



The power of European integration

Social democracy in search of a purpose

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Abstract

Since the end of the heyday of nation-state social democracy, centre-left policymakers across Europe have been in search of a governing model capable of responding to ever-increasing global – and indeed regional – interdependence and taking on the destructive and undemocratic forces of capitalism. The European Union is supposed to form an integral part of this model. However, the left's internal heterogeneity, persistent self-doubts, and, above all, the absence of a clear line of reasoning about the power and purpose of European integration have so far impeded a stronger social democratic imprint on the European project. This paper looks at the underlying causes of this weakness in social democratic pro-Europeanism, setting out three specific predicaments: first, the overwhelmingly economic logic of EU integration; second, new political cleavages within the European electorates; and third, the EU's idiosyncratic institutional architecture. It proceeds to consider how the centre-left can become a more dominant agenda-setter in the EU context, offering concrete ideas and solutions.

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After the Third Way: The Future of Social Democracy in Europe

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The social democratic parties were once the strongest political forces in Europe. Today, however, they appear disorientated and rudderless, crucially lacking the ideological, intellectual and organisational vitality which underpinned their strength in the post-war political landscape. Electorally marginalised, seemingly ideologically exhausted and often out-of-step with the contemporary zeitgeist, European social democracy is currently in profound need of revision and renewal – potentially its very existence as a political force is under threat. This book marks a serious attempt to forge the intellectual backbone of a renewed social democracy fit for the 21st century. Bringing together leading academics, political thinkers and policy experts, it offers a new and original perspective on ideological and policy innovation and will be invaluable reading for anyone interested in the future of social democracy.

1. Introduction	4
2. The weakness of social democratic pro-Europeanism	5
3. EU predicaments in social democratic politics	7
3.1 The economic logic of European integration	7
3.2 Europe's political fragmentation	9
3.3 Idiosyncrasies of the EU's institutional architecture	10
4. Choice and purpose in EU politics	11
5. The quest for a more assertive and relevant policy agenda	13

1. Introduction

For most of its past, the European Union has struggled to provoke political emotions or ideological contention. Too complex, too technocratic, too remote, and too irrelevant – the image of Brussels has not easily lent itself to the stories, arguments and narratives with which politicians seek to court their national electorates. Many have argued that only such a hidden and impenetrable role would allow EU integration to proceed, carefully managed by Europe's ruling classes as they quietly developed an exceptional mode of transnational governance. Indeed, the unique design of this mode of governance now accommodates a continent-wide parliament with genuine law-making powers, a sophisticated rules-based system for open borders guarded by a single judicial authority, and even a common currency. Despite many hick-ups over recent years, progress on integration went by and large according to plan.

This quiet convention was dramatically interrupted, however, by the ramifications of the global financial crisis of 2007-08, which started as a US subprime mortgage crisis, was followed by a severe credit squeeze on the real economy, and turned into a crisis of sovereign indebtedness in the eurozone. All of a sudden, the EU became a very emotive subject.

In the streets of Athens, Madrid and other European capitals, demonstrators directed their anger against what they perceived to be a ruthless bureaucracy which was about to decide on the fate of their nation. Others, in turn, rallied against the looming spectre of a "transfer union", in which cautious housekeepers were bailing-out their profligate family members. The fight for the euro markedly exacerbated the divisions between the fiscally prudent northern countries and their less conservative southern partners. It shook the power balance between the EU's institutions, prompting both intergovernmentalists and federalists to demand further revisions to the Lisbon Treaty whose accomplishment had proved such a nerve-wracking task not long before. Not least, the effects of the crisis sparked a new debate about the possibility of a multi-speed or two-tier Europe – not so much out of choice but out of sheer necessity.

In essence, the thread connecting these disputes is how to reconcile reinforced supranational governance, deemed indispensable for safeguarding Economic and Monetary Union (EMU), with democratic legitimacy and national self-determination. The tensions and trade-offs surrounding deeper political and economic integration are now firmly back on the table, only this time they have been further exacerbated by the reluctance of political parties to acknowledge the significance of constitutional politics: how should we govern – and be governed – in a world where borders count less and less? Needless to say, this question is proving to be highly controversial among policymakers of all political stripes. European governments are faced with far-reaching choices on accepting tough benchmarks and common standards, setting up strict mutual supervision and pooling competences in sensitive policy areas – such as fiscal policy and taxation – which hitherto constituted the sovereign and unreserved rights of proud and independent nation states. If the struggle for democracy in Westphalian Europe took decades or even centuries, its redefinition in the EU polity is currently being fast tracked.

