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3.00 €

# The Progressive Post



## Education IN EUROPE : STRIVING FOR QUALITY & EQUALITY

### **SPECIAL COVERAGE**

Education in Europe: striving for quality and equality

### **FOCUS**

The New Pact on Migration and Asylum

### **DOSSIER**

Care economy

### **DOSSIER**

Beyond capitalism II

*Albena Azmanova*

*Robert Kuttner*

*Jernej Pikalo*

*Carlota Perez*

*Kati Piri*

*Gesine Schwan*

*Frank Vandenbroucke*

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# The Progressive Post

The Progressive Post is the political magazine run by the Foundation for European Progressive Studies (FEPS), gathering renowned thinkers, experts and activists from the world of politics, academia and civil society, providing a critical analysis of policies, and clarifying options and opportunities for elected leaders.

Our ambition is to undertake intellectual reflection and debate for the benefit of the progressive movement, and to promote the founding principles of the European Union: freedom, equality, solidarity, democracy, human dignity, as well as respect of human rights, fundamental freedoms and the rule of law.

With a focus on EU politics, our crucial interest is the state and future of social democracy. We offer a platform (in print and online) for finding progressive answers to climate change, uneven development and social inequality in a European as well as global context. We invite our readers to explore with us the contradictions of our time and our authors to put forward arguments for peace, sustainability and social justice.

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**N°15 - Winter 2021**

ISSN 2506-7362

# The post-pandemic priority: solidarity!

by Hedwig Giusto

One thing the Covid-19 pandemic has highlighted is that in a time of crisis, the most vulnerable are – yet again – the ones who take the biggest hit. That is why we have dedicated this first Progressive Post of 2021 to them: be they children, compelled to follow home-schooling, with all the difficulties and shortcomings this entails; be they adult learners, whose possibilities to continue their education have shrunk; be they migrants, who have completely dropped off the radars of public perception; or be it the entire world of care, both those who depend on it, and those who provide this care, often in the most difficult of circumstances, often with the least recognition financially and socially, and often – yet again – women and migrants.

In this issue's *Special Coverage on education*, our authors look at the manifold challenges that have recently **affected learners and education systems** in Europe. But our authors also highlight the key actors, stakeholders and opportunities that can reinforce the **European Skills Agenda** and advance the long-debated establishment of a **European Education Area**. This year can, indeed, be a decisive one for progressives to address inequality by fighting for access to more equitable, tailored and quality education, from the early days to adult learning.

Migration was a headline topic before the pandemic started raging, but it has since all but disappeared from the headlines. That is why our *Focus on migration* returns to the European Commission's announcement of the New Pact on Migration and Asylum last autumn. Our contributors analyse the potential and the flaws of this new pact, and question whether it stands up to our values. Because, as one

author puts it, **"if we give up humanity and fundamental rights when dealing with people seeking protection, what are our values worth at all?"**

The first of the two *Dossiers* is dedicated to the **care economy**. Unlike migration, care has certainly been in the headlines over recent months. Even though it has taken the most serious health emergency of the last hundred years to finally do justice to the irreplaceable role of caregivers in our societies. But have the important questions really been answered? What about the systematic weakening the care sector has suffered for years on end, in the name of a neoliberal dogma, which has made it less capable of dealing with the crisis? **What about the glaring inequality the care sector epitomises and reinforces – in terms of gender, but also in terms of the nationality of the caregivers?**

Finally, our second *Dossier – Beyond capitalism* – continues the reflection, launched in the previous issue of the Progressive Post, on the deep crisis in which today's capitalism is entrenched, and on the ways to move beyond this by **reshaping the quality of growth**. This means putting the weakest, as well as the planet, at the top of the post-pandemic priority list.



Hedwig Giusto,  
Editor-in-chief

# Editorial



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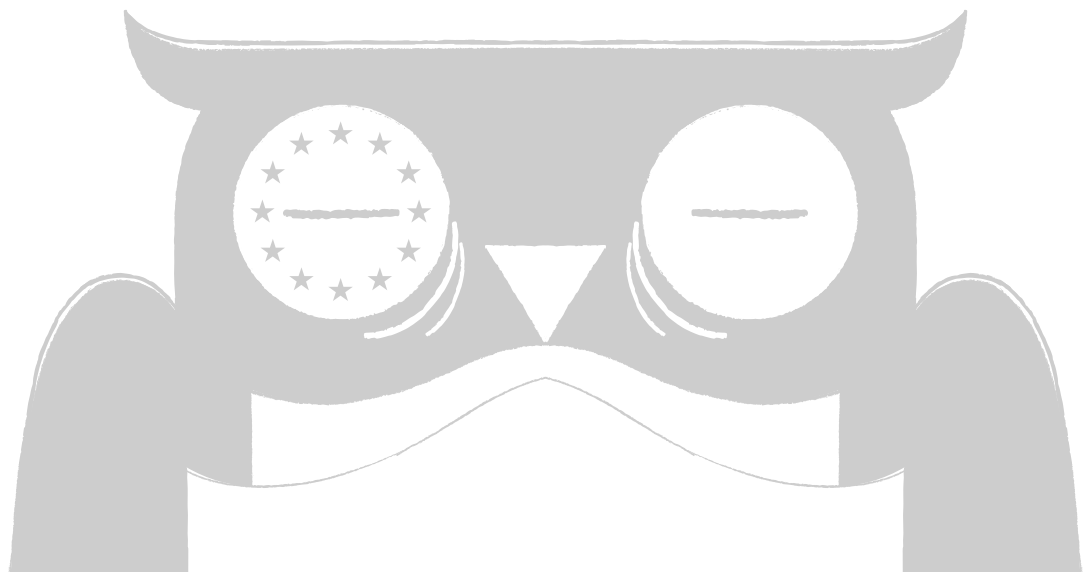
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# Portugal's presidency: to heal Europe

by László Andor

If you hated Covid-19 in 2020, you will hate it more in 2021, under the Portuguese presidency of the EU Council. The simple reason is that the period of presidency of the EU is not just a time of pushing dossiers, of dialogues and trilogues, but also one of visiting the country that holds the presidency for a variety of programmes, mainly conferences. Due to Covid-19, however, this year you will almost certainly miss out on the riverside of Porto, the seafront of Faro, or the fish market of Lisbon.

