to challenge that of market liberalism is also related to the continuing slippage of the social democratic anchor in society. One reason is long-unfolding social trends, such as individualisation, a trend towards short-termism in civil society activism and the diminishing ability of large organisations to bring people together. At the same time, traditional allies, such as the trade unions or welfare organisations, have broken away or become weaker. In addition, social democratic parties have not yet really taken up the challenge of new social phenomena, such as environmental and social initiatives.

In this way, social democracy risks losing not only its core voters among organised labour or the unemployed but also the urban educated middle classes. The latter, in particular, would be well disposed towards social democratic policies based on inclusive sustainability (cf. Sommes-tad). The intellectual impoverishment of European social democracy is also the result of its failure in recent years to engage with a range of social groups from whose milieus and creativity it had, in previous times, drawn considerable ideological sustenance.

The revival and formation of various alliances and networks in society is therefore essential both for the development and the implementation of a new social democratic interpretation of the relationship between market and state (cf. Hassel 2009: 3). The relationship between

4. See Stiglitz, Sen, Fitoussi: Report by the Commission on the Measurement of Economic Performance and Social Progress, [www.stiglitz-sen-fitoussi.fr](http://www.stiglitz-sen-fitoussi.fr).



market and state cannot be determined without civil society.<sup>5</sup> Numerous approaches to the indirect regulation of markets through consumer behaviour (fair trade) and political initiatives (for example, in the area of human rights) come into play here. Dialogue with new civil society organisations and socially relevant enterprises would serve as the point of departure for anchoring political parties in society and social change. Social democracy can actively drive change by supporting civil society initiatives for development, the environment, civil rights and families.

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5. See the contribution by Hannes Mosler.



Carlos Mulas-Granados

## From the »Third Way« to the »Sustainable Way«: A New Paradigm for Progressive Politics in the Post-Crisis Era

The consultation process launched by the Friedrich-Ebert-Stiftung on the relationship between market and state, based on Professor Hassel's background paper, offers a stimulating context in which to tackle many of the crucial questions facing social democracy today. This short paper, however, will concentrate on the following three questions: (i) Why do most analysts think that social democracy is in crisis? (ii) What might be the leitmotifs and key concepts which could help social democracy to fashion a new hegemonic discourse? (iii) What roles should be allocated to market and state in this new discourse?

### Why is social democracy in crisis?

Let me start with my view on why many analysts think that social democracy is in crisis. Since the economic crisis started, progressive intellectuals have shared with progressive politicians a sense of injustice because conservative forces have had more success than centre-left parties in most elections. They seem to face the following paradox: since the crisis arose as a result of the neoliberal economic paradigm, why have voters not turned to social democrats to find an exit strategy?

Five reasons can be discerned, common to many social democratic parties in Europe, each rooted in the shortcomings of the Third Way.<sup>1</sup>

1. European social democrats thought that they had a monopoly on offering safety-net solutions and welfare rescue packages to those affected by the crisis. Although the public provision of welfare policies was a crucial ideological difference between social democrats and conservatives for many decades in Europe (and still is in, for example, the USA), today the welfare state is part of the institutions that define our democracies (as much as elections or an independent media). As a consequence, those parties that were in government when the crisis hit (most of them centre-right) let the welfare state do what it was designed to do. Social democrats then reacted as if they

had been robbed of one of the core items of their agenda, when they should have understood that the ideological battle in Europe is no longer about rescue packages (which are institutionally guaranteed), but the design of a differentiated reform agenda based on an alternative economic paradigm for the future.

2. It is with regard to this alternative economic model that European social democrats have made a poor job of defining what they stand for or how it differs from conservatives. The Third Way tried to reconcile progressive thought with the market economy, individualism and globalisation. This helped Bill Clinton, Tony Blair and Gerhard Schröder to establish political hegemony in an era of conservative dominance. All three projects were egalitarian, but in rejecting many signature social democratic policies they made it possible for conservatives to blur the differences between the two. Moreover, the social democrats' current difficulties in defining an alternative economic paradigm stem from gaps in Third Way thought, most notably with regard to industrial renewal.

3. Social democrats have made a poor job of connecting to the values of voters and thus are struggling to respond to popular anger, which is typically rooted in these values. The Third Way's rejection of ideology was once an electoral strength; it has now become a weakness. Social democratic politicians often suffer from »seminaritis«, treating the political process as a matter of compiling data, evidence and the best ideas. But voters need more than a list of policy positions. Focusing on responsibility and technocratic reform, social democrats appear uninterested in the values and feelings of the working class and emerging progressive constituencies. As a result, they are outflanked by parties to their left and right and by the Liberals and Greens.

4. Social democrats now find themselves confronted by a raft of new policy challenges that the Third Way did not foresee. The Third Way emerged at a time of profound optimism. The end of the Cold War and the dot.com boom led many to believe that ideology (and political conflict) was a thing of the past and that the postmodern economies of the developed world could live on services while consuming goods produced by the developing world. But the entrance of a billion new workers into the

1. The following paragraphs are based on the article *Más allá de la Tercera Vía* by Carlos Mulas and Matt Browne (<http://www.elmundo.es/opinion/tribuna-libre/2009/10/19570138.html>) and the article *What Is Wrong with Social Democracy?* by Matt Browne, Ruy Teixeira and John Halpin, (<http://www.spiegel.de/international/germany/0,1518,652231,00.html>).

global economy has not been without consequences. While the benefits of globalisation have been broadly distributed, the costs have been born by specific social segments, usually working class communities that once formed the base of social democratic parties. These trends have been exacerbated by the current crisis and social democratic parties have failed to offer any convincing response. Add growing concerns about immigration, crime and Islamic terrorism, and European electorates have become vulnerable to a politics of fear and populism. Social democrats are currently trapped between appearing tone deaf – singing the virtues of globalisation or multiculturalism without admitting their difficulties – or alienating part of the electorate they need to win office. On the economy and immigration, their heartland vote is tempted by the emotional messages of right- and left-wing competitors; if they use the same language, however, they lose support among »ethical voters«.

5. Social democrats have failed to update the way they do politics. The appeal of many new ethical or progressive movements is that they are open and less hierarchical. The days of a command and control structure that manages the 24-hour news cycle and policy and message development are gone. The advent of new social media and the »blogosphere« make such an approach impossible. Moreover, voters are now less deferential and want to play a more active role in the political process.

## What would be a new winning paradigm for social democracy?

While the Third Way was an essential stage in the renewal of social democratic thinking, most notably because it reconciled an electorate acclimatised to conservatism to the possibility of progressive politics, it has clearly had its day. If social democratic parties are to recover, then they must move to a new phase. In my opinion, this new phase should be characterised by the search for a new socioeconomic paradigm which goes beyond the current static view of the world in which partisan politics is about the distribution of power and/or income between different socioeconomic groups. In the years to come, progressives should define themselves in relation to conservatives in dynamic terms. When change occurs, conservatives tend to reject it or block it: progressives, by contrast, should define themselves as the shapers of that change to make it better for the majority. Even

in those cases in which moderate conservatives (such as Cameron in the UK or Merkel in Germany) are skilful in addressing issues of change, they tend to push for reforms that make their societies more efficient, but not more equitable. Taking this into account, the difference between reformist conservatives or liberals and dynamic social democrats would lie in the constant endeavour to improve social mobility. In the future, use of the state (that is, new public policies or new civil rights) to guarantee a ladder of opportunity for social mobility in an ever-changing environment should define progressives.

In a rapidly changing world, social democrats have a lot to gain if they move from horizontal to vertical competition.<sup>2</sup> This will, of course, require a clear view of what it is that social democrats want for the future. Merely advocating change could be counter-productive if the discourse is only about uncertainty, empowerment and adaptation, because most voters are risk-averse. This is why the social-liberal approach that characterised the Third Way has been pushed aside by social-populist approaches during the crisis.

The new social democratic discourse should clearly present a new socioeconomic paradigm. As I see it, where the »Third Way« advocated efficiency and growth (in common with conservatives), the new paradigm should aim at maximising sustainability and prosperity.

This new »sustainable way« of social democratic discourse should put the emphasis on achieving a socioeconomic model that is economically, socially and environmentally sustainable. *Economic* sustainability is about trying to ensure that future generations inherit more assets than liabilities; *social* sustainability is aimed at helping future generations to enjoy more opportunities than they have today; and *environmental* sustainability involves

2. Horizontal competition is traditional electoral competition based on the left–right divide, usually linked to discourses of class cleavage. Vertical competition goes beyond that traditional concept and assumes that, in the future, every citizen could be both a worker and an owner, a wage-earner and an entrepreneur (at different stages of life or even simultaneously). For example, within the framework of vertical competition, those who want to maintain acquired privileges will be confronted by those who want to gain new privileges for those that do not have them in the new circumstances. There are social groups both on the right (such as wealthy families or companies) and on the left (such as trade unionists) which act conservatively, and which would confront electoral competition from innovative and excluded workers (such as immigrants, women or youngsters). Policies that would be considered reactionary by those who act on behalf of corporatist interests would be considered progressive by other groups in society which take a dynamic perspective. This would be true for a number of important debates, such as pension reform, climate change, labour market activation and so on.

future generations developing a creative instead of a destructive relationship with nature. Again, some moderate conservatives might take this approach. But the social democratic concept of sustainability is not only about progress. It is about a balanced improvement in these three areas of sustainability. While conservatives would give pre-eminence to economic sustainability as a necessary condition for pursuing social and environmental sustainability,<sup>3</sup> social democrats understand that the three dimensions feed back into one another. In addition, since conflict-free change is impossible, the social democratic concept of sustainability would be characterised by constant use of public instruments to redistribute both resources and outcomes.

As a consequence of this ideological shift, political disputes and controversies would be reframed to fit this new vertical, intergenerational and dynamic paradigm. The old debates about efficiency vs equity, growth vs welfare and freedom vs equality would be redefined in terms of their relative contribution to a more sustainable society. For example, programmes that provide care for children or the elderly financed by corporate taxes can improve gender equality for working mothers, boost the welfare of the disabled and enhance aggregate market efficiency if they incorporate women into the labour market who have higher productivity rates than those of social workers.

## What role should the market and the state play in this new paradigm?

In the context of this new paradigm, social democrats should not go back to the old disputes about the static role of market and state. In this respect, I do not agree with Professor Hassel's view that we should again advocate a stronger role for the traditional state over markets. In my opinion, the debate should be reframed as follows. On the one hand, markets should be reformed so that they can provide private goods in a sustainable manner. This can be done through new regulation and new systems of incentives and other stick-and-carrot mechanisms. On the other hand, the state should not only

3. These different concepts of sustainability are clearly illustrated by the two versions of the Lisbon Strategy. While the social democratic approach of the original Lisbon Strategy in 2000 put the economic, social and environmental agendas at the same level, the reformed Lisbon Agenda in 2005 followed a 1+2 approach, as defined by the conservative President of the Commission, José Manuel Barroso.

regulate this new framework, but should reform itself so that it is able to make up for market failures in terms of the new sustainable goals.<sup>4</sup> Most importantly, however, the state of the sustainability paradigm should be able to provide specific public goods which guarantee the inter-temporal equilibria that the new paradigm needs.

As a consequence, the welfare state should be adapted to a new logic. This new logic is that of a Dynamic State, which is a new form of Welfare State in which two basic changes should take place: (1) a change in means and procedures to become more dynamic and more sustainable in its internal functioning and to become a forward-looking agent that guides private agents and generates positive externalities in its relationship with citizens, workers and businesses; (2) a change in goals: the dynamic welfare state will not only cover traditional risks associated with the labour market (such as illness, disability, aging or unemployment), but will seek to cover the new risks associated with permanent change (such as the risk of being trapped in a transition period and therefore excluded from society), and the risks associated with unsustainable changes (such as financial bubbles, migration movements or environmental catastrophes).

In practical terms, the idea of a Dynamic State as a forward-looking agent would imply a preventive welfare state for health policies (for example, through programmes to fight child obesity or smoking). It would also imply an active empowering state in education (for example, through programmes that force working employees to learn new skills, even while still employed). Finally, it would imply a strategic state in industrial policies (for example, through programmes that stimulate certain key sectors of the future, such as renewable energy, space industries, biotechnologies, electric cars, entertainment projects and so on).

Summing up, the recent crisis has proved that the state has been very successful in playing its key role as the pro-

4. For example, the Dynamic State, as defined in the next paragraph, should play a leading role in a new definition of GDP that includes not only material output, but also social cohesion and environmental quality. In addition, the Dynamic State should play a key role in addressing an important market failure related to the provision of environmental capital (for example, through active reforestation, water management policies and so on). Finally, the Dynamic State should introduce new incentive schemes that promote sustainability. For example, the IDEAS Foundation has recently proposed a new right to energy citizenship (so that every citizen can produce and distribute energy) and a new system of carbon credits for households (whereby those who exceed the household limits pay more taxes and those who consume less get a tax refund).



vider of safety nets, since it has rescued both the financial markets and those citizens most affected by the subsequent economic crisis. Now that we see the end of the crisis, and in the context of a transition to a new socio-economic paradigm, the Dynamic State should play two major additional roles: it should re-regulate markets to operate in favour of these sustainability goals and it should function as a strategic actor, investing in the most dynamic sectors and creating new opportunities for all. Given the debt burden that the recent crisis has generated, this may require the generation of new sources of revenues, but if they are properly managed (for example, a tax on financial transactions, carbon taxes, new inheritance taxes or regulation of tax havens) these same policies could be an important part of the reforms that we need for a more economically, socially and environmentally sustainable society.