At such a fundamental moment in the process of EU integration, the centre-left cannot simply hide behind the façade of opposition politics, shifting the responsibility onto the incumbent centre-right governments that currently rule across Europe. There is much more at stake than just contributing to the debate about how to fix the EU's immediate problems. Devoid of a clear governing purpose in the aftermath of the financial crash, and stuck in the midst of a profound identity crisis, social

democracy is struggling to come to terms with unbridled market forces in an age of rapid global change. In this context, the EU has turned out to be an amplifier *and* a promise – yet the left seems largely oblivious of both.

The purpose of this paper is to shed light on the existing weakness of social democratic politics *vis-à-vis* the EU and to offer some direction for how the left can use the power of European integration for its own objectives. To be sure, such ambitions make for a tall order. Today, social democratic pro-Europeanism is increasingly questioned from within while also enjoying little public recognition. Instead, it is the parties of the centre-right who have – until very recently – been recognised as competent problem solvers at the European level.¹ How has this come about?

2. The weakness of social democratic pro-Europeanism

To find the answer, it is worth briefly exploring the relationship between social democracy as an ideology and the motivations behind European integration. This relationship matters because in political and public debate it tends to be overshadowed by the excessive focus on personalities and individual achievements. For instance, much has been written about the fact that the majority of the EU's founding fathers – from Robert Schuman and Konrad Adenauer to Alcide De Gasperi and Jean Monnet – were of a conservative creed. It is also often pointed out that it was the likes of Helmut Kohl and Margret Thatcher who ultimately defined the balance between “deepening” and “widening” in their very own ideological battle over the future of the EU. But social democrats, too, demonstrated visionary leadership in the interest of Europe: Aristide Briand's speech, as early as 1929, calling for a union of European nations; Paul-Henri Spaak's masterminding of the report which paved the way for the creation of the European Economic Community (EEC) in 1957; or Willy Brandt's *Ostpolitik* that made re-unification conceivable in the long run – to name but a few.

What primarily distinguishes left from right is social democracy's internal conflict with the basic idea of transcending national politics and pooling sovereignty in the pursuit of collective interests

What primarily distinguishes left from right is not so much the political merit which has (or has not) been attributed to individuals in the course of history, but rather social democracy's internal conflict with the basic idea of transcending national politics and pooling sovereignty in the pursuit of collective interests. The European idea was as ingenious as it was simple: only a state of dependency between the different nations' key industries, as well as other economic activities such as farming, would secure long-lasting peace on a continent where the quest for hegemony and resource dominance had caused so much misery and devastation. The steel and coal industries, traditional strongholds of social democratic and trade union support, thus became the first targets. What followed was a determined drive by leading policymakers throughout the 1960s and 1970s to use the power of integrated markets to cement the vision of an interdependent Europe. The left, for its part, remained by and large a passive bystander, occasionally voicing criticism yet without challenging the project at its core. The cause of friction was less about the objective itself but more the “market” as the principle means. Social democratic ambivalence was the inevitable result.²

The turning point came in the 1980s. Elected on a platform of traditional left-wing ideas, including far-reaching re-nationalisation, Keynesian spending programmes and punitive taxation, François Mitterrand conceded, less than two years into the first term of his presidency, that “socialism in one country” essentially had no future alongside the development of a European community in which

1. See, for instance, “Ansichten über die Europäische Vereinigung”, Survey published by the Konrad-Adenauer-2. Stiftung, October 2010; Survey by Infratest dimap of 20 May 2011 on “Political parties and the Euro”. Also see results of the elections to the European Parliament, despite their contested meaning: the past two decades have shown a steady increase of the relative majority of the centre-right group (EPP) whereas the share of the centre-left (PES) has continuously declined.

2. 2. For an informative and well referenced account, see Dionyssis G. Dimitrakopoulos, “Introduction: social democracy, European integration and preference formation”, in: Dionyssis G. Dimitrakopoulos (editor), *Social Democracy and European Integration*, Routledge, 2011

the aim of economic convergence was gradually becoming more central. Capital flight in response to Mitterrand's early announcements just proved how vulnerable individual nation states had become in the customs union of the EEC.