But luckily, you have all the dossiers in front of you, which represent the ambitions of the Portuguese government, the central member of the trio formed with Germany and Slovenia. And some of these dossiers, due to the relay element in the choreography of presidencies, are the ones handed over by the predecessor, in this case Germany. Since it was not so long ago, we remember well that the government in Berlin had to concentrate on the adoption of the Multiannual Financial Framework (MFF) and Next Generation EU (NGEU), and on facilitating the unholy Brexit deal that was predisposed to be a lose-lose game. Since the ink is just drying on the new budgetary framework and the Brexit trade deal, Portugal still needs to run a few circles to make all this operational. Among other concerns, it has to ensure that the hard-won rule of law conditionality does not remain on paper.

Moving towards the post-pandemic period of reconstruction, on the other hand, **Portugal today is chairing a creative process that will**

**determine the EU's future for a longer period, at least the next investment cycle.** With Prime Minister António Costa at the helm, one of the strongest politicians in the European Social Democratic family, the programme of fair, green, and digital recovery is actually the act we have been waiting for. After talking for so long about the European Pillar of Social Rights (EPSR), bringing on an accompanying action plan can open a new historic chapter, in a similar way to the memorable Lisbon Strategy of 2000.

► *The recovery after the pandemic allows the EU to develop what has been already branded a Health Union.*

And in a post-pandemic situation, a new social agenda is bound to facilitate giant leaps on health policy. Just as the reconstruction after

the second world war delivered national healthcare in various European countries (the UK, under Clement Attlee's Labour government, being the most emblematic example), **the recovery after the pandemic allows the EU to develop what has been already branded a Health Union.** This started with the coordination of vaccine procurement and dissemination, will continue with building safety nets for future resilience, and will also encompass policies to shore up healthcare capacities that have been undermined in past decades by either the suppression of public investment or the emigration of medical staff.

Compared to the creative and innovative potential of the Health Union, receiving the migration dossier with the task of delivering consensus on it, while the clock is ticking, is a perfect 'hospital pass'. **The challenge here is no less than producing a new migration and asylum policy. One that replaces the old Dublin rules, which have been outdated since at least the 2015 refugee crisis – if not already before.**

- *Portugal today is chairing a creative process that will determine the EU's future for a longer period, at least the next investment cycle.*



Last September, the European Commission put forward a proposal for the migration pact. But it immediately met massive headwind, despite moving away from the approach of the 2015 emergency schemes. Solutions must be found to two main issues: regular migration flows and migration crises. A final and sustainable deal on the pact is yet to be reached, ideally under the Portuguese presidency. But Portugal's Internal Affairs Ministry was not making its task easier when it stressed that problems related to migration from outside the EU could only be solved with 'solidarity between countries', and that 'such solidarity cannot be voluntary'. Insisting on 'flexible' but also 'mandatory' solidarity may herald clashes that could pale the ones witnessed last year around the rule of law conditionality.

**The rule of law might become the issue on which Brussels very quickly finds itself in an alliance with the newly dominant US Democrats.** Mending the transatlantic relationship is an agenda that has momentum, now that Joe Biden has moved into the White House in Washington DC. However, **any assumption that some kind of pre-Trump golden age can**

**be restored will only lead to disappointment.** The future can only be different from the past, whether the subject is Chinese technology or any other issue of international affairs.

It is somewhat ironic that the UK left the EU to pursue the vision of a 'global Britain', since implicit in the Portuguese presidency programme is the vision of a 'global European Union'. A summit is scheduled with India, and important reference is made to deepening the relations with Africa as well as with Latin America. Concerning a newly reformed multilateral framework, the Portuguese, as explained by their Europe minister Ana Paula Zacarias, are aiming at no less than setting international standards for social inclusion, labour rights and environmental protection.

**Since 2016 and the twin trauma of 'Brexit and Trump', EU actors have had ample stimulus to work on the concept of strategic autonomy, especially since a self-dubbed 'geopolitical Commission' entered office.** It is of course easier to talk about such concepts in general terms than to define a specific European position on China, Russia, or Iran,

and, if necessary, to defend it vis-à-vis the US administration. But with the new US leadership's finger on the reset button, and the world awakening from the shock of Covid-19, no better momentum should be expected. Hic Rhodus, hic salta!



*László Andor,  
FEPS Secretary General*



# A European Social Pillar to shape a larger transformation

by Maria João Rodrigues

An action plan is currently being prepared to implement the European Pillar of Social Rights. But this is also the time to take a long-term perspective, and to reflect on what should be the social dimension for the next phase of the European project.

Let us first recall what kind of social dimension was proposed for the European project in its previous big moments.

**The concern about the social dimension has been present since the beginning**, when the Common Market was created by the Treaty of Rome in 1957 including an embryo of the Social Fund to support restructuring industries and increase economic and social cohesion. This social dimension was present later too, with a long list of directives to develop the European Single Market. These included some key legislation to ensure a level playing field on basic working conditions – including a posted workers directive. The legislation was crowned with the Community Charter of Fundamental Social Rights for Workers. Some of these rights were then enshrined in the European Charter of Fundamental rights and later included in the Treaty of Lisbon.

**Another important advance for a social dimension was given by the Lisbon Strategy for growth and jobs**, which was adopted for the decade of 2000-10. During this time several social policies from education, to employment, to social inclusion and social protection were given a more explicit European dimension, in an attempt to coordinate national policies with key European priorities to be supported by the EU budget.

However, when the financial and eurozone crisis hit in 2008-15, several member states lost the conditions to implement this strategy. Instead, an incomplete Economic and Monetary Union then triggered a powerful downward spiral that undermined several social safety nets and basic social standards. This very painful experience taught the important lesson that the European social dimension is a fundamental aspect of the European project for both economic and political reasons: firstly, because undermining social conditions also undermines economic recovery and budgetary rebalancing; and secondly, because all this also undermines basic political support for the European project.