Laurent Baumel

## Market and State: A French Perspective

### The Left and Capitalism: From Revolution to Reform

Over the last three decades, European Social Democracy has been confronted with historic events and sweeping changes: economic globalisation, the fragmentation of traditional social classes, an ageing population, dramatic climate change, the upsurge of cultural individualism. These have profoundly disrupted Social Democracy's ideological basis, as well as its electoral programme, making it essential to modernise Social Democracy.

If we turn our attention to the questions that therefore appear on »the agenda for renewal«, the issue of the state and the market is among the most decisive when redefining the contemporary Left's identity. One major factor here was the collapse of »real existing socialism« in the final stretch of the 20th century. Social Democracy and Communism went their own separate ways at a very early point in their development over the essential question of democracy and civil liberties. In France, Léon Blum stated clearly rather early on, at the 1920 Tours Congress, that these vital principles are utterly inviolable, and the collapse of totalitarian regimes in Eastern Europe some seventy years later would confirm that he had made precisely the right choice. However, this schism with Communism, which played such a vital part in the birth of Social Democracy, was not per se a decision to move away from Marxism. For many years the reformist or Social Democrat Left, in France as in many other countries across Europe, continued to define itself through an ideology of »breaking« with capitalism, coupled with a proclaimed desire for a greater or lesser degree of »collectivisation« of the economy. For many years the welfare state was conceptualised, at least officially, as a transitory compromise, a phase in »class struggle within the necessary transition to a socialist society«.

After the definitive collapse of the planned economies, Social Democracy can no longer maintain this position, not just in practical terms but also in its discourse. If the Left is to be consistent today, it must acknowledge the global superiority of the capitalist market economy, in other words, the supremacy of a mode of economic organisation based on the direct interest of producers in responding to consumers' needs, with two essential pillars – the law of supply and demand, and private owner-

ship of capital. This recognition obviously has an impact on relations between the state and the market: it means the Left has no justification for failing to take an interest in the smooth functioning of the market economy. On the contrary: this realisation compels the Left to integrate the needs and potential reactions of private investors into its strategy and, in the light of this, to act with an inevitable pinch of economic »realism«. This must compel the Left to concentrate on fostering competition, which is crucial to the proper working of the system, as well as focusing on the conditions affecting optimum utilisation of capital. Rather than refusing point blank to support »entrepreneurs«, as has been the case in the past, the modern Left must take a stance in favour of industrial risk-taking to counteract rent-seeking, to cite just one example.

Whilst it perhaps took a little longer for this new approach to be taken on board in France than for example in Germany or Great Britain, no doubt due to a more deeply entrenched »Marxist super-ego« in France, it is now a fundamental part of the common course adopted by Social Democracy across Europe. It has been incorporated to such an extent that the debate on relations between the state and the market has shifted, moving now more towards a debate on »fine-tuning«.

### Social democratic approaches towards regulating market forces

From the French point of view, we would tend to characterise this internal debate within the Left as being precisely what places Social Democracy, which we advocate, »in opposition« to »social liberalism«, which we reject. Over and above their internal differences, French Socialists tend to believe that the Left must continue to define itself by opposing domination-based interactions and fostering a degree of social equality, as well as believing that this desire for justice still demands a critical relationship to capitalism. In other words, while Marxism's economic responses have proved ineffective, Socialism's fundamental underlying principles continue to include the struggle against economic insecurity, against the potential commoditisation of human labour, together with efforts to combat the inequalities and – as one must add nowadays – the ecological damage caused and perpetu-

ated by the free play of market forces. In the wake of Keynesian thought, the French Left also continues to be convinced that if the market is left to its own devices, it will not function as a rational system, just as current crises have demonstrated; this is due to shortcomings in market coordination, the obsession with short-term profitability and the market's tendency to engender speculative bubbles. Social Democracy's attitude should therefore be defined by a willingness to think through these »contradictions« and to find ways to strike a balance between economic efficiency and social justice, between the interests of capital and the interests of the labour force, and indeed between the market and politics. State »self-restraint« vis-à-vis the market, as cited above, does not signify relinquishing action or submitting to the dictates of capital. Reformist Social Democracy has considerable leeway to establish provisions on regulating capitalism to make it more socially equitable without jeopardizing the equilibria underpinning the market. Businesses and shareholders do not necessarily need to »consent« if Social Democrat political majorities decide to take action, either nationally or across the continent, out of a conviction that the measures adopted are justified by the imperative of social justice, indeed sometimes even by considerations of market efficiency; examples of such measures include strengthening labour law to provide protection for employees, introducing a decent minimum income, taxing profits and capital, state intervention in the economy, and, a fortiori, income redistribution between households or developing public services. Furthermore this approach is compatible with the two historic forms of Social Democracy: Social Democracy in the classical sense of the term, based on the pre-eminent importance of collective bargaining and the organic link between trade unions and »working class« parties, as well as the version found in France, based more on »state control« which still acknowledges the pre-eminence of government power. In any event this would give tangible expression to the Social Democrat ideal of the people's collective sovereignty, which makes it possible to manage the economy and society.

The Social Democrat doctrine should be defined by this capacity for confrontation, this wish to introduce a whole panoply of rules and mechanisms based on democratic leverage to restrict or correct the free play of market forces; this is what distinguishes this doctrine clearly from economic liberalism, which makes entrepreneurial freedom sacrosanct and hence opposes any kind of rules or

levies for businesses. However, debate on this issue has raged through the European Left and it is undoubtedly still a moot point. It is interesting to note that in this global movement of doctrinal redefinition, part of the European Left, at the instigation of Tony Blair in particular, has explored the notion of »reconciling« social justice and economic efficiency. The attention paid to »equal opportunities« has also proved a useful spur to pondering this crucial issue, previously neglected by a Left that was reluctant to recognise »equitable inequalities« and to sanction bourgeois »meritocracy«. Furthermore »enlightened liberalism« may in practice lead to policies very similar to those pursued in the name of more hard-line Social Democracy. However, these theoretical contributions have some limitations: the »compatibility« of the economy and the social sphere does not eradicate the tension between these two poles, whilst – as Dr Anke Hassel reminds us – equal opportunities are virtually inseparable from social equality. Above all, even the most reformist French Socialists, and even those most favourably disposed to the notion of the Third Way, believe that proponents of »adapting« to the new state of affairs, who advocate endeavours to break with the Left's »classic« software, have shown excessive zeal in adopting a »wrecking ball« approach: the equilibrium within the Left's identity has been sacrificed to a superficial logic of ideological »modernity« characterised by a number of leitmotifs. These include systematic criticism of state intervention in the economy, an emphasis on supply-side policy and tax breaks, an acceptance of precarious employment scenarios as a condition of full employment, not to mention a focus on equal opportunities viewed in isolation and contrasted rather too enthusiastically with the notion of more equal income. Further examples are the critiques of the excesses of the social state in its role of redistributing wealth, condemnation of a benefits-obsessed mindset, and an explicit refocusing of electoral strategies to concentrate on the middle classes. In their famous June 1999 manifesto, Tony Blair and Gerhard Schröder proclaimed: »*Government must do all it can to support enterprise but never believe it is a substitute for enterprise*«. Ten years later, confronted with the crisis of capitalism and the disgruntlement with the Left many workers have expressed in elections, Social Democracy in Europe must move on from this slightly peculiar moment in its history and re-establish a focus on the fundamentals, although of course adapting policy objectives and instruments to changed circumstances. To cite Anke Hassel once again: »*The Third Way will no longer help us*

*here, given its one-sided emphasis on the positive aspects of liberalisation«.*

## Proposals for developing a social democratic market model

Numerous »realms« can serve as illustrations for the new ways in which the state – or, in a more general sense, the public sector, understood as the ensemble formed by the central state and local authorities – can intervene in order to regulate, contain, »tame« the capitalist market economy. Naturally many subjects fall within the ambit of reinforcing global governance, first and foremost the macroeconomic approach to the crisis or the regulation of financial systems, and, to a certain extent, the need to devise a regulatory framework in response to the climate change challenge. The issue is not how to mobilise and renew the socially-minded state's instruments; the real question is how to extend this process to the international arena. However, here some national or European options for action should be cited:

New Social Democracy would benefit, in the first instance, from taking responsibility for all the elements relevant to maintaining and developing a non-commoditised sphere within society. This philosophical approach may lead to an emphasis on the importance of donations and non-remunerated work in our society, combined, for example, with greater support for the non-profit sector and associations. In the light of the frenzied ideology of competition and privatisation now spreading across Europe, it means, in practice, advocating that society as a whole should fund certain goods or services, such as for example health care, education, childcare for young children, culture or transport; access to all of these, considered as a fundamental individual right, must be guaranteed and protected, and should not be dependent upon the criterion of profitability or hinge solely on the resources of an individual or family. Obviously one of the major challenges for European Social Democracy is preserving its own social model, particularly at a time when President Obama is finally managing to reform his country's health care system. Health insurance and pension systems must be adapted in Europe too in order to respond to demographic change, as well as to the positive developments in the realm of greater life expectancy and longer schooling. However the Left in Europe must continue to embody the pre-eminent significance of a collective guarantee

not to relinquish social protection to private insurance companies.

Labour law is the second area in which Social Democracy needs a revitalised, detailed strategy. This does not signify rejecting the notion that the amount of work may adjust to fluctuations in the business cycle in various sectors of the economy, nor indeed attacking interesting notions such as »flexicurity«, but instead means demarcating crucial boundaries: whilst labour is something that can be bought and sold on a market, it is essential to recall that humans themselves are not »disposable« goods. Considering the situation from this angle, firms facing economic »insecurity« must not forget how insecurity affects employees, who cannot build up anything solid in their own lives without a minimum degree of stability in their jobs. Similarly, subordination, a defining factor inherent to »companies«, does not justify domination. Accepting a specific place within a hierarchical relationship in the name of productive efficiency – irrespective of whether this benefits managers, or, ultimately, shareholders – does not imply that employees' physical or mental equilibrium should be called into question in the course of their work. At a time when employees face worsening conditions, Social Democracy's traditional voters expect it to provide an appropriate response. We should not turn up our noses at the »Corporate Social Responsibility« option. However, the socially-minded state must shoulder its responsibilities, for example by imposing financial penalties if businesses take advantage of precarious employment relations, or by reinforcing the responsibility of individual companies for redundancies and accidents in the workplace.

Finally, a renewed emphasis on structural intervention in the economy by the state is the third area that offers scope to affirm the Social Democrat paradigm vigorously. The objective is not to return to a »nationalisation« policy, but instead to realise that the foundations of an industrial policy in the broad sense of the term are far from having vanished. Relevant issues in this context include shouldering the cost for economic »externalities«, such as expenditure on measures that strengthen the intellectual and technological capital of the whole economy, like staff training or research, along with support for investments that foster innovation or have a beneficial social impact, but which the market deems too risky or insufficiently profitable. Like Anke Hassel, we are thinking in particular of the need to stimulate development in the



caring professions, which not only offer a new source of economic growth but also provide a response to society's evolving needs.

Other points could of course be added to this list of emerging challenges: redistributing wealth through the tax system, welfare benefits, regulating wage differentials, as well as – absolutely crucial – challenges in the sphere of equal opportunities, to be tackled through education or housing policy. All of these points illustrate the same idea: modernity is not incompatible with being faithful to one's political roots. Acknowledging the existence of the capitalist market economy does not in any way imply that the state will disappear – on the contrary. We need to invent a new way of fitting the whole system together, devising a new logic to the way we intervene, one that is conducive to getting to grips with contemporary challenges. As Anke Hassel asserts with reference to the fundamental topic of the sociological basis, this is an essential prerequisite if Social Democracy is to regain a hold on power at the start of the 21st century.



Lena Sommestad

## Economics of Sustainable Development – A Progressive Alternative to Neoliberalism in the Twenty-First Century

Social democrats have been forced to admit that modernisation, in the form of increasing globalisation and liberalisation, is unavoidable. This statement is made by Anke Hassel in her policy paper *Reconsidering the Social Contract after the Crisis*.

Hassel observes that the radical ideology of neoliberalism must be toned down in the wake of the financial crisis. However, she does not question the basic economic pillar of neoliberal ideology: economic liberalisation as the key driver of economic growth. She also uncritically accepts the neoliberal assertion that our society has changed so radically in recent decades that social democrats have no option but to »understand and respond to the requirements of economic and social change« (Hassel 2009: 2).

In this comment on Hassel's paper I argue that the uncritical recognition of neoliberal growth theory constitutes a basic weakness in her analysis. I also claim that the social and economic structures of modern society do not differ so radically from the past that basic social democratic ideas concerning the relationship between state and market need be abandoned. Modernisation of current social democratic policies is indeed needed, in view of the new challenges at home and abroad, but modernisation does not equate to liberalisation.