The appointment of Jacques Delors, a pro-market socialist, to the helm of the European Commission in 1985 only accelerated the awakening of the social democratic family. The shift in thinking was significant: confronted with the dominance of monetarism and supply-side economics – brought home by a series of electoral defeats in the 1980s – the centre-left increasingly regarded European integration as a suitable vehicle for its own process of doctrinal modernisation. In this process, the focus on constraints and obstacles was replaced by a belief in the transformative capacity of the community approach. Europe became the new hope.

Scholars have put forward two main explanations for this turn towards positive engagement with the EU.³ First, social democrats began to recognise the significant implications of globalisation and subsequently accepted the view that only coordinated policymaking could deliver on the left's traditional promise of taming capitalism. Retaining a commitment to the ends while changing the means, this revisionist strand of social democracy led the way from the early 1990s onwards, as more and more centre-left parties embraced the dynamism of open markets while championing a cosmopolitan vision of international cooperation.

Second, support for EU integration served as a way to disguise and correct a perceived failure of social democratic policy output at the national level. The unfolding rationale was that unhealthy competition between labour based on wages, hours worked and the level of social spending and security had gradually reached a degree of Europeanisation at which the defence of acquired rights seemed to demand joint as opposed to individual member state action. In other words, the breaking down of barriers between EU countries (negative integration) had as far as possible to be balanced by common rules, standards and regulations and the provision of social goods (positive integration).

To many, the processes of Europeanisation and globalisation looked almost identical, making the task of pitching the former against the latter all the more difficult

In the final decade before the millennium, the social democratic family had at last adopted an unequivocally positive stance on European integration. The old doubts about using the market for a higher political and even social purpose had faded. Yet the main centre-left parties went down very different paths to reach this conclusion, with some regarding the EU as a "protector against globalisation" and others expecting Brussels to support the difficult reform processes of Europe's social models. The diverse reasoning, in turn, resulted in widely diverging preferences not only about the policy areas to be covered by integration, but also about the ultimate political goals and the institutions that could be entrusted to meet them. Social democracy's internal heterogeneity manifestly weakened the broad consensus for "more Europe", leaving the centre-left deprived of a coherent European agenda at a time when it dominated the political landscape in the EU-15. This painful lesson had far-reaching implications, inasmuch as a serious debate about Europe's socio-economic governance was largely avoided. Instead, "market failure", from climate change to global poverty and financial speculation to rising inequality, became the new prevailing motive, shifting the focus steadily from internal to external concerns. Neo-liberal globalisation was the designated enemy.

When the global financial crisis broke, the dominant picture, however, was that of a significant gap which had emerged between the political rhetoric and the prospect of real change. Social democracy

got stuck in a lonely fight against global developments whose actual implications were often ill-understood or not appreciated by the European public, let alone shared by other global players. To many, the processes of Europeanisation and globalisation looked almost identical, making the task of pitching the former against the latter all the more difficult. Moreover, the policy solutions presented by the centre-left, from a “Robin Hood” tax to a “Green New Deal”, meant little to citizens concerned with stagnant wages, job security and migration.

As a result, national politicians rushed to conclude that the EU does not lend itself easily to positive campaign themes and largely abstained from putting Europe at the heart of the social democratic offer. Centre-left support for European integration developed an empty meaning.

3. EU predicaments in social democratic politics

What are the underlying causes of the weakness in social democratic pro-Europeanism? The historical abstract illustrates how the centre-left failed to develop its own compelling narrative of how the EU could serve the goals of a more equal and prosperous society. While the direction of travel seemed to be moving unequivocally towards greater integration, the political dividends remained firmly hidden. For sure, sceptics argue that the EU has become a major electoral and political liability, as more and more people question the actual impact of European policymaking on their lives and their countries. This scepticism is, however, predominantly voiced by those who challenge the EU on *democratic* grounds. Their core argument is that democratic representation and popular influence have been seriously perverted in the European polity, undermining the nation state as the only possible guarantor of self-governing legitimacy.

What has been given far less attention is the *policy* deficit which engulfs social democratic politics *vis-à-vis* EU integration. This is not to suggest that the democratic challenge is secondary or less relevant, but that in the “living constitution” of the EU both dimensions are mutually reinforcing and hence absolutely pivotal in securing popular acceptance.⁴ From a centre-left perspective, this means coming to terms with at least three specific predicaments which have so far impeded a stronger social democratic imprint on the European project: first, the overwhelmingly economic logic of EU integration; second, new political cleavages within European electorates; and third, the EU’s institutional architecture.