This lesson seemed to have been learnt by the time the dramatic Covid-19 crisis struck – a crisis which has brought not only a pandemic, but also a daunting economic and social shock. Extraordinary European instruments have thus been created in response to the crisis: the coordinated plan for vaccination – to save lives; the SURE instrument for short-time work schemes – to save jobs; and the Recovery and Resilience Facility – to save companies and living conditions.

**The European Pillar of Social Rights was launched and proclaimed in the aftermath of the financial and eurozone crisis. It brought**

**two important innovations:** the first was to define a **new generation of social rights** on the basis of an advanced concept of European citizenship; the second was to **underpin the implementation of such rights with stronger European financial instruments** backed by new European taxation. This should be at the centre of democratic European sovereignty, and the time has come to put it into action.

In order to do this, we should act with a dual purpose: one enforcing and protecting fundamental social rights for all European citizens, and the other giving citizens new life chances.

This would mean that as we cope with the dramatic impact of the Covid-19 crisis on our lives, jobs and livelihoods, we should also be able to use our anti-shock, recovery and reconstruction plans to transform our future with better life chances and updated social rights.

The first element of this transformation should build on a growing aspiration for a healthy life – for us and for the planet – and a new sense of well-being based on a transformation that goes beyond growth and is more aligned with the sustainable development goals. This is the cultural movement we need to inspire the Green Deal, pushing for new investment and new jobs to gradually replace the old ones.





► *Experiences in person are irreplaceable, but it is better to start preparing everybody for hybrid solutions that combine in-person and remote contacts, if we want to prevent big new social inequalities.*

But there is a second element of this transformation which is being hugely accelerated by the Covid-19 crisis, and which has an enormous impact in our lives. This is digitalisation. Many workers have been propelled into telework, many students into online education, many patients into telemedicine, many consumers into online shopping, and many citizens into online talks and debates. We all know that face-to-face **experiences in person are irreplaceable, but it is better to start preparing everybody for hybrid (in-person and remote) solutions if we want to prevent big new social inequalities.**

This must start by making sure that all students can count on the necessary equipment and support from trained teachers to take advantage of online education and training throughout their lives. Lifelong learning must become a new universal right – and duty – for the 21st century, one that operates with a full range of hybrid solutions from personal tutors to Artificial Intelligence (AI) and in-depth learning.

Another urgent and crucial issue is to assess **the implications of digital technologies for working conditions and jobs.** Many sectors are being reorganised by the emergence of big online platforms. Most of their workers can no longer be considered freelance and should be able to count on decent labour contracts and

access to social protection. The same applies to all the workers who are now moving to telework.

The implications for work content and for employment trends can be both positive and negative. It is better to be precise about this, because this time it can be different: without strong public action, the negative effects can become predominant. On the one hand, the multiplication of apps for smartphones and laptops is empowering workers (as well as consumers and citizens) with new capacities to solve many problems with less effort. The same is happening with the replacement of manufacturing tasks by robots. Many laborious tasks will disappear, but in the end many jobs may also disappear. This trend will be accelerated with the fast-paced development of AI and new algorithms, which will replace many tasks and jobs in the manufacturing and service industries.

This big transformation, which is already under way, should be shaped by three principal objectives:

- to expand the demand for new activities and jobs responding to new needs brought about by the green transition and the requirement for better public services in health, education and care;

- to shape the supply of these new activities by combining new digital solutions with more specialised workers to use them;

- to ensure working conditions with fundamental social rights for all kinds of workers, as well as universal access to public services and social protection for all citizens, thus building a welfare system for the 21st century.

**A plan to implement the European Pillar of Social Rights should be part of this larger agenda to shape a big transformation.** The first opportunity to put this into practice will be the recovery plans which are now being prepared by all member states. We need to keep a sense of a better future in spite of the current tragedy.

*Maria João Rodrigues,  
FEPS President, European  
Parliament rapporteur and  
interinstitutional negotiator  
of the European Pillar  
of Social Rights (2017),  
Policy Coordinator for  
the preparation of the  
Lisbon Strategy (2000)*





# We need a Europe that cares and that is seen to care

*The Covid-19 crisis should not just bring more Europe, but also a better Europe in health policies*

by Frank Vandembroucke

There is little doubt that the EU's role in health will increase significantly in the near future. There should not just be more Europe at play in this crucial policy domain, but also a better Europe. We need a Europe that cares and that is seen to care. There is no policy domain in which both the challenge and the opportunity for Europe to be a caring Europe stand out more than in health.

Whilst the EU seemed side-lined by strong national policy reactions in the first weeks of the Covid-19 pandemic, the bloc is now centre stage in key aspects of our response to this unprecedented crisis. Traditionally, statements by national leaders capture the attention of the public much more than statements by EU leaders. This was certainly the case in the first phase of the pandemic. But it is changing. For example, my country, Belgium, has benefitted greatly from its participation in the common European advance purchase agreements of vaccines. And Belgian citizens are fully aware of this. The announcement by EU Commission President Ursula von der Leyen that the European Medicines Agency (EMA) would accelerate the authorisation procedures for the vaccines that were in the pipeline was a sign of hope for

millions of citizens. The EU's central role in delivering freedom to all Europeans, by facilitating the complex purchase and distribution of vaccines is a test case for member states on how the EU performs when addressing a thoroughly redistributive 'solidarity' aspect of health policy. The stakes are high and political choices are extremely visible.

Or, to give another example that stands out, it is impossible to make effective plans for the safe relaunch of unlimited travel inside the European Union without a common European approach. The same holds true for large-scale music or dance festivals in a post-pandemic future, a perspective that is so important for many, notably younger, people. Large-scale festivals raise cross-border issues par excellence. Not only with regard

to the pooling of expertise, but also with regard to the coordination of our policies. We must act together on these sensitive and important questions.

The Commission's proposals for a European Health Union, presented in November 2020, tackle many of the critical weaknesses in the responses of the member states and EU to health crises in the past. The existing framework for the joint procurement of medical countermeasures does not allow sufficient speed and efficiency, and thus hampers the necessary solidarity in the face of a sudden health crisis. It must be improved. However, public opinion research which I conducted myself before becoming Minister in the Belgian government, shows that **a significant majority of our citizens support such joint**

**procurement of medical countermeasures, and even prefer centralised approaches that assure effective solidarity** over less centralised approaches to joint procurement.