I propose an alternative to the neoliberal paradigm: the concept of sustainable development. In recent decades, demands for sustainable development have constantly challenged the predominant discourse of neoliberalism, in particular in global negotiations on the environment and development. However, these debates have been largely ignored by European social democrats, who have seemingly been more engaged in adapting to neoliberalism. A salient exception is the very first advocate of the concept of sustainable development: former Norwegian prime minister Gro Harlem Brundtland.

### Sustainable Development – A Point of Departure

»Sustainable development is development that meets the needs of the present without compromising the ability of

future generations to meet their own needs« (WCED 1987).

This quotation summarises the idea of sustainable development, launched by Gro Harlem Brundtland in *Our Common Future* (1987). The Brundtland report marked the start of a global movement combining demands for environmental protection, poverty eradication and social equity. It laid the groundwork for the 1992 Earth Summit in Rio, followed by the 2002 World Summit for Sustainable Development in Johannesburg.

Today, sustainable development is most often discussed in connection with environmental topics, such as climate change and loss of biodiversity. However, the political dynamite of the concept lies in the extension of sustainability criteria to the spheres of economic and social development. Already in the Brundtland Report it was pointed out that even a narrow notion of physical sustainability requires a concern for social equity, not only between generations but also within them. Similarly, Gro Harlem Brundtland challenged the neoliberal paradigm by calling for changes in the quality of growth. In her view, sustainable development requires that societies meet human needs both by increasing productive potential and by ensuring equitable opportunities for all (ibid).

I would argue that *Our Common Future* can still serve as a platform for the renewal of social democratic thought. The concept of sustainable development has attracted great interest worldwide. Brundtland's report is firmly based in social democratic intellectual traditions and a growing body of research is providing empirical support for her approach.

### Sustainable Development versus Market Competition

A key message in the global debate on sustainable development is that markets must be restricted in order to ensure sustainable patterns of growth and development. Although market competition has huge potential to bring about efficiency, diversity and innovation, there is a great risk that unregulated markets will result in short-sighted exploitation of natural and human resources. The

message is that market economies cannot secure sustainable economic prosperity unless measures are taken to maintain and enhance the productive potential of public goods such as ecosystems, infrastructure, health, knowledge and social cohesion. All development must be sustainable development.

The plea for limits to markets is an ideological cornerstone that connects contemporary discourse on sustainable development with social democratic traditions. It went without saying for the early European labour movement that labour must be protected from the free play of market forces to prevent economic exploitation and to secure a family wage. Protection was ensured by way of trade unions which succeeded in setting limits on competition. To this day, the rational restriction of competition has remained a foundation stone of social democratic labour market policies.

Similarly, there is a strong connection between Brundtland's demand for long-term sustainable development, based on social equity, and the long-term policy agenda of European reformist social democrats. This connection is particularly evident with regard to the Swedish Social Democratic Party, which managed to establish a welfare state based on progressive priorities in the wake of the Great Depression.

The main lesson of the Great Depression was that markets alone cannot secure long-term economic prosperity. In Sweden, this triggered early adoption of macroeconomic demand management along Keynesian lines, launched by economists of the Stockholm School of Economics. The Social Democratic finance minister, Ernst Wigforss, pioneered the new approach. Swedish macroeconomic demand management was later facilitated by the establishment of the Bretton Woods global monetary regime (1944–71). »Bretton Woods«, as it came to be known, gave priority to full employment policies over free global movements of capital and represented a strong response to the failure of global financial markets during the inter-war years.

As for social policy, it can be argued that the Swedish welfare state represented an early breakthrough for ideas of sustainable development. From the 1930s, social scientists Gunnar and Alva Myrdal played a key role in this development. They pioneered analysis of the economic impacts of population ageing, human capital formation

and women's role in work and family. In a much debated book on the decline in fertility in Sweden, they argued that successful economic development demanded measures to support families with children. An important result of their ideas was progressive social legislation that secured married women's right to work, along with economic compensation for all mothers on maternity leave. In the post-war era, social democratic strands of thought underpinned »productive« social policies aimed at improving public health, housing standards, education and social services, such as care for the elderly and child care. Women's position was improved significantly. Since human capital formation was at the heart of the Swedish growth strategy, so were women and families.

## What New Challenges Do Social Democrats Face?

It is often argued, as in Anke Hassel's paper, that capitalism is in the process of radical change and that this radical change makes former social democratic strategies inadequate. Changes referred to as fundamentally new include the rise of new industrialized economies and the process of »globalisation«.

But is this so? In recent decades, former developing countries have indeed industrialised at a rapid pace. New patterns of trade, migration and capital flows have emerged, reflecting a new economic geography and new global financial institutions.

However, there is little empirical evidence to support the claim that today's global economy represents a new phase in economic history.

As for the growth of global financial markets, they mirror – on a larger scale – the process of globalisation that we know from the era of the gold standard (1873–1931). New countries predominate, but the pattern of growing industrial powers, global migration and recurrent crises is the same.

In fact, what is new in the twenty-first century is not the nature of capitalism but the growing size of the world economy and the weakened position of Europe within it. The former superiority of mature industrialised countries is rapidly fading. Looking ahead, population ageing will further weaken their position. At the same time, environ-

mental degradation is attaining planetary proportions. To deal with environmental degradation in a world still marked by deep economic inequalities is the most difficult challenge facing social democrats in our time.

## Discourses in Conflict: The Rise of Neoliberalism

In parallel to the discourse of sustainable development, neoliberal ideas have flourished since the 1980s. Indeed, extensive acceptance of neoliberal thinking is a hallmark of the late twentieth and early twenty-first centuries. According to neoliberal discourse, efficient markets should replace inefficient government. Cost efficiency and competitiveness stand out as principal values.

Today, neoliberal ideas to a large degree underpin the design of global financial institutions, the Single European Market, public utilities, environmental policies and welfare services. In some countries, such as Sweden, market principles have been deployed even within tax-financed sectors, such as education.

What explains this ideological dominance of neoliberalism? Most importantly, neoliberalism has come to be understood not merely as a policy paradigm but as a correct scientific analysis of contemporary society. Since the 1970s, neoliberal economists and their advocates have succeeded in peddling an attractive story: the story of liberalised markets as key drivers of growth and prosperity. Following the demise of Bretton Woods and a growing dissatisfaction with the Keynesian approach, the neoliberal story was reinforced by powerful historicist rhetoric: neoliberalism as a new and necessary stage in economic history.

## A New Narrative of Growth and Prosperity

In the past few years, however, the neoliberal story has been increasingly challenged. The financial crisis and the climate crisis have cast doubt on its adequacy. At the same time, a growing body of social science research defies the neoliberal paradigm and its foundation stone, market competition, as the key to economic growth. In line with the economic ideas of Gunnar Myrdal, health status and age structure are once again regarded as

crucial predictors of subsequent economic growth. This development should encourage social democrats to develop a new narrative of growth and prosperity, based on the modern economics of sustainable development.

Two Harvard economists, David E. Bloom and David Canning, were among the first to launch health as an important input to economic growth. In an article published in *Science* (2000), they concluded that the impact of health status on economic growth is strikingly large, and that it emerges consistently across empirical, cross-country studies. East Asia in the post-war decades is a particularly illustrative example. According to Bloom and Canning, health investments must be seen as one of the major pillars on which East Asia's economic miracle was based (Bloom/Canning 2000). American economist Jeffrey Sachs pursued a similar argument in his path-breaking report for the World Health Organization, *Macroeconomics and Health. Investing in Health for Economic Development* (2001). This report was initiated by the Secretary General of the WHO, Gro Harlem Brundtland, the pioneer of the concept of sustainable development.

As regards age structure, population ageing in particular has attracted increasing attention. In recent years, it has been shown that youthful populations, with large cohorts of people of working age, tend to promote rapid economic growth, as in East Asia today, while growth rates tend to slow down in regions with ageing populations, such as contemporary Japan or Europe (Bloom/Canning/Sevilla 2003; Lindh/Malmberg 2007).

## A New Progressive Agenda

The growing research on health and age structure is of great significance to social democrats. All in all, a growth narrative based on health and demography strengthens calls for environmental protection, social investment, equal opportunities and gender equality. It makes clear that economic growth does not depend on efficient markets alone, but also on productive investments made in the past.

The current financial crisis, along with the climate crisis, is a window of opportunity for social democrats to launch a new progressive agenda. European countries face a

number of common challenges related to environmental concerns, the threat of climate change, ageing populations, de-industrialisation and deregulated global markets. All of these challenges demand long-term policy responses.

As has been noted by Paul Krugman and others, the time has come to return to Keynesian approaches to job creation and economic growth (Krugman 2009). This is particularly relevant in view of the climate crisis.

Today, a market approach predominates in climate policy. This approach, typically supported by Green and Conservative parties, is closely related to the neoliberal growth paradigm. It includes a strong reliance on market instruments to secure private profits, competition and cost-effectiveness.

In the wake of the financial crisis, the inadequacy of this market approach has become increasingly clear. As economic activity recedes, so do investments in green technologies. Market instruments, such as emissions trading, have failed to deliver. In my view, social democrats should launch an alternative approach, a »Green New Deal«, to speed up the ecological transition. This investment approach should constitute one distinct dimension of a comprehensive policy of sustainable development, and it should not exclude measures of direct state intervention.

As for social policies, the European Union has long called for societal modernisation and social investments to meet the future challenges of ageing populations and de-industrialisation. An important step was taken with the Lisbon Agenda, which included targets for sustainable growth, better jobs and social cohesion.

Anke Hassel observes that in Germany, economic liberalisation has in fact triggered the process of societal modernisation, including women's emancipation and more flexible family policies. This is of course a positive outcome. However, in other welfare states such as Sweden, there is no connection between economic liberalisation and societal modernisation. In Sweden, major reforms to secure women's emancipation and more flexible family policies were introduced many decades ago. In fact, comparative studies on welfare states also show that welfare institutions marked by liberal ideas, such as gender biased welfare regimes in the US or the UK, typically offer weak support to mothers and children (Sommestad

1997). Modernisation can be pursued without economic liberalisation.

## Professions – An Important Political Ally

Anke Hassel proposes that social democrats develop alliances with the broad middle class, the social partners and responsible companies. I agree and want to draw attention to one particular fraction of the middle class: professional groups.

Professions are important to social democrats because they represent, to a large degree, knowledge and values that are opposed to the neoliberal paradigm. This becomes particularly evident in countries where policies of economic liberalisation have been applied extensively. Sweden is a case in point.

In Sweden, market principles now invade all spheres of society, from public transport to child care and education. In this situation, the ideas of efficiency and competitiveness tend to get the upper hand at the expense of traditional professional experience, knowledge and ethics. Efficient markets are mistaken for good governance. The further you go in applying the neoliberal paradigm, the further you go towards a purely economic approach to public affairs.

## Economics of Sustainable Development – An Alternative to the Neoliberal Paradigm in the Twenty-First Century

Gro Harlem Brundtland challenged the idea of liberalisation when she launched her concept of sustainable development. I have argued in this comment that her approach is still valid. It is also more adequate for social democrats than any attempt to reclaim social justice while accepting economic liberalisation as unavoidable.

I am convinced that, until social democrats challenge the neoliberal narrative of economic growth, no renaissance of social democratic politics will occur. In the midst of financial and climate crises, the relationship between state and market should be developed rather than dismantled.

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Tibor Desseffwy und Gabor Gyori

## The State and the Market Economy after the Global Financial and Economic Crisis – A View from Hungary

If we view recent decades as a continuous realignment of power and resources from the state to the market, then there are two ways of interpreting the financial and economic crisis of 2008/2009. On the one hand, it might be a bump in the road towards a more or less completely liberalised market or, on the other hand, it might mark a shift in state–market relations wherein the tendency towards laissez-faire is finally reversed and the state, through a variety of means, recoups some of its lost authority over economic processes. A crucial aspect of the current situation is that the result is not predetermined. Although there are strong forces pulling in both directions, there is no path dependency. Agency and political leadership will play a decisive role in shaping the contours of state–market relations. It follows that, even given its currently diminished power at the European level, social democracy is a key player in determining the evolution of state–market relations. The power to contribute to this process is also an awesome responsibility: social democracy must formulate a vision with regard to the role it wishes the state to play. This ideological-strategic position cannot be drawn up in isolation from social democracy's overall political vision. State–market relations do not exist in a vacuum apart from other ideological objectives or other areas of social life. Hence our conception of how state–market relations ought to unfold must be embedded in an overall political vision that meshes with the demands of a rapidly moving twenty-first century.

In the following pages we will delineate what we expect of the state in the coming century. We wish to remind the reader that constraints of space necessarily make this a cursory review and allow scant possibilities for detail.

### Bringing the State Back in ...

For decades, the conventional wisdom was that markets are self-regulating and politics should not intervene in their operations for fear of putting a spanner in the works. Already in advance of the crisis, some prescient critics adopted a grim view of this narrative, but since the market began to founder in recent years the critical attitude towards unbridled capitalism has moved from fringe to mainstream. But the mills of politics grind slowly, and what is now a widely shared notion – although not a con-

sensus – in politics and public discourse, namely that the state needs to assume a more active role in regulating the market, has not found sufficient expression in public policy so far.