3.1 The economic logic of European integration

To begin with, there is the ideational challenge of a market-driven Europe. Although social ambitions were enshrined in the Treaty of Rome, it was successive waves of economic liberalisation, in particular after the Single European Act in 1986, which developed into self-fulfilling prophecies and came to define the competences of, and the relationship between, the various levels of EU governance.

The fundamental freedoms of the internal market – of goods, capital, services and people – came to form the legal backbone to which, in theory at least, all other concerns and policy ambitions ought to be subordinated. Consequently, the role of EU jurisdiction was increasingly defined by defending the constitutionalised free-trade regime against all forms of protectionism and favouritism, giving precedence to Community over national law. While in practice its application is less rigid and dogmatic, so that political sensitivities can be respected – for instance, with regard to housing, health, the media and (nuclear) energy – European law has pushed EU integration further in the

4. Sverker Gustavsson, “European transnational constitutionalism: end of history, or a role for legitimate opposition?”, in: Elisabeth Özdalga and Sune Persson (eds), *Contested sovereignties. Forms of government and democracy in Eastern and European perspectives*. IB Tauris, 2010.

direction of economic liberalism. It is for this reason that trade and competition policy are the two areas in which the authority of Brussels is greatest.

Europeanisation must therefore be considered in a very different way to globalisation, inasmuch as the former, far more than the latter, is subject to a suprastatist principle enshrined in the Union's formal treaties. Critics, such as Colin Hay, have long deplored the centre-left's lack of imagination when it comes to alternatives to neo-liberal economics in the international order.⁵ Hay challenges the notion that the so-called "Washington consensus" meant a mere accommodation of preferences as opposed to shaping them in the first place. In the case of the EU, however, breaking the overriding logic is all the more daunting given the degree to which economic integration has deepened. It is not only that open markets have created a favourable environment for a particular kind of liberal ideology, but also that Europe's strongly intertwined economies have become powerful sources in the defence of economic liberalisation. Social policy, on the other hand – often presented as the antidote by the centre-left – does not have as much punching power and its advocates have struggled to present a coherent intellectual case for its advancement. Two countervailing aspects of EU social policy illustrate this point.

Not only has the Lisbon Agenda failed to live up to expectations, social democrats have also quickly retreated from it as they are overcome with growing self-doubts

On the one hand, there is the argument that the liberalisation of the Single Market and its four freedoms has led to a downward convergence in social security spending, in particular after the intake of the Eastern European countries. The evidence, nevertheless, suggests that fears over a cumulative "race to the bottom", brought on by policy competition and migration, remain largely exaggerated or unfounded, even though opening-up has contributed to new domestic disparities. A number of rulings by the European Court of Justice with regard to the Posted Workers Directive a few years ago – conceding primacy to the freedom of service provision over national collective agreements – briefly managed to generate genuine social outrage, but ultimately failed to resolve the chief underlying tensions: namely how to establish common ground on the level of social protection between countries at different stages of economic development.

On the other hand, it has been contended that the EU is well placed to shield its citizens from the harsh effects of international economic competition. Adherents of this view tend to frame the Union's new 21st century rationale along these very lines: if the market has become truly global, 'market-correcting' must now be increasingly European. Such reasoning demands centralised coordination in those social policy areas where positive scale effects can be identified – that is where policy is more effective if implemented jointly; for instance thanks to lower implementation costs or better insurance. Yet, the extent to which globalisation actually contributes to negative developments remains highly contested in the EU-27, not least in relation to the labour market. Furthermore, convincing proposals about where the EU can genuinely add value in the social realm have been few and far between. Consequently, limited initiatives such as the Globalisation Adjustment Fund represent the best possible outcome.

Against this background, the European centre-left looks somewhat bereft of an identity which can be linked to recognisable policy achievements. In the past, "peace", "reconciliation" and "unification" offered crucial cynosures for positive social democratic engagement with EU integration. Today, no such equivalent exists. After Jacques Delors' push for "social Europe" at the end of the 1980s, the Lisbon Agenda – an ambitious policy framework for economic and social modernisation – can be considered the last major initiative for which the left can claim true ownership.

5. Colin Hay, "Globalisation, 'EU-isation' and the space for social democratic alternatives: pessimism of the intellect: a reply to Coates", in: British Journal of Politics and International Relations, October 2002.

Yet not only has the Lisbon Agenda failed to live up to expectations, social democrats have also quickly retreated from it as they are overcome with growing self-doubts about the purpose of centre-left governance in the global age. Indeed, it seems that the left is almost ashamed of its past achievements.