The member states' public health policies and healthcare systems must be ready to respond to such crises in the most effective way. This requires a strong, reliable and proactive European health crisis response mechanism, which enhances the existing acquis of EU-level cooperation and networking. **Whilst the European Centre for Disease Prevention and Control (ECDC) and the EMA are doing a good job, their resources and remits must be expanded.** And huge investment is needed in European health research. Additionally, we should support the Commission's call to establish a dedicated European authority to strengthen our preparedness and response capability for new and emerging cross-border threats to human health (HERA, Health Emergency Preparedness and Response Authority).

A European Health Union thus needs to become part and parcel of the European Social Union which is already incrementally – and still tentatively – taking shape through

various Commission initiatives over the last few years. Importantly, **to make a European Health Union a tangible reality, the EU and the member states must put their money where their mouth is.** The fact that the European Council and the Parliament now agree on a public health budget of €5.1 billion is very good news. This is 13 times the budget for this programme in the pre-Covid period and three times more than the €1.7 billion that first resulted from the July European Council summit. Even more resources to support the national health systems will become available through the Recovery and Resilience Facility. Such an important budgetary effort will give the EU unprecedented leverage in enhancing the resilience of the member states' healthcare systems and policies.

Capacity building in this manner can improve health solidarity not only within member states, as higher efficiency can be achieved, but importantly also between member states, where health inequalities remain staggering. The available budgets create unprecedented opportunities. Developing a coherent vision for strengthening the resilience of national health systems and improving access to high

quality healthcare is now crucial. For this, we need a fundamental shift in the EU's approach to healthcare: **whereas healthcare has often been perceived and presented as a 'cost factor' in the European economic and budgetary governance, to be contained and restrained, now the Commission underscores the vital importance of health as a productive factor**, because when our health is in danger, our economies are in danger. We must not forget this 'lesson learned' and keep its practical implications high on our agenda.

► *In the past, healthcare has often been perceived and presented as a 'cost factor' in the European economic and budgetary governance, one that needs to be contained and restrained. Now, however, the Commission underscores the vital importance of health as a productive factor.*



*Frank Vandebroucke,  
Minister of Social Affairs  
and Public Health,  
and Deputy Prime  
Minister in the Belgian  
Federal Government*





# A tax agenda for a fair recovery

by Pedro Marques

The past year brought us a pandemic and the most severe economic shock of our lives. But even confronted with both challenges, EU member states were still able to come together and find joint ways to address the health crisis as well as to deliver on a recovery package to relaunch our economy. The European Union showed, even to its fiercest critics, that it can act as a whole and provide results that work for the common good. This should motivate us to consider other areas where cooperation would equally be beneficial, but in which, for the moment, it remains suboptimal. For example: the field of taxation.

Even after being confronted with several tax scandals, such as the Panama Papers, LuxLeaks or the Paradise Papers, **no decisive action has been taken to achieve tax justice.** Yet it is clear that the European Union's current set of rules is outdated and unable to deal with tax evasion and tax avoidance schemes. Tax planning consultants and wealth managers are able to make profit by exploiting loopholes and circumventing the law.

In the EU, for instance, even if value is being created in a particular country, there is currently no effective way to prevent profits from being shifted and booked in low-tax jurisdictions. This regulatory environment allows multinational enterprises, particularly those operating in the digital economy, to shop around for the lowest tax rate, **thus undermining national tax policies and leaving SMEs and workers to foot the bill.**

Furthermore, countries are also pressured to engage in a race to the bottom to merely retain the tax revenue that already belongs to them. This is not just a matter of opinion: it is a fact.

**In the European Union, corporate tax rates decreased from 35 per cent in 1995 to an estimated 21.4 per cent in 2020.** Unfortunately, not even the clearest evidence is enough to satisfy the market religion of liberals and conservatives, both of which have repeatedly opposed the S&D Group's proposal to have a minimum effective corporate tax rate of 18 per cent at the EU level. **Desperate tax competition is not a solution and it has been driving the welfare state into stress and fiscal austerity.**

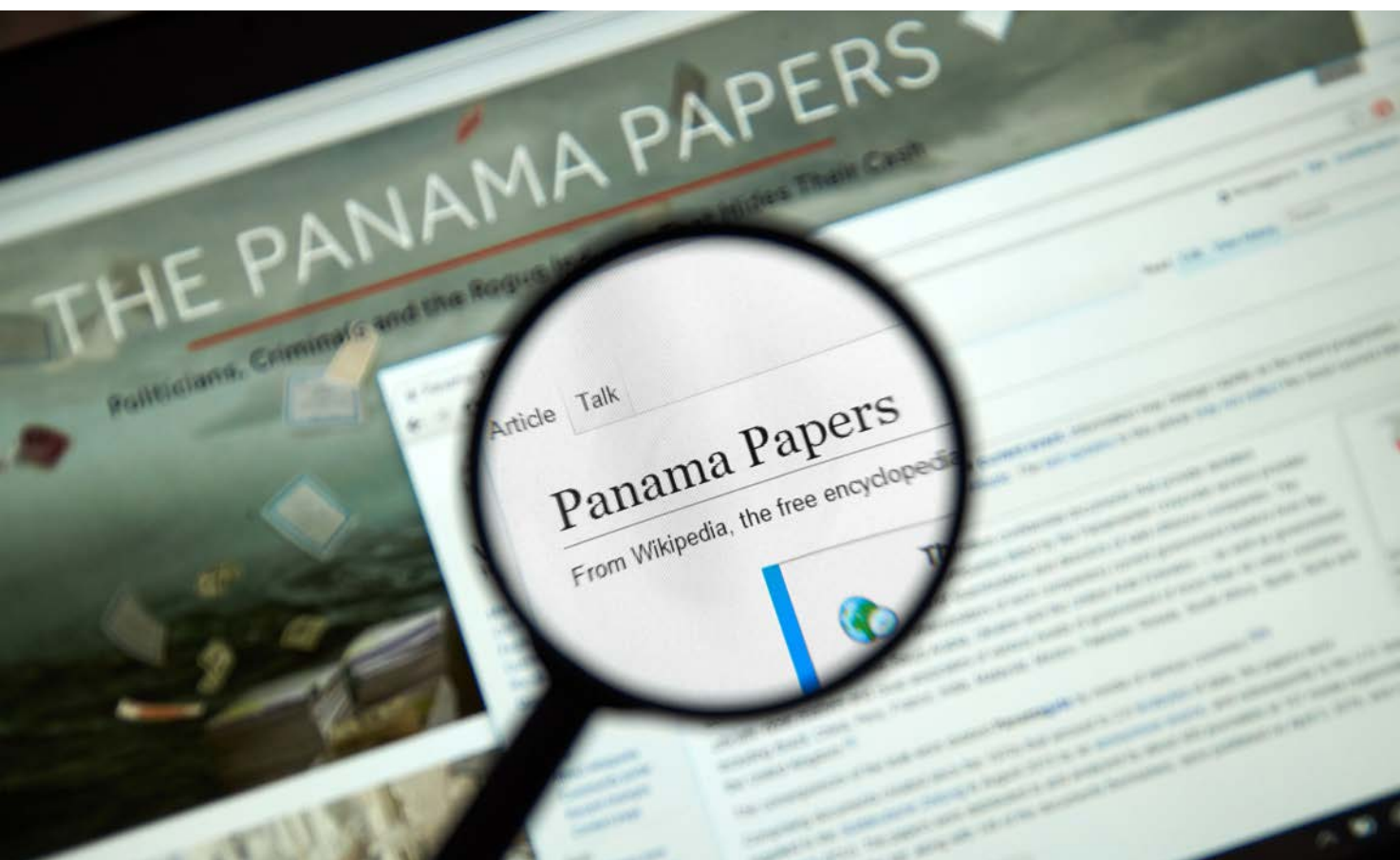
► *No decisive action has been taken to achieve tax justice.*