Social democracy must be at the forefront of designing the new public policies that strengthen the state in the areas where it can achieve relevant change. The cornerstones of new state–market relations make sense only if they are firmly embedded in social democracy's overarching strategy of progress and modernisation. The role of the state must be consistent not only with the traditional social democratic values but also with the novel challenges and possibilities that arise with globalisation, scientific and social change, and so on.

Given the quantity of academic literature on the subject and the fact that many of the greatest economic minds endorse a greater role for the state in supervising the economy, we will take this basic position for granted without further elaborating on the fundamental question of whether the state should have greater control of the market. At the same time, it is our view that this does not imply that the state should reassume the stewardship of whole areas of the economy – though it has involuntarily done so to a not insignificant degree in banking – but that it must be a stronger supervisor and monitor in the market, enforcing the interests of the public, shareholders and even the market itself, when necessary.

### ... But Keeping Its Limitations in Mind

Still, there is no need for a fundamental rethinking of the state–market relationship. A dramatic shift, in scope akin to either Godesberg or, say, the French socialist experiment of the 1980s, is not necessary. Recent decades have shown that the fundamental Western balance between state and market yields both the highest possible levels of wealth and the greatest conceivable social security. Radically shifting this balance in favour of the state would jeopardise the wealth attained and thus, in the long term, undermine the basis of the enhanced social security presumably attained thereby. Retrenching the state further than it has been in recent decades would lead to social costs that would make the enjoyment of greater –

and even more unequally distributed – wealth impossible, not to mention the fact that cutting back certain key state services, such as education, would cripple long-term growth and competitiveness. We strongly believe that wealth creation and social stability, while they do require a trade-off in the short term, can only thrive in mutual dependence in the long run. Social democracy must remain keenly conscious of both: the various costs of an unfettered market and the price of an overbearing state that crowds out creativity and free enterprise.

More than ever, the state's role is also to help make capitalism work rather than inhibiting it. A variety of market failures have shown that capitalism needs regulation for its own sake, too, that in many areas it is incapable of self-regulation. The market's predilection for complex financial instruments, for instance, which even many of those who traded in them failed to grasp adequately amplified the need for a(n international) financial authority that understands the risks involved in various types of financial transactions and knows how to ensure that they do not jeopardise the health of the financial markets or the real economy. Beyond the regulation of financial markets, the state must pay careful attention to protecting competition, fighting trusts, cartels and monopolies. Regarding competition and competitiveness as something positive and worthy of protection, as something that serves the interests of the public, is essential to any progressive vision of the future. It does not imply that the spoils of competition may not be redistributed, but it acknowledges that a fair and open competition – which capitalism itself often has a tendency to undermine – benefits the public and provides the tax base for most of the public services offered by the state. The right calls not for a competitive but an unfettered market, and that includes one where the market is left alone even when, for instance, strong players come to crowd out all others – a phenomenon against which capitalism lacks internal protective mechanisms. Especially in those areas where intervention does little to no harm with regard to the efficiency of the market, the state should become pro-active (taxing capital movements internationally, strengthening supervisory boards and capping management bonuses come to mind).

We believe that progressives should embrace (or stick to) a pragmatic attitude towards the state: within the boundaries of responsible public management, politics and administration should be creative and enterprising in

preserving or even extending state responsibilities and capabilities. But at the same time they must be willing to let go of areas where success clearly eludes them. We believe that, in sync with the prevailing trends, the state as an instrument of policy should not be fetishised: the overarching objectives of social democracy – among other things, equality, equal opportunity, social solidarity and so on – should be furthered with the best means available rather than with a single-minded focus on the state.

The present age brings with it a certain degree of state powerlessness that we have to come to terms with. With so many domestic developments, especially in the economic arena, determined by global processes, the grip of the state is inescapably weaker than it was earlier. At least on the national level, the state can no longer exert the control it did only a few decades ago. We must not make the mistake of assuming that a larger state by default has a greater reach or impact; in many respects, the Hungarian state, which is large but weak and ineffectual, is a sad illustration of this misconception. We must uphold our successful divorce from the fundamentalism and dogmatism surrounding the state's power and capabilities: where, in spite of reforms and improvements, the state fails as a means, alternative instruments ought to be tried (for example, privatisation with state oversight and/or funding, decentralisation and so on). A social democratic state should focus on those areas it finds important *and* which it can efficiently handle. This is not to say that the state ought to abandon important areas because it lacks the instruments for handling them.

## The International Community Divided against Itself Cannot Protect the People

In fact, the best way to expand the scope of the state – and also to recover some of the powers it has lost in recent decades – is to transfer many of the control mechanisms that failed domestically to international and supranational bodies. By necessity, a much higher proportion of the state's activities and regulation has to be implemented internationally, for without a global context many otherwise sound policies have and will inevitably falter. Corporate managements and venture capitalists for their part make decisions with a global view and possibilities in mind. If it seeks to retain (or regain) its effectiveness, the state, too, must devise policies with the

same mindset. Gordon Brown's introduction of the Tobin tax into the debates of the G20 is a laudable example of this approach. Its (hopefully temporary) failure is all the more lamentable and in part the result of social democracy's underrepresentation in that body.

In an increasing number of areas effective national policy is an oxymoron. Thus we have a vested interest in strengthening supranational and international institutions, while ensuring that they do not lose sight of »people on the ground«, that they keep focusing on the people they serve even if they work far removed from them. Ensuring the latter is especially a task for national politics since experience shows that international organisations, while well-meaning, have a tendency to create distinct spheres of reality and in the absence of democratic pressure became oblivious to the necessity of understanding voters' needs and fears. The alarming unpopularity of the European Union in the recently acceded Central and Eastern European countries is a sad reminder of this fact. Social democracy must therefore be both a force that seeks to enforce the public's legitimate interest in a responsible economic and social policy at an international level, and simultaneously strive to make sure that the policies that actually result serve specific needs rather than abstract ideas (not to mention obscure organisational interests).

## Reconceptualising Equality for the Twenty-First Century

We have noted that the state's desired activity cannot be divorced from our overall ideological conception of the future. Let us elaborate on two points: equality and modernisation. First, social democracy must take into account changing conceptions of inequality and welfare, resulting from the social and economic realities of modern societies. Correspondingly, the state's role in redressing market generated inequality must adapt, too. The dimensions of inequality (and equality) can no longer be reduced to the material sense of the term, which means that our understanding of inequality and the public policy response to it must become more sophisticated.

On the plus side of the ledger, certain types of inequalities result from voluntary choices, in return for which citizens receive other benefits or services. For example, some – and emphatically only some – of the wealth/

income inequality in society stems not from the systemic distribution of resources, which is foisted on individuals regardless of their preferences, but rather from individual choices. Individuals may choose to forfeit higher levels of material affluence in exchange for higher standards of living in terms of leisure, interest in their work and so on. In this sense, social democracy must respect the choices that individuals make and expand its understanding of quality of life to include non-material pursuits. This suggests that the level of absolute poverty is considerably more important than measures of relative inequality.

However, a more expansive notion of inequality must also result in an understanding that inequality and, crucially, unequal opportunities, also manifest themselves beyond income and hence must be balanced in more nuanced ways than the transfer of monetary assets, that is, welfare. While gaps in education and information, for instance, always existed, their impact on career and life chances are greater than ever – commensurate with the growing importance of these for socio-economic success. While in the second half of the twentieth century unskilled manual labourers in developed societies could hope to attain and sustain a decent living and middle-class status, today the un- and undereducated are in grave danger of falling behind permanently. Growing income inequality is in large part a consequence of disparities in educational attainment, which may be in decline overall but exert a higher effect on income than previously.

In line with the logic presented above, the past decade has witnessed a shift of emphasis from equality of outcomes to equality of opportunities in social democratic thinking. Equal opportunities are the lowest common denominators in modern societies. At least on a theoretical level no one, from the right to the left, will dispute their importance and the moral legitimacy of the quest to make the distribution of opportunities as equal as possible (we will leave aside for now whether the right is willing to make a genuine commitment towards this end). The Third Way rightly emphasised this notion over the traditional social democratic emphasis on income/wealth equality. Equality of outcomes remains a desirable outcome as far as social democracy is concerned, however, in light of socio-economic realities social democracy must compromise on the level of equality that can possibly be achieved. In the classical dilemma juxtaposing a »bigger pie that is unequally distributed« with a »smaller pie that

is more equally distributed«, social democracy has moved somewhat towards the former, arguing that even if a robustly growing economy results in growing inequalities, it is more capable of picking up the underclass and giving it jobs (still the single best means of preventing absolute poverty), and it also gives the state greater latitude by increasing its tax base.

Such an approach is not to be confused with the intellectual straw man of »left-wing neoliberalism«, which many of the left's self-appointed inquisitors seek to root on our side of the political aisle. Equality matters. As with every other desirable goal, the pursuit of income/wealth equality requires tradeoffs and, consequently, compromise: every relevant progressive debate discusses how much compromise is possible, not whether a traditional progressive ideal ought to be abandoned wholesale. Also, we would be remiss if we did not seek to understand more clearly the connection between the two conceptions of equality. There are degrees and forms of deprivation that render any state efforts to equalise opportunities hopeless. A growing underclass, a phenomenon that plagues most developed societies, suffers disadvantages that even the state's best policies in education, childcare, family-friendly employment and so on, struggle to compensate. The state must use the resources of the market and intervene therein to prevent the further growth of this underclass and to achieve its reduction in the medium term. There are plenty of areas where the state can nudge the market – for example, living wage, smart employment policies, protecting employees and unions and so on – towards helping to prevent further parts of the middle class drifting into deprivation.

## Squaring the Circle: Combining Modernisation with Equality

The challenge for social democracy is that, in terms of public policy and politics, it must satisfy various, sometimes conflicting needs and demands of a demographically increasingly diverse population. Middle-class voters yearn for existential security. The lack thereof partly explains the growing Western unhappiness with capitalism, whose mode of operation is – justifiably – linked in people's minds to job insecurity, lagging pay rises and so on. Those who have already fallen out of the system or who never made it in the first place want the state to help them in their deprivation – they know the market will not

integrate them without the state's pressure or assistance. Finally, young voters primarily want the state and progressives to be attuned to their concern for the environment, work–family balance, women's rights and so on. While these post-materialist concerns seemingly have little in common with the classical issues of existential security, in fact they too are matters that cause great insecurity: for the younger generation, the degradation of the environment and the challenge of balancing family and worklife – including education and child care – are problems that cause legitimate angst with regard to the future.

Providing security by responding to and alleviating these fears remains the most fundamental responsibility of social democratic politics. Satisfying these legitimate needs and demands requires diverse types of intervention in the market, some of which we hinted at above. But in addition to market interventions, in the long term the state creates security by preparing the individual and society alike for the future. It remains true that a successful employment policy is also the most effective social policy. It is also true that the best education policy will be the most successful employment policy. Beyond education, the other area where social democratic concern for expanding employment and its commitment to progress can best be combined is the environment and the movement towards a »green state«. These are areas where the prodding of the market by the state is especially useful, as the market's short-term profit orientation does not seem sufficient to launch a full-scale engagement in green technologies. By providing market incentives for the »greening« of our economies, the state can lay the foundations for investments that will provide swathes of jobs and robust growth in the decades to come. Whether locally or globally, the state must provide regulatory and financial assistance in helping green industries develop. Social democracy must assume leadership in fostering a green state, as it is the key to our future in every sense of the word: it makes development sustainable and it is also the area where much of the innovation and economic expansion of the twenty-first century will take place.

What we have mostly left out above is politics. For the best goals and policies are in vain unless they are paired with politics and communication, which translate into votes and access to government. More than in the various areas of policy, this is where social democracy faces the most burning deficit of all.



Mark Wickham-Jones

## Market and State: A View from the United Kingdom

### Introduction

In *Reconsidering the Social Contract after the Crisis*, Anke Hassel offers an illuminating and engaging account of the ideological and policy difficulties that currently confront European social democrats. Following an incisive and comprehensive analysis, she gives an indication of what form a potential solution to these particular problems might take. There is much in her argument and in the prescriptive measures that she advocates that is persuasive and plausible, particularly from a pan-European perspective. However, I am less confident that her account captures the specificities of the situation in which the British Labour Party is to be located. I believe these particularities to reflect both a current trauma, as well as the different trajectory taken by social democrats in the United Kingdom over the last hundred years or so. Having briefly outlined the key features of her analysis, I will address each in turn.

It is manifest that the financial crisis experienced over the past few years and the accompanying economic recession have important consequences for European social democracy. The failure of regulatory frameworks across both the United States and Europe indicates severe weaknesses with the kind of neoliberal programme that has come to represent something of a prevailing orthodoxy in terms of economic policy. Taken together, the global failure of the banking sector and the subsequent downturn demonstrate profound shortcomings in the notion of self-regulating and self-correcting free markets. That much is commonplace among commentators. I take Hassel to argue further that the crisis has identified acute limitations in the specifics of the model developed by New Labour on its return to power in the United Kingdom in May 1997, an approach that was later developed, albeit in a rather bastardised form, by many other European social democrats (most obviously, of course, the German SPD). Not only did this model offer an unattractive trade-off between rising inequality and material growth, but ultimately it proved unable to secure the promised economic benefits at all. Moreover, she suggests that in any case such a model was electorally compromised in the context of the more proportionate electoral systems commonly found in Europe.