3.2 Europe's political fragmentation

The second major predicament relates to the new political and electoral cleavages which the processes of integration, at both European and global levels, have created. Structural and ideological voting along traditional left-right lines is in steady decline. This has been brought about by the emergence of an additional value-based dimension which stretches along an authoritarian-libertarian axis.⁶ Along these lines, the current open economic and political order can be supported, or indeed rejected, on at least two different levels: on the one hand when it comes to the life chances and economic opportunities that individuals enjoy in a society transformed by increased competition; and on the other hand with regard to normative visions of the self, the good life, the nation, societal justice or even religion.

The current political alignment of the EU is influenced by the fact that these economic and cultural dimensions cannot be captured by consistent orientations vis-à-vis European integration. In a transnational context, Stefano Bartolini has shown that views on "boundary control *versus* boundary transcendence" have as much of an impact as views on "integration *versus* independence", while market preferences do not necessarily coincide with cultural ones even when both dimensions are aligned.⁷ In other words, someone who favours stronger national sovereignty *and* independence could either be characterised as an "economic protectionist" or a "cultural nationalist", but not necessarily both. Conversely, someone who argues for deeper EU integration *and* greater openness to the world could be a (neo-)liberal Europeanist and/or a cultural cosmopolitan. In turn, those who sympathise with renewed independence *and* an open world, are either economic liberals who tend to resist control from a new administrative centre, or globalists who prefer a loosely defined international culture to a more closed European one. Finally, a person who advocates reinforced national control *and* continued integration may be either a "social-market Europeanist" who wants the EU to carry out strict supervision of the market, or a Europhile who sees European culture as a distinct counterpart to US-driven globalisation.

As a matter of fact, this new polarisation and fragmentation affects the political system as a whole, not only social democracy. Mainstream parties have long lost their hegemonic role and ability to channel and represent widely divergent interests. In liberal democracies with electoral systems based on proportional representation, fringe, populist and "single-issue" parties have vigorously stirred up the political establishment, creating new dynamics for coalition-building and political bargaining. Although "Europe" has largely remained a non-salient issue for the public-at-large, and hence had only a limited impact on the outcomes of national elections, this may no longer remain the case in a post-sovereign debt crisis EU – as the emergence of the "True Finns" has glaringly demonstrated.

In fact, it can be considered surprising that anti-EU populism has not spread further. The Union remains a high-profile target for all those who want to challenge it on either cultural or economic grounds. For instance, sustained opposition to the European project can be framed around a dispute between the centre and the periphery, in which it is argued that integration is undermining the exceptionalism of certain groups and territories. It can also be framed around a functional divide between the economic winners and losers of market openness.

6. Hanspeter Kriesi et alii, "West European Politics in the Age of Globalization", Cambridge University Press, 2008.

7. Stefano Bartolini, "Political parties, ideology and Populism, in the post-crisis Europe", discussion paper presented at the 8th Annual European Seminar of ELIAMEP 'Adjusting to the Crisis: Policy Choices and Politics in Europe', Poros, 7-10 July 2011.

What exacerbates this challenge for the centre-left, however, is the idiosyncratic sociological composition of its support base, which originated in working class communities but nowadays seeks to transcend traditional class structures. Recent studies have shown that EU scepticism is far more pronounced among the less well educated, the less skilled and the poor than among their opposites – for both economic and cultural reasons.⁸ This exposes social democracy, like no other ideology, to strong polarising political viewpoints, rendering it almost impossible to settle on a “catch-all” position. If the left’s policy identification is weak in the EU context, its political identity is even more under siege.

3.3 Idiosyncrasies of the EU’s institutional architecture

The third predicament is institutional and thus directly impacts on the other two. The situation is well known: the EU has developed a system of governance which exhibits a unique division of responsibilities between its institutions and member states, often described under the heading of “subsidiarity”. Since its inception, the EU has gradually expanded its regulatory authority, evolving from a customs union and a free-trade area to the Single Market and a common currency. The pooling of sovereignty is obviously strongest in the case of EMU. Here, monetary policy and exchange-rate instruments of macro-economic management have been passed to the independent European Central Bank; fiscal policy is subject to strict supervision within the framework of the Stability and Growth Pact; and supply-side reforms are now closely monitored, if not coordinated, through programmes seeking to foster greater economic convergence.