Thankfully, there is a silver lining. Public opinion is more aware than ever of this issue and politicians are being pressured into fixing the loopholes that have been fueling this unbalanced system. **The OECD has launched the BEPS 2.0 project (Base Erosion and Profit Shifting), which seeks to reach a broad agreement on an international tax reform.**

The initiative is divided into two pillars: the first is tailored to address challenges arising from digitalisation and the modern economy; the second seeks to establish a global minimum effective level of taxation. This is a historic opportunity to make globalisation work for the many. The European Union should be committed to the OECD negotiations, and even more so in the light of the recent leadership change at the head of our historic ally, the United States.

**Nevertheless, we must be ready to pursue an alternative in case the global negotiations are unsuccessful or underwhelming.**

The European Commission has already shown ambition to pursue common solutions for all member states. That includes the current consultation on a digital levy, but also previous initiatives, particularly the Common Consolidated Corporate Tax Base (CCCTB), which seeks to establish a common set of rules for corporate taxation in the single market. Seemingly, there is a key obstacle to moving forward at the EU level: **it requires unanimity,** which has consistently reduced our ambition when it comes to promoting tax justice.



Until now, the discussion to move past unanimity and to deliberate on tax matters through qualified majority voting has been unfruitful. Many are quick to uphold the banner of sovereignty as a shield against using the community method, but equally quick to forget that **there is no such thing as sovereignty when tax policies are being forced upon our countries by multinational corporations.** It is not admissible that families, working people and the middle class are asked, once again, to make sacrifices, while the largest corporations enjoy even more profits, but remain undertaxed. **As we look to financing the recovery, fixing the corporate tax landscape must become part of the equation.**

This is a window of opportunity – a small one – to make lasting positive changes to the tax systems in Europe, thus ensuring more equality, sustainability and redistribution of wealth: green taxes that include the *polluter*

*pays* principle and that favour a just transition towards a sustainable economy; a financial transaction tax to curb speculation and to make sure the financial sector pays its fair share; taxes on extreme wealth accumulation, which could restore the quality of our public services and contribute to debt sustainability. **Such new taxes could dramatically boost the fiscal firepower of our countries, finance the recovery, and ensure a relief for workers and SMEs.**

We should not refrain from debating how to address the expectations of citizens when it comes to achieving tax justice. As the Conference on the Future of Europe approaches, a profound reflection on tax justice, and on the ways to attain it, should be on the table. This is how we achieve true tax justice. This is how we leave no one behind.

- ▶ *As we look to financing the recovery, fixing the corporate tax landscape must become part of the equation.*

*Pedro Marques,  
Member of the European  
Parliament, former  
Portuguese Minister of  
Planning and Infrastructure*





# The EU's multilateral ambitions: the why and the how

by Nicoletta Pirozzi

On 17 February, the EU High Representative for Foreign Policy Josep Borrell and the European Commission released a joint communication on strengthening the EU's contribution to rules-based multilateralism. At first sight it is a document like previous ones, but a closer look also reveals important changes in how the EU sees itself on the international stage.

One might question the need for a new document to reiterate the EU's commitment to multilateralism, given that this has been enshrined as the guiding principle of the EU's foreign and security policy in all major strategic documents of the last two decades. Yet, there are two good reasons why the Union should renew and qualify its multilateral approach to international affairs. The first, and more pressing, is the need for coordinated action at global level to face the Covid-19 challenge and its consequences – be they sanitary, or the economic and social threats to the resilience of our societies. The second reason is the opportunity to join forces again at the transatlantic level after the disruptive unilateral moment imposed by the Trump administration, and the return of the US to multilateral fora – from the World Health Organization (WHO) to the Paris Agreement – initiated by President Biden.

Indeed, it is interesting to note that once again **the EU's assertiveness in promoting multilateralism comes as a reaction to a phase of denial by its transatlantic ally.** This had already been the case in 2003, when the then High Representative Javier Solana published the European Security Strategy, and the Commission

its communication on the choice of multilateralism: two pivotal strategic documents that marked Europe's distance from the unilateral US invasion of Iraq by the Bush administration.

Almost 20 years later, the EU has chosen to do the same, with a similar aspiration to revitalise both multilateralism and its own role on the world stage. And in fact, the joint communication explicitly underlines the compatibility of the EU's strategic priorities and objectives with a multilateral stance, "as the principles that underlie the EU are the same as those of the United Nations". But how do the content and the spirit of this post-Covid and post-Trump communication on multilateralism differ from previous documents?