Where does this conjuncture leave social democracy? Hassel examines a number of avenues that social democrats might beneficially explore. One possibility would be to develop a revised variant of the Swedish model, oriented around employer–trade union discussions covering such matters as training, labour protection and public investment. A second prospective approach emphasises coordinated action at the European level. My sense is that Hassel regards both of these as worthwhile but problematic. In the first, the notion of mimicking Scandinavian arrangements is limited by factors specific to the Swedish case that cannot easily be replicated elsewhere. In the second, any attempt at coordinated action at the European level is constrained by the familiar difficulties associated with large-scale collective action on the part of autonomous national actors. Accordingly, alongside any initiatives of this kind, she suggests that social democrats should examine particular aspects of the national model and the electoral coalition that underpins their project. The German social market model gives little precise guidance as to what form reformism might take. It does, however, offer a strong civil society, and it is likely that the political demands fuelled by gender inequalities alongside material inequities will persist. Social democrats can respond to these, in part on the basis of a commitment to reformed management and the development of codetermination, and in part through better quality state services. Such a project, she proposes, needs to rebuild the social democratic coalition around social partners and more responsible corporate management, as well as through the middle class.

### The British case

There is much in this account, as I noted earlier, that is persuasive. The British case confirms her critique of the existing economic orthodoxy: amidst rising inequality and deprivation, much of the economic growth in the United Kingdom appears to have been founded on speculative property and stock market bubbles. In electoral terms, Labour has just received a decisive reversal on the basis of its record over the past few years. However, I am not sure that Hassel's argument fully captures either the extent or the plethora of difficulties that presently threaten social democracy in the United Kingdom. The exact impact of the banking crisis and the downturn upon

reformism has been heavily shaped by national contexts. In the United Kingdom, the financial predicament has been exceptionally severe due to the heavily indebted nature of the British banking sector, an exposure that has necessitated massive injections of public funds to secure the monetary base of the economic system. Not only has the crisis been more severe than in many European polities, but for many it has been directly associated with the policies and ideological alignment of the former Labour government. The meltdown occurred after around a decade of government, the party's longest uninterrupted run in office. In that time, New Labour had developed a marked »light touch« approach to financial supervision. Moreover, as Hassel notes, as chancellor of the exchequer, Gordon Brown was intimately linked to the claim that, in establishing this new framework, the administration had ended cycles of boom and bust.

A number of points are salient here. First, whatever the rights and wrongs of blaming New Labour for the banking crisis, it is patent that there remains a strong association in the minds of many voters between government policy and the current recession. To be sure, New Labour's recent electoral defeat reflect a myriad of causes, including a prolonged scandal over parliamentary expenses and some lacklustre performances on the part of its senior ministers, but the economic causes of the administration's electoral disregard should not be underestimated. Second, the claims made about ending boom and bust and the praise heaped upon the regulatory framework look, albeit with hindsight, at best complacent and hubristic, while at worst they suggest a fundamental incompetence and an extraordinary failure of economic management. Third, the scale of the bailout offered and the consequent repayment of debt will shape the framework of public policy within the United Kingdom for many years to come. This last point is especially relevant. Reconstructing the coalition that underpinned New Labour's initial electoral success will be all the more difficult given the scale of tax increases and debt repayments likely to be necessary over the next decade or so. Hassel identifies the middle class as a significant element of the social democratic coalition. In the British case, their participation in any electoral alignment may be severely hampered by massive increases in university tuition fees that are likely during the next couple of years, alongside other increases in the tax burden. Labour may not, of course, be responsible for the decision to increase these fees. But the party will have to adopt a stance on univer-

sity finance that is credible in the current restrained circumstances: put starkly, it may further alienate the middle class electorate.

## Labour's exceptionalism

My doubts about Labour's capacity to adopt the kind of trajectory articulated by Anke Hassel do not simply stem from the degree of its exposure in the current economic crisis. They reflect the extent to which Labour is in some sense an exceptional and atypical social democratic party, one that finds it difficult to learn from experience elsewhere, even at times to engage in meaningful dialogue with other reformist organisations. The notion that Labour is an apparent anomaly within the family of European social democracy is a well established one, even something of a caricature, which dates back to the origins of the party around the turn of the twentieth century. Such exceptionalism was well captured in Egon Wertheimer's *Portrait of the Labour Party*, published as long ago as 1929 and much repeated since. Wertheimer, a London-based journalist for the SPD *Vorwärts*, repeatedly emphasised the extent to which Labour was in some generalised sense different from other reformist parties. Recent research has challenged such claims, but there remains a distinct and commonly held argument which concludes that Labour is far removed from the mainstream of European social democracy. My view is that, notwithstanding the difficulties of labelling any individual case as exceptional, there are strong reasons to conclude Labour is atypical in character and inward-looking in outlook. Contrasts can be drawn between Labour's attitude to the state and to the nation, its relationship with trade unions and its attitude to theory and empiricism, on the one hand, and those of continental reformism, on the other. Such insularity has, of course, fluctuated over the course of the party's history. In particular under Neil Kinnock's leadership during the 1980s Labour reoriented itself dramatically toward the European mainstream, a consequence in part of its dire electoral circumstances. In general, however, the party has been a marked outlier.

Alongside distinct cultural and historical features, Labour's isolation from the mainstream of European social democracy reflects significant differences between the British economy and what might be taken as a generic continental model. The dominance of finance capital and the significance of the United Kingdom's imperial past are well

established. Perhaps more relevant for the social democratic project, for most of the past century or so, industrial relations might be characterised as confrontational, delineated and class-based. Certainly, unlike some other successful social democratic polities, there has been little by way of a tradition of compromise or negotiation, let alone partnership in the workplace. British trade unionism is frequently defined by its autonomous nature and its long-held commitment to free collective bargaining. Such an outlook has shaped the labour movement's approach to economic policy, which has prioritised the attainment of immediate goals through seemingly rather antagonistic behaviour. As such, the discourse of stakeholding embraced so strongly by many European social democrats has secured no foundation. In Singapore in January 1996, as leader of the opposition, Tony Blair called for a »stakeholder economy«, arguing that »we need a country in which we acknowledge an obligation collectively to ensure that each citizen gets a stake in it«. Briefly taken as a major reorientation of the party's outlook, the proposal came to nothing and, as quickly as it had been taken up, the language of stakeholding was dropped from Labour's discourse. Tellingly, David Soskice, an Oxford academic close to the Blair project, delivered a brutal refutation of the applicability of the German model to the United Kingdom in the magazine *Prospect*. The necessary institutional foundations for mimicking such an arrangement were simply not present in British capitalism. In any case, he argued, the German model was insufficiently dynamic in important areas and excluded women from labour market participation: British reformists should not want to copy such a format. There remain some proponents of continental social democracy, most obviously the journalist Will Hutton, in his book *The State We're In*. But their influence on the Labour party since the mid 1990s has been minimal.

Such concerns are not new. Historically, Labour has been extremely wary of industrial democracy and the kind of schemes inherent in a stakeholding approach. Many senior figures within the movement, especially trade union leaders, have concluded that they compromise the party's historic goals and deflate its class identity. Labour has certainly modified its radical agenda and contemporary British trade unions are less confrontational. But such developments have not been associated with a concern about partnership. Neither in the party's past nor in its present discourse has there been any emphasis on the concept of »social partners«.

Hassel suggests that renewed codetermination between social partners might provide the basis for some sort of social democratic renewal. Theoretically, it is an attractive prospective. But the United Kingdom has no tradition in such arrangements. More importantly, for much of its history, Labour has been scathing about such practices, concluding that they emasculate the demands of organised workers. The only references I have seen in the party's archives to codetermination are implacably hostile to both the general principles and the specific details of the German case. In any case, whatever the party's historic rejection of codetermination, the present realities of a weakened and fragmented trade union movement indicate that such a project would have little prospect of success. British trade unions currently enjoy little influence, let alone power within the workplace. Given the atomised traditions of industrial relations, employers have little inclination or incentive to offer partnership schemes to uninterested workforces.

The Labour Party's relationship with its affiliated trade unions remains profoundly ambiguous. Many unions have been extremely disappointed by apparently neoliberal aspects of the government's programme. However, they continue to provide much of the party's funding. The 2004 Warwick agreement, an attempt to formalise the policy demands made by organised labour on its political counterpart, indicated that many trade unions continue to regard a political avenue as more profitable than the kind of arrangements involved in codetermination. The Warwick agreement is symptomatic of the mindset of British social democracy. It indicates that political means – whereby the government legislates to secure outcomes – are taken to be more appropriate and more desirable than industrial workplace-based approaches.

In the past decade or so, Labour has done little either to improve relations with the European social democrats or to assimilate itself into the existing structures of the European economies. In a speech to the Party of European Socialists within a month or so of winning the 1997 general election, Tony Blair set the tone bluntly and provocatively, demanding that »We modernise or die«. In terms of policy, Labour has remained resistant to many pan-European initiatives, most notably of course rejecting British membership of the single currency, the euro. In terms of ideological alignment the party has frequently proffered a nationalistic outlook, one that has grown in intensity over the past few years. Gordon Brown's de-

mand for »British jobs for British workers« gives voice to a chauvinistic outlook that borders on xenophobia. Frequently, the best that Labour can offer is some generalised sense that European reformists might learn from British successes. In his 2006 Mansion House speech, Gordon Brown contrasted Europe's historic slowness with a dynamism and liberalisation pushed by the United Kingdom. In this regard, *Building The Good Society*, the paper co-authored by Jon Cruddas, a Labour MP and Andrea Nahles, General-Secretary of the SPD, is of potential significance. It offers a far more concrete set of proposals (though perhaps too overtly critical of Labour's recent performance) than *The Third Way/Die Neue Mitte*, the rather bland paper authored by Ton Blair and Gerhard Schröder in June 1999.

Labour's insular orientation has important consequences, I believe, for Hassel's proposed reconstruction of European social democracy. It confirms the problems that she identifies with either Europe-wide cooperation or the Swedish model providing the foundations for such a project. But it also indicates profound difficulties with her alternative. Labour has repeatedly projected an utter antipathy to learning from other reformist parties. Moreover, the structural foundations on which she hopes a revived social democracy might flourish – a strong civil society – may be absent in the United Kingdom.

It is by no means obvious that such a basis for civic regeneration exists. Certainly some indicators suggest a decline in social capital (especially among the young and those that might be considered working class): for example, falling electoral turnout, falling levels of trust in public figures and declining confidence in civic institutions. The evidence is ambiguous because some of this decline has been offset by increases in social capital elsewhere. But some of these increases may not impact on the social and political networks that define a strong civic society. Indeed, social capital in the United Kingdom may be much more diverse and polarised than in the past, as fragmented groups compete with each other. Moreover, civic participation over the past decade or so in the United Kingdom may have been undermined by the prevailing illiberalism of many of the former Labour government's initiatives and by the previous administration's failure to offer a positive alternative to some of the savage critiques of existing social networks launched by extremists in recent years. Multiculturalism and toleration – defining correlates of civic engagement – look especially vulnerable

currently. Labour has retreated into what seems at times to be a quasi-xenophobic stance based on an elusive and poorly defined notion of Britishness. The government's inability to map out a clear defence of multicultural arrangements can be associated with increased votes for extreme parties, most notably the racist British National Party.

The European social model is well understood and popular in Germany. By contrast, in the United Kingdom, widespread attachment is focused on particular aspects of the welfare state, most obviously of course, the National Health Service. There are two contrasts here: society versus state alongside the model versus the particular. First, in the German case, there seems to be an attachment to a potentially social democratic model that is firmly located in society. In the British case, by contrast, by far the most popular attribute of reformism is the provision of universal welfare by the state. It has no locus in society. Second, in the German case, the model as a whole appears to be understood, appreciated and endorsed. In the United Kingdom, there is little sense of to what social democracy might amount. Rather support is focused on one particular aspect. Moreover, more than anything, Labour's attachment to the welfare state is a historic reflection of the party's past achievements.

Labour's failure to project a definition and understanding of social democracy is, I believe, a failure of identity. The party's antipathy towards European reformism does not reflect a consistent position. In her analysis, Hassel places much emphasis on the Third Way as a clear model adopted by the party under Tony Blair's leadership. In my view, this account gives too much coherence to the Third Way as a consistent programme based on an integrated set of principles. To be sure, with the Third Way, Blair and some of those close to him attempted to develop a theoretical underpinning for Labour's programme. But the values they projected were anodyne and inconsistent. The term was used in a variety of different contexts with substantially different interpretive meanings. The causal link between the insipid values of the Third Way and precise policy initiatives was never established. The idea developed little political support within Labour, despite numerous attempts by Tony Blair to re-launch it, and eventually it fizzled out of social democratic discourse within the United Kingdom. Strikingly, to my knowledge, neither as chancellor nor as prime minister, has Gordon Brown ever uttered the phrase. Instead, from his years at

the Treasury onwards, Brown developed a fiercely pragmatic approach to public policy in which measures were evaluated on their own terms as to whether they met specific objectives. Labour's neoliberal initiatives were the result of an empirical outlook in which policies have been designed and judged on the basis of outcomes rather than any values that might underlie them. Accordingly, British Labour has a much less developed sense of its identity than have many other European social democrats.