If the left’s policy identification is weak in the EU context, its political identity is even more under siege

In terms of the individual institutions, conflicting views with regard to the degree of federalisation have required careful management and balance. Although the European Council, with its heads of state and government, clings to its prerogative to set the principal course of action, the European Commission remains endowed with wide-ranging supervisory and policymaking powers, while the European Parliament has steadily acquired more authority to take forward initiatives and carry out substantial legislative scrutiny. As such, the “community method” sits alongside “intergovernmentalism” and depending on the political climate, the policy issue at stake, or indeed exceptional (external) events, one can trump the other. In short, the EU is neither a loose confederation nor a genuine supranational entity.

Social democratic critics of this particular order lament two related aspects. On the one hand it is argued that the EU is a profoundly “conservative” system, inasmuch as it does not allow for far-reaching institutional change due to its consensual character and complex procedures. Instead it is said to protect the status quo and thus serve the economic logic outlined above.⁹ In effect, the multiplicity of EU power centres and their adherent processes of checks and balances do not lend themselves easily to political reformism, let alone decisive leadership. The relative weakness of the Euro-parties, including the Party of European Socialists (PES), is not only representative of an inability to gain support for EU ideals, but also of the impediments to exerting real influence in a system made up of numerous independent actors – from the nation states and EU institutions to the various political parties, interest groups and populations (in the case of elections to the European Parliament and/or national referenda).

Hence, there is an “institutional trap”: if social democrats want to pursue a pro-European policy, they are left with little choice but to adopt a politics which largely respects the prevailing settlement,

8. See for example Kevin H. O’Rourke, “A Tale of Two Trilemmas”, Institute for New Economic Thinking, March 2011, p. 14f.

9. See Gerassimos Moschonas, “Reformism in a ‘conservative’ system: the European Union and social democratic identity”, in: John Callaghan et alii, *In search of Social Democracy, Responses to Crisis and Modernisation*, Manchester University Press, 2009

before seeking its gradual modification. A full-blown attack on the EU's institutions or policies inevitably risks undermining the system as a whole.

On the other hand, centre-left politics is said to be squeezed between encumbering influence, if not unwelcome interference, from the top (the EU level) and insufficient room for manoeuvre at the bottom (the national level).¹⁰ From this critical perspective, half-way federalisation has brought the worst of both worlds to the fore. Whereas in the past nation-state social democracy could deploy the full range of macro- and micro-economic instruments to tame rampant capitalism, it is nowadays limited to prioritising supply-side reforms and fighting a rather defensive struggle to maintain existing levels of social security and welfare. The EU institutions, by contrast, lack the mandate and competences to be a more forceful corrective to the injustices created by open markets. Some, like Fritz Scharpf, have taken this argument even further, asserting that EMU makes member states suffer from uniform policies, such as one-size-fits-all ECB interest rates, which do not correspond with individual member state needs.¹¹ At the same time, the EU does not possess a suitably large budget to address the adverse effects of market integration.

The litmus test for the sustainability of this complex institutional architecture is thus whether it is capable of addressing both the destabilising imbalances *between* EU member states and the increasing disparities *within* them. By all accounts, defining this complex space is a significant challenge for social democratic practices and policies.

4. Choice and purpose in EU politics

In view of these formidable predicaments, social democracy is facing an existential choice. Will it seek to use the power of European integration for the pursuit of its own policy agenda, or will it gradually turn its back on the idea of an "ever closer union" and the aspiration of regional solidarity in a world where size matters? The choice is stark indeed because the centre-left currently occupies an uneasy, if not untenable, position in the context of EU politics: its constituency is bitterly divided along the "demarcation *versus* integration" axis; its capacity to be a driving force of the European project and exert political influence is hardly recognised by the public; its habitual policy tool box has been severely scaled down by the particularities of the EU's institutional design; and its promise of a fairer and more equal society has to some extent been eclipsed by widening inequalities across almost all of Europe.

Widespread dissatisfaction with Europe's ruling classes is taken as a convenient pretext to elevate the left's localist and communitarian traditions

Unsurprisingly, the temptation to question and challenge social democratic pro-Europeanism is growing fast. Widespread dissatisfaction with Europe's ruling classes and the state of democracy more generally is taken as a convenient pretext to elevate the left's localist and communitarian traditions, which emphasise an unfulfilled desire for self-governance over any form of macro-democratic engagement – as if a partial return to "socialism in one country" could ever present a plausible alternative to taking on the destructive forces, and undemocratic nature, of global capitalism.¹² The EU's "democratic deficit" should be of real concern to centre-left politics but it must not give way to a defeatist, or indeed parochial, view that transnational policymaking must always and inevitably be less responsive to popular demands and needs than more traditional modes of representative democracy. Social democracy that is defensive and reactionary will struggle to capture the future.