The first twist relates to the 'why' the EU should continue to embrace multilateralism. While the communication reaffirms the EU's engagement in promoting peace and security, together with fundamental rights, universal values and international law, it stresses that "these efforts go hand-in-hand with a more interests-based approach". **In line with the "principled pragmatism" in international affairs proposed by the 2016 EU Global Strategy, and taking it to**

**the extreme, the communication advocates a more assertive EU that uses multilateralism as a means to achieve concrete policy priorities.** With it, the EU seems to embrace a more realistic and less normative stance in its external action, thus acknowledging the inescapable emergence of a multipolar world, the transactional nature of the global system and the prevalence of power politics. This also adheres to the belief that the EU needs to become more geopolitical, as European Commission President Ursula von der Leyen has pledged in her vision of the mandate of the Commission – even though this is currently still more an aspiration than a reality.

The next turn in the joint communication concerns the 'how' the EU should pursue its multilateral agenda. Crucial attention is placed on "extending international norms, standards and cooperation" on issues ranging from rule of law to international taxation, from digital cooperation to consumer protection to environmental degradation. It is intended as a way to cope with the proliferation of powerful norm-shapers that operate outside institutionalised channels, like digital platforms and multinationals, thus requiring

"active regulatory cooperation" at global level and "more ambitious standards and rules" to tackle disinformation, digital finance and internet governance.

It also states that the EU should work to "reform what needs to change". Interestingly, well-deserved attention is devoted to the strengthening of institutions such as the WHO and the World Trade Organization (WTO), but this is not accompanied by a similar focus on the UN Security Council, for which the communication talks about a general commitment to a comprehensive reform. It seems that, after the repeated unsuccessful attempts of the past, the EU has given up on the need to equip the global order with a functioning, legitimising peace and security body. And **yet there are a number of reform proposals that could be promoted by the EU which do not require a hard-won amendment of the UN Charter and could become flagship initiatives to enhance its role within the UN**, as suggested by a recent FEPS report drafted by the Istituto Affari Internazionali (IAI).

Finally, the communication diverges on the past approach on the 'what' in two main respects. It insists much more than previous documents on the need to focus on the internal "coherence, unity and solidarity" of the EU as a condition for more effective external action, thus recognising the unprecedented challenges affecting the European project and the increased urgency of enhanced coordination among institutions and member states. Furthermore, it proposes a sort of 'modular multilateralism', centred on stronger cooperation with like-minded partners – first and foremost the US – to defend universal principles and rules, and complemented by issue-based partnerships with interested actors on transnational issues such as climate change, education, and technology.

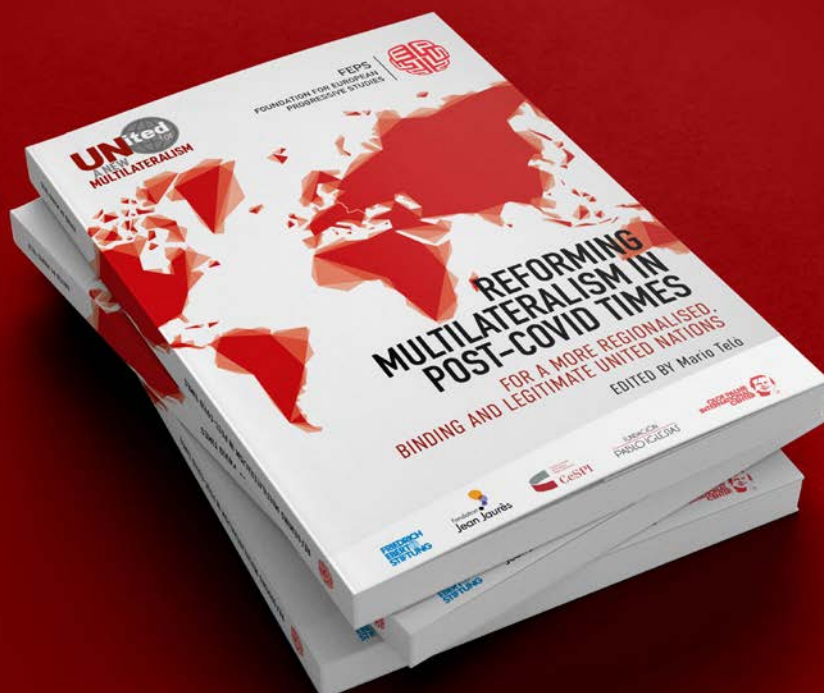
Overall, the joint communication provides an honest presentation of the gaps and opportunities in a world in transition, which is "more unpredictable and unequal", and dominated by the competition of "visions and agendas". The communication offers a candid

assessment of the EU's fragility and puts forward some solid proposals to implement the EU's commitment to multilateralism, but does not go deep enough into the analysis of its potentialities, in particular on the reform of the UN. **The current circumstances impose a healthy dose of realism, but navigating the future will require an additional injection of dynamism and ambition.**

*Nicoletta Pirozzi,  
Head of Programme,  
EU Politics and Institutions,  
and Institutional Relations  
Manager, Istituto Affari  
Internazionali (Rome)*



# DISCOVER THE NEW FEPS BOOK





# Turkish president on collision course

by Kati Piri

The Turkish president Recep Tayyip Erdoğan seems to be on a collision course with many of his country's partners, including the European Union, and in particular Greece, Cyprus and France. He has been pursuing the role of an independent but powerful actor in the Middle East and beyond, yet foreign policy is also always a reflection of national politics. For the EU, conclusions have to be drawn – and that should mean no more accession talks with the current government in Ankara.

Whilst Erdoğan's approach could be seen in the short term as an attempt to rally the population around the flag, in the longer term it will not be able to cover up the poor state of the Turkish economy, which is Erdoğan's Achilles heel.

**It is time for the EU to stand up for our principles – to suspend accession talks with this Turkish government for its bad human rights record,** to draw clear lines within NATO (together with the new Biden administration) and continue to reach out actively to the Turkish population.