## Conclusion

I believe that Hassel is correct in emphasising the importance of a range of inequalities in furthering the case for reformism and the necessity of a flexible outlook in the development of social democratic demands. The inequality agenda must be approached with care, given electoral and economic sensitivities: however, recent tax changes suggest that there is support in the United Kingdom for such proposals. The weight Hassel places on the advancement of high quality public services as part of a reformist package is also to be commended. Such measures might be effectively combined into a consistent programme underpinned by a theory of collective action to provide essential public goods in an equitable fashion. In the British case, to be sure, such a foundation has been lacking in recent years. In the late 1980s and early 1990s, Labour drew on European experience in the articulation of a strategy based on collective action to correct market failures. Together with a commitment to social insurance such a stance offers potential justification for state intervention in the provision of high quality public services. Ed Miliband has recently sketched out the form such a programme might take.

Overall, however, I think there are difficulties, should Labour seek to adopt the exact trajectory that Hassel maps out. A revised stakeholding may have considerable potential for the German case: in the United Kingdom, it is hard to see such an approach being workable. I cannot envisage Labour constructing the kind of electoral coalition of middle class voters, social partners and corporate support that Hassel believes to be feasible elsewhere. Manifest tensions exist between these groups. Many middle class voters currently exhibit a deep antipathy toward Labour. Without a wholesale rejection of such electoral support, the party may do better to restate its com-

mitment to economic growth in a sustainable environment and to tackling inequalities.

It would be wrong in this regard to conclude that New Labour's strategy over the past decade has been a straightforwardly neoliberal one. Granted, aspects of the government's work have manifestly been oriented towards a market perspective. But other elements have been more social democratic. Certainly, some of Labour's measures – such as tax credits and other budgetary reforms – have been redistributive. Moreover, despite the rhetorical rejection of such an approach, there remains an element of tax-and-spend in what the government has done. Labour has intervened on numerous occasions to correct market failures with an egalitarian bias. Furthermore, by placing an emphasis on work in this strategy, the government has found measures more acceptable to fractions within the middle class electorate. At times, Labour has clearly been uncomfortable in its support for equality and for public service provision. But the discourse within which such measures are legitimated has changed in the wake of the financial crisis: opportunities to articulate such an approach will persist after the coming general election. In such circumstances Labour would be able to offer more emphasis on manufacturing and on services (at the expense of the financial sector). Indeed, there were some signs of this orientation at the 2009 Labour Party Conference: an oft repeated mantra from Peter Mandelson was that manufacturing represented a greater share of national product in the United Kingdom than in France.

For all the apparent similarities of some of their basic economic measures, significant contrasts can be drawn here with David Cameron's Conservative Party. Labour can develop a distinct identity based on fairness (Conservative aspirations regarding the reform of capital transfer tax remain focused on the wealthy) and public services. After the general election, it might also be possible for Labour to offer a distinct and more positive stance on Europe. Already the financial crisis has provided a context in which pan-European cooperation is more relevant and feasible than in recent years. Furthermore, while in theory the two major political parties share much in terms of economic policy outlook, in practice a contrast may be easy to discern. Both parties are committed to the same anti-inflationary framework and to debt repayment. But the Conservatives' capacity to sustain a moderate approach whilst pursuing a hardline electoral base will be



sorely tested in the event of a Cameron general election victory.

Now out of office, it will be important for Labour to develop its identity, thus providing the correlates by which its pragmatic proposals can be located and evaluated. Such developments need not be confined to economic issues. There is now much more of a consensus within the Labour Party about the vagaries of the British electoral system than has been the case hitherto. British general elections are organised on the basis of a single member, first-past-the-post system, where the candidate with the plurality of votes is elected. This emphasis on plurality – rather than majority – has powerful distorting effects and seriously compromises any claims that might be made about democracy. In 2005 Labour won over 350 parliamentary seats and a safe majority in the House of Commons with just over 35 per cent of the vote. The Conservatives, with barely three per cent less won fewer than two hundred seats. Taking into account the fact that turnout was barely over 60 per cent, Labour took power with the support of little more than one voter in five. After years of internal disagreement, there is now little support within Labour for such a system other than a residual understanding that at times it has served the party well. Gordon Brown has indicated a need to consider reforms, although the direction he has proposed is unsatisfactory to many. A new voting system would not only be more democratic, but would open Labour up to a new way of »doing politics« in which negotiation and compromise came to the fore. Electoral reform would be likely to foster the kind of progressive and egalitarian economic approach upon which Labour could thrive.

Hannes B. Mosler

## An »external perspective«: Market, State and Civil Society in South Korea and Japan

### Introduction

The concept of social democracy arose in a very specific geopolitical and historical context which no longer exists in that form, anywhere in the world. This is important to bear in mind when seeking reasons for the crisis of the original social democratic model. The failure of the so-called »Third Way«, which involved too many compromises, demonstrated this clearly, while the current global economic crisis has finally shown the folly of neoliberalism. The current quest for new ideas and concepts signals a recognition of these circumstances.

Although, historically and geographically, South Korea and Japan are quite different from Europe, they face very similar problems when it comes to finding alternative concepts for shaping the relations between market, state and civil society. What, currently, are the most urgent problems and issues in East Asia, and how are they being addressed?

The tentative new approaches currently emerging send the unusually clear message (given the Asian tradition of reserve) that things cannot go on as they are and major change is required. The younger generation (who traditionally symbolise the future) are most acutely aware of the problem, meaning that the previously respected older generation is no longer excluded from harsh criticism. At the same time, the revival of ideas of community and solidarity makes it easier for people to accept a strong state that ensures the well-being of the population by placing the market in such a context. Overt public demands for such things as just redistribution, an empathetic community based on the principle of solidarity and a strong state assuming responsibility for the latter – all concepts that people in South Korea and Japan see as sensible alternatives – have recently been reflected in election results. However, to realise these ideals effectively, civil society would have to acquire greater influence over the state and the market.<sup>1</sup>

1. Given the convergence of current structural problems outlined, it is not surprising that in East Asia, too, the »three sources« cited by Hassel (2009, author's translation) »are to be tapped in the interests of finding a new form of cooperation between civil society, the private sector and politics«.

### East Asia – A Model?

When people talk about the »East Asian model« they are referring to South Korea and Japan, whose economies for a long time grew at a breathtaking pace. Despite dynamic growth and the rapid changes it brought, however, the two countries were able to maintain a considerable degree of social cohesion. Although social expenditure remained relatively low, both countries were able to improve their standards of health care and education considerably; universal social security systems were introduced and public welfare ensured. These features make Japan and South Korea stand out not only in the region but also in international comparison.

In fact, the term »East Asian model« arose as the result of a misunderstanding,<sup>2</sup> which began a long time ago and has repeatedly re-emerged in concepts such as »Confucian capitalism«, »Asian values« or »the East Asian miracle«. Back in the 1970s, when Western Europe and North America were suffering from low growth rates, rising unemployment and growing state deficits, people looked to East Asia for confirmation of their diagnosis that their generous welfare states were to blame for this malaise. Indeed, this served as part of the justification for embarking on a new state model à la Reagan and Thatcher. The thesis of Confucian capitalism was born.<sup>3</sup> Having previously been regarded as intrinsically incapable of civilised development, societies based on Confucianism suddenly came to be invoked as successful models from which Western societies needed to learn if they wished to survive. People even began talking about the twenty-first century as the East Asian century. In his famous thesis of a clash of civilisations Samuel Huntington gave this vision a frightening face that could be conjured up to scare »sceptics«.<sup>4</sup>

2. See Heide (1997a).

3. The theory was advanced that the East Asian model of capitalism was derived from Confucian values, expressed primarily in discipline, hard work, the subordination of workers to their bosses and a completely collective consciousness. This theory was instrumentalised in the West in two ways: first, conjuring up a »yellow peril«, a threatening »other« helped to drive efforts to raise productivity; second, it provided the ideological basis for institutionalising the principle of making people work even harder under even worse conditions (Lee 1997, 31 ff.; see also Kulesa 2001).

4. With his widely accepted thesis of a clash of civilizations (1993) Huntington ultimately achieved a similar effect to that of his earlier strong-state modernisation thesis, which served many authoritarian regimes in the 1960s as an argument to justify their development dictator-

The Asian financial crisis of 1997–98 shattered the dream of an East Asian miracle. In Japan, the era of double-digit growth had begun in the 1960s; South Korea followed suit a decade later, in the 1970s. During this period, Japan's *zaibatsu* and South Korea's *chaebol* – family-run business empires – had kept their employees sweet by means of the seniority principle and the prospect of lifetime employment.<sup>5</sup> Come the 1990s, however, the previously rapid rates of growth began to fall off, unemployment started to climb and the share of irregular or marginal jobs increased.<sup>6</sup> As in both the historical and more recent debates about alleged Asian values, the West was once again disappointed: it turned out that the alter ego it had conjured up did not actually exist, or at least not in the form it had imagined. Although South Korea managed to repay its International Monetary Fund (IMF) loans more quickly than any other country affected by the crisis – thus renewing faith in an East Asian model – the global crisis of 2008 showed once again that the Far East actually faces very similar systemic problems to those of other industrialised nations. There are two different interpretations for this repetition of history: either a specifically East Asian model is still emerging, in which crises are simply part of a trial-and-error process; or else there is no East Asian model, and certainly no East Asian miracle, but South Korea and Japan both have specific conditions that may in some cases offer more, in some cases less potential for the sustainable development of a desirable relationship between state, market and society in accordance with practicable social democratic ideas for the twenty-first century.

ships (Huntington 1968). Similarly, the clash of civilisations thesis created a threat scenario which provided sufficient leverage to get Western societies to bite the bullet and introduce neoliberal constraints. The way groups of workers were played off against each other in disputes over working conditions is one of the best illustrations of this. In East Asia the thesis provided state leaders with a convenient rhetoric for pushing through their own neoliberal policies (Lee 1997, 21 ff.).

5. The term *chaebol* (or *jaebeol*) denotes the typical South Korean business group or conglomerate, originally controlled by the founding family. When Park Chung Hee seized power in 1960, the *chaebol* state complex emerged in the context of the economic planning model pursued by the development dictatorship. The *chaebol* was modelled on the Japanese *zaibatsu*, which dated back to the Meiji period. The *chaebol* state complex involved a symbiotic relationship between the *chaebol* and the state, whereby the state set the *chaebol* planning targets as part of economic plans lasting several years. In return, the *chaebol* was given extensive privileges, although the state always had the last word. Gradually, however, the *chaebols* succeeded in freeing themselves from the »tight reins« of the state. The crisis of the late 1990s is attributed, among other things, to the corrupt structures of non-transparent links between various branches of the same *chaebol* and politicians.

6. Here we should point out that, while South Korea enjoyed high growth rates until shortly before the outbreak of the crisis in the late 1990s, Japan's growth rates had already fallen to single figures by the end of the 1980s. The 1990s then saw a steady and continuous slowing of economic growth.

While the idea of an East Asian economic miracle will clearly remain wishful thinking, this does not mean East and West have nothing to learn from one another. Of course they do. But for this to happen it is important to recognise precisely what they have in common and how they differ.

## Does East Asia's Future Lie in the Past?

Although **South Korea** looks back on a, traditionally, relatively egalitarian social model, during the dynasties of the pre-modern era society tended to be shaped by a kind of social Darwinism, so that even the system of recruiting civil servants via examinations<sup>7</sup> did not offer equal opportunities. Nevertheless, since any free male commoner – but not slaves or women – was allowed to participate in the examinations, the system did offer some opportunities for social advancement. There was no system of estates that would have imposed restrictions on social mobility, even if in practice financial hurdles made it very difficult for ordinary people to determine their own fates.

The same goes for the ideal cherished for many centuries that the state (the king) was responsible for the prosperity of the people. This traditional concept of a strong state with an obligation to ensure the well-being of its people became forgotten in the course of modernisation and during the long decades of colonial rule. During the military dictatorship these traditions were exploited and distorted by rulers to maintain and expand their power. It is in this context that we must regard both the first rudimentary and highly restricted manifestations of the welfare state (accident insurance, 1964; health insurance, 1977; a pensions system, 1988)<sup>8</sup> and the positive attitude to a strong state. For, logically speaking, if the ideal of a state that takes care of its citizens is considered worth striving for, it follows that a large, powerful state is by no means perceived as unjustified, let alone scorned. Thus the argument used back then – that a military dictatorship was necessary to combat poverty – is still controversial even today. As long as the cake continued to

7. Examinations for civil servants, modelled on similar institutions in Han China, were first introduced in Korea in the eighth century. Since anybody, irrespective of class or origin, could enter the examinations which, if passed, opened the way to a career in the civil service and hence to social advancement, they constituted a reform of the previously rigid aristocratic society and allowed a relatively egalitarian society of civil servants to emerge, which put a clearer emphasis on ability rather than origin.