10. Moschonas, p. 181ff. Also Fritz Scharpf, "Solidarität statt Nibelungentreue", in: Berliner Republik, 03/2010.

11. Fritz Scharpf, "Monetary Union, Fiscal Crisis and the Preemption of Democracy", LEQS Annual Lecture Paper, London School of Economics, May 2011.

12. David Runciman, "Socialism in One Country", London Review of Books, July 2011.

13. OECD aggregate data of social expenditures between 1980 and 2007.

Yet if parochialism is a serious danger for a European left wracked with profound self-doubt, unwarranted despair vis-à-vis integration is another. Far from being a simple impediment, the EU's social model framework has proven highly resilient and adaptive to the deep societal transformations that have been brought about not only by open commodity and capital markets but in particular by technological advances and changes in family relations and lifestyle patterns. Social spending as a proportion of GDP has not declined since the 1980s but increased both in absolute and relative terms – at least in a majority of member states.¹³

Indeed, the economic benefits of the Single Market have significantly added to European GDP and as a result of this growth dividend, national welfare states are generally better funded, to the benefit of the low-skilled and less educated working people. Importantly, the EU legal order for the creation of the common market is underpinned by much “progressive” flanking legislation and court action in the realms of the environment, consumer rights, health and safety rules and anti-discrimination. Then there are the achievements of the European social agenda itself, which range from focusing member states on labour market modernisation, to establishing common objectives in the field of social inclusion and social protection, to redistribution in favour of weaker member states and regions through instruments such as the structural and cohesion policy. As a result, in some countries like the UK, the EU's constitutionalised socio-economic settlement is actually viewed with much great concern by the free-market and libertarian right which strongly opposes any entrenchment of social rights.

None of this is to suggest that the predicaments for social democratic politics can easily be overcome. But they do suggest that the EU after the global financial *cum* sovereign debt crisis requires a very different approach from the futile antagonism between “Market Europe” and “Social Europe”. This is to say that the dominant agenda of “market-making” or “market-enabling” is gradually being replaced by a process in which the creation of a democratically, economically and socially sustainable European polity is taking centre stage. Standards, objectives, targets and regulatory frameworks will become at least as important as directives that break down trade barriers and favour one-sided economic liberalisation. Integrated proposals of the kind that former Commissioner Mario Monti presented with regard to Single Market reform are likely to offer the most promising balance between divergent socio-economic interests in a heterogeneous EU-27.¹⁴

For the centre-left, this offers an important new perspective in terms of influencing Europe's policy agenda. Yet beyond this, it could also help to define a new social democratic governing purpose for the 21st century, one which is not only about winning back power but also about delivering against expectations, coping with external constraints, pursuing sustainable development and building trust in the practice of democratic politics; which is above all else challenged by the powerlessness of national politicians in the face of global developments. If social democracy is to rediscover its mission of marrying economic efficiency with social justice, it needs new means and vehicles for change. In this process, the EU could be its best ally.

The EU after the global financial *cum* sovereign debt crisis requires a very different approach from the futile antagonism between “Market Europe” and “Social Europe”

14. Mario Monti, “A new Strategy for the Single Market”, Report to the President of the European Commission, May 2010.

15. Jakob S. Hacker, Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer – and Turned its Back on the Middle Class*, Simon & Schuster, 2010.

5. The quest for a more assertive and relevant policy agenda

How can the left become a more dominant agenda-setter and claim stronger ownership of the EU project? For a start, social democrats need to better identify the policy space in which Europe can make a qualitative difference to the objective of creating a more cohesive and solidaristic society. Investing the proceeds of growth from increased global market competition into the welfare state and public services did not prevent widespread wage stagnation and rising income inequalities which post-hoc redistribution could not contain. The scholars Jacob Hacker and Paul Pierson therefore speak of the need to rebuild the “institutional foundations of middle-class democracy” in order to reign in the polarisation of “pre-distributed” wealth in capitalist societies¹⁵ – a challenge that middle- or small-sized nation states can hardly overcome on their own in an open and interdependent Europe.

But above all, social democrats must ensure that the programme they offer strongly reflects Europe’s most pressing structural dilemmas, including the untapped potential of millions of socially disadvantaged and economically inactive people; the destabilising divergences in the competitive position of member states as a result of poor adjustment of wages in response to a slowdown or increase in productivity; or the fragile and shrinking tax base of governments in an era of tight fiscal constraints and spending cuts. In this context, the following three broad policy ideas seek to provide an illustration of what a more assertive and relevant EU agenda for the centre-left might look like.