By occupying parts of Syria bordering Turkey, Erdoğan showed his muscle towards Damascus, but also against the Kurds. He intervened militarily in Libya, supporting the Tripoli government with drones and thousands of Syrian jihadists. Ankara used this connection to agree with its Libyan partners on a common delineation of the exclusive economic zones in the Eastern Mediterranean, thereby contravening a deal between Greece, Cyprus and Egypt on the same maritime areas. And while border disputes and competing claims over maritime

rights are not new, the Turkish government risked a serious conflict with its NATO partner Greece last summer when it (twice!) sent a seismic research ship, accompanied by a warship, to conduct explorations in contested waters. This provoked sharp criticism from the EU, with France even offering to help the two EU countries militarily, if necessary.

The list of Turkish initiatives angering neighbours and (NATO) partners does not end here. Let us not forget Ankara's controversial decision to purchase Russian anti-missile aircrafts. And more recently, Erdoğan's active support to the Azeri side in the armed conflict with Armenia over the enclave Nagorno Karabakh. While other countries such as Russia, France and America were trying to bring about an end to the violence, Turkey was pouring fuel on the fire. And again, it was sending Syrian mercenaries to the frontline.

The latest EU-Turkey rift was caused last autumn by Erdoğan's open verbal assault on the French president Emmanuel Macron, who attributed the terrible terrorist attacks in

October to "a crisis within Islam". Macron then announced the closure of certain mosques and a ban on radical Muslim organisations. Erdoğan's description of Macron as a "mental patient" was of course a deliberate provocation, which further poisoned the already tense relations between the two countries.

**How should the swings of the Turkish president be interpreted? I would say they are a confirmation of the trend of a different Turkey taking the interests of its Western EU and NATO partners less and less into account, often even ignoring them.**

Year after year, the European Commission has produced negative reports on the human rights situation and the rule of law in the 'candidate country'. Ankara has proudly answered that these reports are subjective and has thrown them in the bin, while going further down the road to an autocratic state. And let us be honest, EU leaders allow Erdoğan to get away with it. **Most EU capitals do not want to stir up trouble with Turkey because of the migrant deal that was struck in 2016.**





- *It is time for the EU to stand up for our principles – to suspend accession talks with this Turkish government for its bad human rights record, to draw clear lines within NATO, and continue to reach out actively to the Turkish population.*

The European Council has not accepted the proposal of the European Parliament to suspend EU membership negotiations with Turkey. This must have strengthened Erdoğan in his resolve to chart an independent course. His ambitions in that regard must be taken seriously. They are the expression of broadly shared nationalist tendencies in the country, especially among the AKP's ultra-nationalist coalition partner. But Erdoğan also has a more opportunistic motive – to distract his people from the very bad internal economic situation and the negative impact of Covid-19. The fact that he has taken aim at Macron is not really a surprise. France has been very critical of Erdoğan's regime in the past and has in substance held the view that Turkey should never become a member of the EU – France's very secular orientation being one of the reasons for this view.

What will be the impact of all of this on EU-Turkey relations? The EU supports Greece and Cyprus against Ankara in the dispute over territorial waters and exclusive economic zones. But this makes the EU party to the

conflict. For mediation, one should therefore turn to NATO, or the United Nations.

What the EU could do is to put pressure on Erdoğan to cooperate in such efforts. So far, Brussels has only used strong words, but the sanctions demanded by Greece, Cyprus and France are – months later – still under discussion. It seems that some EU countries, led by Germany, prefer to use diplomatic means with Erdoğan.

With the new US president in the White House, we will have an ally to draw the red lines. I keep repeating that **the underlying problem with Turkey is not its population, but its current regime – which has no respect for the rule of law, nor for the fundamental rights of the country's citizens.** By suspending EU membership negotiations, we would make it clear that Turkey, under its current leadership, will never join. But regimes can change, and we should not write the country off as a whole. Instead, let's leave the door to the EU ajar for all those who fight for a democratic alternative.



*Kati Piri,  
Member of the European  
Parliament and Vice-  
President of the S&D  
Group in the EP*



# America as Joe Biden took office

by Robert Kuttner

As Joe Biden took office on 20 January, all the urgent questions boiled down to these two: will he be able to enact the important parts of his programme? And will the United States be able to contain and weaken a burgeoning popular fascist movement that finally got taken seriously after the insurrection of 6 January?

The two questions are related. Biden can begin to reduce the support for Donald Trump's brand of neo-fascism only if he can demonstrate to white working class voters that the Democratic programme serves their interests better than the Republican one. **Yet the appeal of Trump is not just about economic issues, it is also about racial resentment.** And even as Biden tries to link the interests of the black and white working classes with economic benefits, he will also be promoting racial justice that will be opposed by Trump's base.

Let us begin with the first question. Can Biden successfully govern? Here, there is some hope.

Thanks to the two surprising Democratic victories in the Georgia special Senate elections, the Democrats will have a bare majority in both Houses of Congress. That means, in principle at least, that they can legislate. But the Senate rules effectively require a supermajority of 60 votes (out of 100) on most legislation, due to the filibuster rule. The exception is the budget, which usually occurs very early in the session. So Biden will very likely be able to enact most of his proposed \$1.9 trillion relief package as part of the budget.

That legislation includes many provisions that are easy to grasp and that will be popular even among Trump voters. The most vivid of these is a provision increasing the previously enacted emergency payment of \$600 to every adult of moderate income to \$2,000. The Republican opposition to this level of aid is widely cited as a key reason for their loss of the Georgia Senate seats.

Other popular provisions of Biden's legislation include the liberalisation of subsidies for good health insurance, at a time when millions of American workers have lost their health coverage along with their jobs. The proposal also dramatically increases financing for production and distribution of Covid vaccines.

The hope is that these successes will increase Biden's popularity, and give him the political leverage to win at least some Republican Senate support for other measures that will require 60 votes, such as his proposal to spend \$3 trillion over ten years on green infrastructure investment. There are several Republican senators facing close election contests in 2022, and some may feel the need to support measures that provide practical help to their constituents.

**Biden is also helped by the schism in the Republican Party. Trump supporters are planning primary election challenges against the 70 Republican members of the House who refused to join colleagues in the abortive effort to overturn the election results.** Many of these House members are in swing seats, which they won in 2020 by only a few percentage points. If far-right challenges succeed in ousting these relatively moderate Republicans, those seats will be more vulnerable to Democratic wins in 2022.