8. See Kwon (1999) and Mayer (2001).

grow and was supposedly being divided equally, people could still be made to conform. However, the idea that people needed to toe the line if they wanted to obtain a share of prosperity was only able to survive until the crisis of 1997–98 because the neoliberal TINA (»there is no alternative«) logic of market fundamentalism followed hot on the heels of the doctrine of a development dictatorship.<sup>9</sup>

With the attainment of relative prosperity in international comparison (or rather the point at which, despite economic growth, an increasing number of people in South Korea were falling below the poverty threshold – in other words, when the dream of prosperity for all failed to come true) the population's patience was exhausted. The fact that people are taking to the streets in their tens of thousands to demonstrate for their rights, even though they are always outnumbered by the police, testifies to a growing self-confidence and an awareness of generally recognised social rights that must be fought for by political means. People are calling on the state to ensure social justice, thus breaking with the mindset of the development dictatorship that shifted much of the responsibility for welfare, education and so on to the private sphere and hence to the individual.

Finally, there is also a tradition of values and practices based on social solidarity, typical of the traditionally agricultural societies of Asia, where religion and moral philosophy not only emphasised the importance of sticking together and helping one another in the village community (as well as more distant relatives), but also taught respect for older or wiser people, be they older siblings, parents, grandparents, village elders or teachers, as the basis for human relationships. The development dictators used these values and customs to endow their development projects with a social foundation, thus giving them a collective human face and harnessing the human energy they offered. By presenting their technocratic capitalist projects in the rhetoric and discourse of these traditions and world views they made them more palatable.<sup>10</sup>

9. Here we should not, of course, forget that the battles of June 1987 represented an important turning point. Given the vigorous demands for democratisation by broad sections of the population the regime saw itself forced to make concessions. This led to a constitutional reform that, formally at least, introduced more democracy. For this reason, 1987 is generally regarded as a turning point in the movement towards democracy in South Korea.

10. For more on this, see the analyses of cultural and socioeconomic policy by Kim (1993) and Heide (1997).

Both the New Community or New Village Movement<sup>11</sup> that emerged under military dictator Park Chung Hee and the voluntary gold collection campaign staged by ordinary citizens during the 1997–98 crisis were symptomatic of how this originally rural mentality of solidarity continues to exert a powerful influence even today.

**Japan**, too, looks back on a critical political culture strongly characterised by egalitarian norms. Built on the humanist tradition of Confucianism, it allowed anyone who made sufficient effort to become a »noble«. One expression of this was the introduction of a meritocratic education system with state examinations at the beginning of the Meiji period (1868), which gave every citizen the opportunity to take their socio-economic fate into their own hands.<sup>12</sup>

After the Americans had forced Japan to open itself up to the outside world in the mid-nineteenth century, the state became the engine driving industrialisation. Shocked and humiliated at having their country opened up by outsiders, the Japanese quickly strove to compete with the new powers and, ultimately, to overtake them. Japan was quick to assimilate much new knowledge and technology from the West, using Germany in particular as a model for its legal system and institutions, including the idea of a welfare state.<sup>13</sup> The first priority was to strengthen the country's ability to compete militarily. And indeed it was the military leadership that demanded the introduction of welfare state policies, in order to have sufficient healthy »human material« available to defend and expand its hegemony in Northeast Asia.<sup>14</sup> As early as

11. The New Village movement has its origins in an initiative launched by Park Chung Hee in response to growing opposition to his authoritarian policies in the early 1970s. The Yushin reform, designed to ensure Park's lifelong absolute rule, also offered systematic support for the modernisation of rural towns and villages, which had become depopulated by people leaving for the cities. This took the form of a kind of »socialist« renovation programme for which the government provided many tons of cement. While it cannot be denied that this constituted a modernisation in quantitative terms (albeit one whose quality left much to be desired), as time went on, the realisation of explicitly political interests came increasingly to the fore. As the development dictatorship intensified so, from the early 1970s onwards, did resistance and a movement for democracy. The idea behind the New Villages movement was to take the wind out of the democracy movement's sails. As such the programme used – with some success – slogans evoking images of collective and family traditions to appeal to people at a moral and emotional level and to win them over for the government's modernisation project. Since then the New Village movement has become a kind of blueprint for any underdeveloped region in Asia and has been successfully exported.

12. Cf. Kampeter (2004).

13. Cf. Goodman and Peng (1996).

14. Cf. Anderson (1993).

1874, a kind of poor-relief fund was introduced, followed a few years later by other forms of social security, such as protection against poor harvests and security for civil servants and professional soldiers.<sup>15</sup>

The end of the Second World War marked the transition from the Tenno system of the Meiji regime – a cross between a »social monarchy« and the Confucian system of rule – and the new democratic parliamentary system, which found expression in the relatively progressive new constitution<sup>16</sup> of 1947.<sup>17</sup> However, following the end of the American occupation, which had been instrumental in introducing provisions for sickness<sup>18</sup> and old age, the Social Assistance Act (1946) and unemployment insurance (1947), as well as (later on) pensions and health insurance (1961), it took until the mid-1970s for Japan to achieve its declared goal of being on a par with other industrialised states in every respect,<sup>19</sup> including social policy. While this goal was achieved,<sup>20</sup> it involved much higher expenditure.<sup>21</sup> In 1973 Prime Minister Kakuei Tanaka proclaimed »the zero hour in a new era of welfare in Japan (*fukushi gen-en*)«. <sup>22</sup> In the era of high growth rates people had much faith in the democratic political system, and popular contentment rose as material prosperity noticeably improved. During this period people still believed in equality of opportunity in Japan.

## East Asia in Crisis

The global financial and economic crisis have laid bare the underlying problems of South Korean and Japanese society. The crisis of global capitalism has thus had a catalysing effect on South Korea and Japan, forcing them finally to acknowledge pervasive social problems.

15. Cf. Pohl (1988).

16. Articles 25 and 27 stipulate the right to employment and basic social rights and hence provide the basis for their institutionalisation.

17. We should remember that in the post-war period the trade unions became involved in the campaign for a welfare state, staging protest rallies and clashing with the police. Their efforts were, however, rigorously suppressed by the authorities. See, for example, Hofuku (1984) and Deichs (1998).

18. A system of statutory health insurance was introduced in 1922, although health insurance was not made compulsory for all citizens until 1961.

19. Cf. Shinkawa (1990).

20. Nursing care insurance was introduced in 2000.

21. See, for example, Lockhart (2001).

22. Cf. Lee (2006).

More and more people are becoming aware of their true socio-economic position – and blaming it on erroneous policies. This is illustrated strikingly by the way people in South Korea and Japan assess themselves in socio-economic terms. As recently as twenty years ago, 90 per cent still regarded themselves as belonging to the middle class,<sup>23</sup> whereas now 77 per cent in South Korea and 75 per cent in Japan believe they belong not to the middle class but to an underclass.<sup>24</sup> Citizens of both states attribute this increasing social polarisation to the expansion of the financial sector.

In Japan, 72 per cent of the population say income distribution in their country is very unjust – a percentage almost identical to that of Germans (76 per cent).<sup>25</sup> In other words, alongside actual social decline,<sup>26</sup> people's perceptions have also changed. In South Korea the term »500-euro generation« (*palsibpalmanwonsedae*) is used to describe this effect, while in Japan people even talk of an »underclass society« (*karyushakai*).

## South Korea – The 500-Euro Generation

In South Korea, the »500-euro generation« has become a central term in the discussion about the future of society. The term entered common currency after the journalist U Seok Hun published a book called *The 500-Euro Generation* (2007) six months before the crisis. Its title was a play on the title of the Italian novel *Generazione 1000 Euro* (2006) by Antonio Incorvaia and Alessandro Rimassa, which took a critical look at the socio-economic situation of young people in Italy. The publication of U Seok Hun's book – subtitled »economy of hope in times of despair« – sparked a broad discussion. It condemns the social circumstances of the generation of twenty to thirty year olds, whom it sees as being exploited by older generations as low-wage workers in marginal jobs in a system of extreme social Darwinism.

23. Survey conducted by the Prime Minister's Office (Japan).

24. Survey conducted by the South Korean daily *Maegyeong* (1 July 2009).

25. Survey conducted by the newspaper *Yomiuri* together with the BBC; cited from SERI (2006).

26. The Human Development Index (HDI) of the UN Development Programme (UNDP) for the year 2007 (Report: 2009) put both countries in the »very high« group. Japan with 0.960 (Gini=38.1) came tenth, South Korea with 0.937 (Gini=31.3) twenty-sixth and Germany with 0.947 (Gini=27.0) twenty-second.

Following the crises of the past ten years more than half the working population in South Korea is employed on temporary contracts. On average, those in such marginal jobs do not earn even half of what normal employees earn – and wages are continuing to fall. Roughly a quarter of all employees are in low-wage employment. The percentage of unemployed in the 15–29 age group rose last year from 7.4 per cent to 8.5 per cent.<sup>27</sup>

By the time of the Asian crisis of 1997–98 many South Koreans had realised it would not be possible to keep on increasing the size of the cake so that there would be enough for everybody. Until then, this method had worked well and was underpinned by various social measures. Universal health insurance was introduced in 1989 under the last military dictator, Chun Doo Hwan (following formal democratisation in 1987). This was followed by comprehensive unemployment insurance introduced in 1998<sup>28</sup> by president and Nobel Peace Prize winner Kim Dae Jung, which improved on the limited system of unemployment insurance brought in three years earlier, in 1995. Finally, nursing care insurance was introduced under the Roh Moo Hyun government. South Korea thus became one of only a handful of countries that can boast these fundamental social institutions.

Although all these social institutions were established in reaction to popular demand, they have so far remained imitations transplanted from elsewhere, rather like the institutions of parliamentary democracy introduced in the middle of the last century, which even today have yet to be truly accepted. There has scarcely been any fundamental progressive discussion of social issues. The historical division of the country and resulting competition between two rival political systems acted as an obstacle to any real debate on social democratic values in South Korea. Progressive policies of any sort were dismissed as »left-wing« or »communist« and thus nipped in the bud as hostile to the state. Ever since liberation from colonial rule under the US military government and continuing after the Korean War, the left-wing and moderate centrists have been systematically suppressed – and with them any potential for political alternatives. The effects have been far-reaching and continue to be felt today;

27. It should be pointed out, however, that many of them, for example, are simply killing time until the next university entrance examination and for that reason do not have a job. What is more, the figure is below that for both Japan (9.9 per cent) and Germany (10.5 per cent).

28. As already mentioned, accident insurance was introduced in 1966 and retirement insurance in 1988.

hence, there is practically no party in parliament with a serious programme showing any hint of social democratic or similar ideas. Even the progressive Democratic Labour Party (DLP), which has held a handful of seats in parliament since 2004, is no real exception.

Nevertheless, since the introduction of democracy in South Korea in the late 1980s a brand of social democratic politics has evolved, even if it is not officially declared, recognised or treated as such. President Kim Dae Jung (1998–2002) not only encouraged neocorporatism (a tripartite alliance of employers, employees and government) but also actively and explicitly promoted a civil society by giving financial support and allowing indirect participation in policy formation. President Roh Moo-Hyun (2003–2008) became the first president to attempt to actively implement social democratic welfare policies, even if they were not labelled as such. The fact that this experiment conducted by the governments of Kim and Roh came to an end with the election of Lee Myung-bak in 2007 may be attributed at least in part to the inability of civil society to use the suddenly acquired new freedoms and powers to push through progressive social policies. This also goes some way towards explaining why politicians failed to present the new policies as a forward-looking, incisive political model, communicating a convincing political message. In the late 1990s it would have been possible, at least in material terms, to redistribute some of the wealth being produced, but this was pre-empted by the outbreak of the structural and financial crisis. In his election campaign at the end of 2007 President Lee Myung-bak, himself from a poor background, was by contrast still able to revive a nostalgic belief in an economic miracle among the voters. But today, two years after coming to office, President Lee faces an economic and socio-political disaster – in other words, social opposition to his policies of injustice is immense and growing.

### Japan – The »Underclass Society«

In Japan, too, where the three decades of post-war economic boom gave rise to a widespread perception that anyone could become a member of the middle class simply by being industrious, that belief is now in sharp decline. Instead, Japanese citizens are now quick to use the word »injustice«, taking the view that it is now no longer personal effort that is rewarded but only achieve-

ment.<sup>29</sup> In addition, social class is nowadays determined more than before by parental status and educational level, so that the belief in an open society, in which talent, ability and effort would find a place, irrespective of social origin and wealth, has been shattered. These changes in perception have gone hand in hand with a shift in values. What we are seeing is the advent of post-materialist values, providing the basis for locally successful social movements and driving the political impetus for a new kind of society.