First, an ‘EU Social Investment Pact’ could provide an attractive conceptual answer to the overly narrow focus on competitiveness in the debate about EU economic governance and current-account imbalances.¹⁶ While the notion of social investment is not new *per se* and has been successfully adopted by some pioneering member states over the past two decades, today its operationalisation and implementation have been severely hampered – on the one hand by the prevailing emphasis on austerity politics, and on the other by a surge in populist welfare chauvinism, brought about by anxieties over immigration and the effectiveness of public spending.

A Social Investment Pact could break this logic and offer a compelling alternative vision which combines short-term fiscal consolidation with long-term policies that seek to empower individuals and contribute to societal cohesion. It would also be capable of providing a more intelligent balance between budgetary discipline and social assistance, between strict conditionality and an emphasis on progress, thus creating a real sense of reciprocity. The EU can lead from the front by setting common targets and objectives, sorting out definitional ambiguity and ensuring compatibility with other reform programmes. Much is to be gained by such a coordinated and integrated approach.

Second, unsustainable imbalances and slow adjustment processes inside EMU, and possibly across the entire EU, could be countered by a strengthened European macro-economic coordination mechanism to ensure that nominal wage and labour cost developments are more consistent with price stability and trends in productivity. The conditions of monetary union with a single interest rate have clearly exacerbated the divergences in inflationary pressures and price competitiveness across the euro area, thereby undermining its stability. For the left, this poses a particularly challenging problem as both subdued wage developments in surplus countries and above-average inflation rates in deficit countries tend to hurt the poorest in society. Meanwhile, national trade unions will be extremely reluctant to accept any infringement of their autonomy over collective bargaining. But the constraints of EMU and the ramifications of the financial crisis have basically shown that such autonomy is actually rather limited and subject to fiscal and monetary decision-making, over

16. Frank Vandenbroucke, Anton Hemerijck, Bruno Palier, “The EU Needs a Social Investment Pact”, Opinion Paper, Observatoire Social Européen, May 2011.

17. Willi Koll, Volker Hallwirth, “Strengthening the Macroeconomic Dialogue to tackle economic imbalances within Europe”, in: Andrew Watt, Andreas Botsch (eds.) *After the crisis: towards a sustainable growth model*, ETUI, Brussels 2010.

which member states have restricted or no control. In this respect, a macro-economic coordination mechanism at the EU level could be for wage-setting and inflation surveillance what the Stability and Growth Pact is for fiscal policy.¹⁷

Third, social democrats must elaborate a much clearer conception and vision of where tax competition in the EU is a legitimate means for economic catch-up, in particular by less developed and wealthy member states, and where it primarily undermines the national tax base while providing few or no benefits for ordinary citizens. So far, calls for any kind of tax coordination, let alone harmonisation, have been routinely dismissed as an outright assault on national sovereignty and each member state's freedom to compete for foreign direct investment. The left's often dogmatic reasoning on the dangers of tax competition simply did not cut through into the public debate.

Social democracy must not underestimate the power of European integration at a time when the phenomenal pressures of globalisation are asking profound questions of all traditional political ideologies

Yet in a deepened Single Market, taxation also increasingly constitutes an obstacle to the development of cross-border economic activities, while tax competition has led to a shift of the tax burden from capital to labour and consumption – to the detriment of low-income earners. The European Commission's proposals for a 'Common Consolidated Corporate Tax Base' certainly point in the right direction, but they merely seek to reduce cross-border profit shifting. What is required is a more compelling account of why formal sovereignty in an integrated EU actually undermines legitimate democratic control over the design of national tax systems, and how limited or a partial Europeanisation of tax policy can be a suitable and progressive corrective against the background of fiscal and budgetary constraints.¹⁸

To some, the realisation of these and similarly ambitious ideas might appear inconceivable, or even utopian. But at least they are not defeatist. Social democracy must not underestimate the power of European integration at a time when the phenomenal pressures of globalisation and far-reaching societal transformations are asking profound questions of all traditional political ideologies. At some point, a movement, initiative or policy idea will capture the attention of the wider European public. The centre-left ought to make sure that it is part of it.

18. See, for instance, Thomas Rixen, Susanne Uhl, "Europeanising Company Taxation – Regaining National Tax Policy Autonomy", Friedrich-Ebert Stiftung, July 2007.