The »lost decade« of recession since the late 1990s has culminated in a marked shift in consciousness, manifest in the new buzzword »underclass society« (Miura Atsuji, 2006). As in South Korea, the term »underclass« is being used primarily in connection with the younger generation for whom social advancement is becoming institutionally increasingly difficult, leading to feelings of disappointment, powerlessness and resignation. In particular, the drastic shift from a relatively egalitarian system during the boom era to a piecework system, whereby workers are paid only for what they produce, is the cause of this shock. The gulf between rich and poor is widening. According to figures issued by the Japanese Ministry of Social Affairs, almost one Japanese citizen in six lives below the poverty threshold, while around one-third (34 per cent – OECD) are in marginal, temporary employment.<sup>30</sup> According to ILO figures, 77 per cent of the unemployed in Japan last year received no unemployment benefit.<sup>31</sup> However, it is not only on the labour market but also in education that those with limited means are experiencing discrimination<sup>32</sup> – this is the essence of the »polarised society« currently being spoken of in Japan.

Recently, it was Nakatani Iwao, of all people, who brought about a U-turn in the Japanese way of thinking. In the early 2000s, Nakatani was one of the key advocates of neoliberal structural reform in Japan, which makes his recently published critique of global capitalism

all the more shocking. According to him, the increasing polarisation of Japanese society is a result not of the failure of the market but rather of an intrinsic (mis-)functioning of global capitalism. In his current bestseller *Why Did Capitalism Self-Destruct?* (2008) he writes that neoliberal ideology has led to the breakdown of society and the loss of Japan's economic potential. In his proposal for restructuring Japan he makes clear that what is required is not only a rapid U-turn but above all social solidarity and the re-establishment of trust as a top priority.<sup>33</sup> There is no other alternative for Japan, he believes.

The coming to power of the Democratic Party of Japan (DPJ) and the new prime minister Yukio Hatoyama, which spelled the final end of the so-called 1955 system (the post-war political system dominated for decades by the LDP as the single ruling party), can be regarded as an expression of popular dissatisfaction.<sup>34</sup> The main issues that led to this change of government – with the active support of the trade unions – were minimum wages, child benefit, school fees and other social questions. Hatoyama makes it very clear where he sees the roots of the evil when he publicly attacks US market fundamentalism. The new leadership is worried about the destructive effects on local communities of policies such as the privatisation of the postal service (which indeed it intends to reverse). In accordance with this new approach the new government is involving civil society in policy formulation, apparently signalling a change of direction in Japanese politics. There seems to be considerable popular consensus that if the increasing polarisation is to be halted, the state must adopt a more active role vis-à-vis the market in order to restore community values.

## Market, State, Civil Society: Attempts to Readjust

In contrast to this clear rejection of neoliberalism in Japan the political reaction of the new government of South Korea to its predecessors' cautious experiments with alternative policies has been slightly different. Fundamentally, though, the societies of both countries realise that

29. Cf. Lee (2006).

30. Even if some of them probably do not depend on this income because they have other means of subsistence.

31. According to the ILO the reason why the Japanese figures are almost on a par with China (84 per cent) is that workers in temporary and other kinds of marginal employment – who make up a growing share of employees – fall through the currently existing safety net because their status does not allow them to apply for unemployment insurance.

32. A study conducted by the Education Research Institute at the University of Tokyo found that the higher the household income the higher the level of academic achievement. This means that students from poorer families generally have fewer higher education opportunities.

33. The idea of a community based on solidarity discussed here has sparked a lively debate in Japan, for example, about projects for alternative living arrangements, including an experimental revival of the traditional neighbourhood communities.

34. If one looks more closely at the reasons for the electoral outcome (for example, the reformed electoral system), it is perhaps not quite so striking. Cf. Köllner (2009).

the »500-euro generation« in South Korea and the »underclass society« in Japan are problems that cannot be ignored and urgently require solutions.

Civil society actors have been formulating these acute problems for some time, and as the two countries go through one crisis after another, politicians too are realising that they cannot just sit back and let things take their course – even if this merely means addressing the problems in a convincing way in their election manifestos. The private sector, too, is aware of the problems, but its involvement in the market means that it is less forthcoming in finding solutions.

This means that a new mode of cooperation between state, market and civil society must be found. For a long time the state and the market in East Asia engaged in a special and »efficient« form of cooperation. The state issued planning targets for the major conglomerates and provided funding to help them achieve them, thus encouraging the development of *chaebols* as a way of stimulating the economy.<sup>35</sup> The strengthening of civil society, as an expression of the failure of or dissatisfaction with this traditional cooperation model, represents not only a challenge to traditional politics but also a chance for the future. What form this will take is still unclear but we can already say that the society of the future will not be content with simply plugging the gaps created by market or state failure. Welfare and education are the two chief areas where the state has succeeded in shifting responsibility to the private sphere.

This means that state, economy and society must engage in a new, more »effective« form of cooperation. In this context, various models of good governance are being discussed; however, as long as it is only the anglicised terminology that changes, while the old wine of the traditional corporations is simply decanted into new *neocorporatist* bottles, little will change. In other words, what is required is a qualitatively new approach. One possibility might be to assign a major role to civil society, which has already played a key role in recent developments, under the slogan of »decolonisation of life-worlds«. In other words, reviving a civil society based on the principles of solidarity and of a strong state that looks after its citizens and distributes the more modest cake into equal portions in a sustainable manner. Stated simply, the main ideal of

social democratic politics is a policy of social justice or redistribution, and as such is oriented more towards society or the state than towards the market. Particularly in East Asia, where the concept of a state that provides for its citizens has a long tradition, a new approach might be to reduce statehood in favour of civil society, while at the same time giving the state a greater or qualitatively different influence on the market.

## Prospects – Trust, Codetermination, Autonomy

Neither in South Korea nor even in Japan has the welfare state ever been as extensive as in Germany, which has led some to speak of a stunted »Confucian welfare state«. <sup>36</sup> Nevertheless, the idea of dividing the cake of prosperity in a relatively equal fashion has already become textbook wisdom, even if this is tempered by elements of meritocracy. This goes some way towards explaining the landslide victory of the Democrats, who made these things central issues of their campaign in the Japanese parliamentary elections, and also the controversies with which South Korea's reactionary government is now bound to be confronted. Education is a particularly sensitive issue in East Asia. In South Korea, with an eye to social advancement, the majority of expenditure on education automatically has come from society. However, there have been calls for many years for a qualitative improvement in state educational institutions in order to reduce dependence on the expensive private education sector, which has given rise to a two-tier education system. As in industrialised states in other parts of the world, unemployment, health, disability and nursing care insurance are all central issues.

These worries and demands come primarily from the »new underclass«, which by these countries' own admission makes up almost 80 per cent of the population, even if the Human Development Index suggests otherwise.<sup>37</sup> There are two things at issue here: first, the psychological task of restoring a sense of trust, security and confidence

35. Cf. Eckert (1993).

36. Jones (1993) and Rieger and Leibfried (1999), for example, see the cultural heritage of the East Asian state and the Western welfare state model as containing contradictions that are difficult to reconcile, leading them to take a culturally essentialist standpoint. The undeniable differences are explained more convincingly using the »developmental states« approach (Goodman, White and Kwon 1998) and are adequately covered by the term »new welfare states« (Esping-Andersen 1996).

37. See footnote 26.

to people who have succumbed to feelings of powerlessness and resignation; second, it is important to formulate concrete social policies as a basis for new perspectives. In political terms, this means there is potentially enormous support among the electorate for parties that can present convincing redistribution, social and welfare policies. This is demonstrated not only by the election victory of the Democrats in Japan, but also by the fact that the South Korean government (following initial attempts to force through reactionary neoliberal policies), at least in its rhetoric, seems increasingly to be taking account of the needs of »ordinary people«.

Since industrialisation, labour relations in East Asia have been conducted in a triangular relationship between government, employers and employees. While there are some differences, the governments of both countries have tended to regard private companies as an extended economic arm of government. As such, the private sector, with a view to economic growth, has been subjected to rigid prescriptions and constraints, while at the same time receiving full financial and other support, as well as the necessary freedom to meet government requirements. As global neoliberalism took hold, the state increasingly loosened its grip, while simultaneously shackling any potential – or so it appears in Japan and South Korea – for egalitarian distribution policies. Civil society, which initially put all its energy into resisting political repression, has more recently gone over to opposing the economic repression exercised by the neoliberal regime. The learning processes Japan went through in the 1970s and 1980s produced a shift away from violent confrontations between employers and the workforce. While the background in South Korea is slightly different, there, too, employers (and others) are calling for modernisation of the trade unions as a precondition for a »partnership« between employers and employees. However, if cordial relations in this thorny triangle are not simply to become a continuation of the neoliberal project by other means, the role of the state in particular must be qualitatively strengthened. Only then will the efficient relationship between the state and private companies – which was responsible for the economic boom – lead to an effective partnership, producing social advancement.

This would also involve consolidation and institutionalisation of the political parties, as well as the active involvement of civil society if the current participation and representation crisis is to be overcome. Unlike the West,

the development of civil society was comparatively weak in the pre-industrial period; however, the influence of the politicised social sphere in the post-industrial period right up to the present was all the stronger. Whereas in Japan there are already many projects under way between private companies and NGOs, South Korea lags behind somewhat with respect to the quality of such relationships. Nevertheless, precisely this fact makes the importance of civil society even plainer, above all in the social and political spheres. Ideally, therefore, the new orientation and influence of civil society should focus on both the economic and the political sphere. Just as in a democracy human rights do not end at the factory gates, so in a post-neoliberal age the aim should be to stop separating economic issues from political and social ones in order to play them off against each other and instead to address these issues jointly with civil society as a unifying element.

Japan has a far longer tradition of social democratic or at least welfare policies than South Korea, and is therefore ahead of the latter in this respect. The powerful Japanese economy was able to make social provisions earlier than South Korea – ensuring that there was something to distribute before the globalisation of neoliberalism brought about a convergence of the structural problems associated with it and confronted all industrialised states with more or less the same problems. Civil society also has a greater say in local and community politics in Japan than in South Korea.<sup>38</sup> The same goes for the exercise of corporate social responsibility. Hence the voting behaviour of Japanese citizens in the most recent parliamentary elections, where they clearly supported a return to a more just education policy, the further expansion of pensions, health and welfare provisions and the strengthening of local autonomy.

After a little under two years of reactionary neoliberal policies pursued by the new government under Lee Myung-bak, South Korea now faces regional and local elections, which are expected to send a similar signal to those in Japan, if perhaps not such a clear one. Whatever the election result, South Korea urgently needs to increase the role of civil society in political decision-making. That means, on the one hand, that institutional changes are necessary to provide the legal and infrastructural basis for greater participation. What is also required,

38. That there is still room for improvement is confirmed, for example, by the latest study by Foljanty-Jost (2009).

however, is more political education for South Korea's citizens in order to give them the necessary intellectual autonomy. This means, for example, that the decentralisation of political institutions, which was delayed for decades by dictators and was only cautiously resumed in the mid-1990s,<sup>39</sup> must be translated into real autonomy for regional and local government. Although this is still an issue in Japan as well, South Korea is further behind. So far, the »new freedom« vis-à-vis the central government has largely been expressed in interregional competition to attract major international business, sporting and cultural events. And the fact that the rudimentary instruments of direct democracy introduced so far have not got very far is surely not unconnected with this. A very important aspect of preparing to give civil society a much stronger role in decision-making is the necessary political education, which would liberate citizens from their one-dimensional and passive »political barometer« function. Only once these aspects – which may at first sight seem obvious – are addressed simultaneously and seriously, can the idea of cooperation on equal terms between market, state and society be tackled realistically.

As we have seen, Japan and South Korea<sup>40</sup> face very similar issues and problems. A readjustment of the relationship between state, market and civil society is therefore an important precondition in both countries for sustainable social and democratic policies in the future

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39. On this, see Ahn (2005).

40. Despite all the similarities, which seem to lie mainly in the structural convergence brought about by neoliberal globalisation, it is nonetheless evident that Japan and South Korea differ not only from Western countries, but also from each other.

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## About the authors

**Laurent Baumel** is Deputy International Secretary of the French Socialist Party (PS).

**Tibor Dessewffy** is the President of DEMOS Hungary and Associate Professor at the Faculty of Social Sciences, Eötvös Loránd University (ELTE), Budapest.

**Gabor Gyori** is a Senior Researcher Analyst at DEMOS Hungary.

**Anke Hassel** is Professor of Public Policy at the Hertie School of Governance, Berlin, and currently Senior Visiting Fellow at the European Institute, London School of Economics.

**Hannes B. Mosler** is a PhD candidate in Political Science at Seoul National University (South Korea) and a researcher at the Institute für Korean Studies at the Free University, Berlin.

**Carlos Mulas-Granados** is the Executive Director of the IDEAS Foundation, Spain.

**Christoph Pohlmann** is a political analyst at the Friedrich-Ebert-Stiftung, Berlin.

**Lena Sommestad** is Professor of Economic History at the University of Uppsala, Sweden, and former Minister for Environment.

**Mark Wickham-Jones** is Professor of Political Science at the University of Bristol, United Kingdom.

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Responsible:  
Dr. Gero Maaß, Head, International Policy Analysis

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