These factors, taken together, increase the odds that Biden may be able to defy the usual pattern of the party of a newly elected president losing Congressional seats in the first mid-term election. **Biden could benefit from two important tailwinds. The pandemic will be over by the autumn of 2022, and the economy will be in recovery.** He is also well positioned in one other respect. The Democratic Party is famously fractious. But in 2021, it is more unified than it has been for a very long time.

During the campaign, Biden benefited from the urgent need to save American democracy from Trump. Many Democrats to Biden's

left supported him with enthusiasm, despite concerns that he was from the neoliberal Clinton-Obama wing of the party. But **after Biden's victory, progressives were pleasantly surprised by his cabinet, most of whose leading members turned out to be more progressive than expected.** In part, Biden's cabinet reflects the crisis, which will require him to be more like Roosevelt than like Clinton. In part it reflects Biden's effort to repay and extend the progressive loyalty to him in the campaign.

Thus, the optimistic scenario: Democratic unity holds; Republicans continue to fragment; Biden governs successfully, and Democrats pick up House and Senate seats in 2022, and they even peel off some Trump voters based on the strength of the economy.

A less optimistic scenario would have Republicans divided over loyalty to Trump and the far right, but all too unified when it comes to blocking Biden's programme. We will soon learn which obtains.

But the second question is far more vexing. **It is one thing to topple an aspiring tyrant, it is another to deal with authoritarian and even fascist views that live on in perhaps one third of the electorate.**

Thanks to legislation rushed through Congress after the attacks of 11 September 2001, the so-called USA Patriot Act, America's government domestic intelligence and law enforcement agencies now have powers close to those of a police state. Liberals who detested that law when it was enacted are now grateful that it is there to be deployed against far-right private militias. **The problem, however, is that it is easier to disarm and**



**prosecute outright insurrectionists than to change attitudes.** It is an outrage, but it is not a crime, that one third of American view Trump as a truth-teller and a saviour.

In a recent essay for *The American Prospect*, I quoted a famous 1953 poem by Bertold Brecht, who chose to live in the DDR but resented the regime's clumsy bureaucratic conformism. After a party official warned that the party was disappointed with the people for their lack of enthusiasm for the official programme, Brecht wrote that the government should perhaps dissolve the people and elect a new one. In a doubly ironic twist on one of Germany's most celebrated ironists, the problem in America today, as in East Germany under communism, is that you cannot fire the people. You have to win them over.

Every society has its thugs. What Trump had in common with Hitler was to valorise thuggery and validate Big Lies. For a time, the thugs governed.

In the German case, it took defeat in a war plus half a century of agonising self-reflection

to tame fascism. The United States narrowly ousted Trump in an election, but faces no defeat in a war; and our self-reflection has barely begun. Indeed, the racist, slaveholding Confederacy was defeated militarily by the Union army in 1865 and was occupied for a time. But that did not defeat racism.

**Even if Biden succeeds in governing, and even if he makes progress in repairing the damage to democracy, ridding the country of the hate in the hearts of too many Americans will be a longer-term project.**

Robert Kuttner,  
co-founder and co-editor  
of *The American Prospect*





# A rethink of EU education policies

by Jernej Pikalo

Education policies play an essential role in operating and governing societies. They fulfil various functions: they promote societal values, provide a skilled workforce, socially integrate societies, generate economic development, make societies more peaceful and politically stable, and increase the understanding of other people, within and outside the same country. But the one single most important reason for the existence of these policies is to educate every individual, to equip them with everything they need to thrive in life.

The might of education policies is such that even inside the European Union, national governments are always reluctant to give away their powers over these policies for fear of losing national identities, or a particular way of life, to transnational policy homogenisation. Even in this advanced stage of the development of the EU, education policy formulations remain in the hands of national governments and their education ministries, including auxiliary administrative or scientific institutions.

The EU has over time developed its own education policies. In the beginning, the aim of these policies was primarily to foster Europeanisation, better social integration of Europe, and possibly the formation of a European society. It was about sharing knowledge and experience, equipping members of the European population with common language skills, shared values, a mutual sense of the past, an enhanced understanding among peoples, and fostering a European spirit. Policy initiatives like the Bologna process, effectively harmonising the structures of higher education systems, or

like French President Emmanuel Macron's idea of European universities, developing common study programmes to address key societal challenges, or successful mobility programmes like Erasmus+, have all contributed to the shared sense of community.

In the early 2000s, education policies became functionally linked to the new European global competitiveness strategies. Education became an economic commodity, an important factor in the functioning of the single market and the global competitiveness of the EU economy. Research and education policies were aligned with competitiveness policies, and education was linked to employment strategies. **Neoliberal education policies resulted in obscuring the humanistic purpose of education and its social integration potential, and instead functionally linked it with market strategies.**

In the post-Covid-19 era, the EU is confronted with an economic downturn. Its recovery will require innovative and collective

societal resilience structures. Even before the pandemic, some EU member states were confronted with a political populism that rejected the fundamental values and norms of the European system. Political values and fundamental rights, long associated with liberal democratic political systems, became threatened. In consequence, this meant less support for the European project and a further loosening of European ties. Adding to this, the current Covid-19 crisis has revealed social inequalities and has exacerbated the differences that already existed in education systems due to unequal access to and opportunities for digital learning. All this, including worldwide tendencies of deglobalisation, forces the EU to rethink its education policies.

► *Education should be a value in itself. The goal of European education policies should therefore not only be growth, but also social justice.*

In addition to the two principal aims of European education policies (the political-educational aim of supporting common values and social integration, and the functional aim of competitiveness) our progressive future education policies must address the current societal challenges: **tackling educational inequality** and future life opportunities within the EU; **quality standardisation to achieve the highest quality of all levels of education in the world; addressing, through education, the disparities between elites and the general population**, and regarding education as an essential **tool of social protection**.

Education should be a value in itself. The goal of European education policies should therefore not only be growth, but also social justice. Our aim should be twofold: firstly, **to equally equip all European citizens with the same quality of education, to give them as many equal opportunities in their life chances as possible**. And secondly, to create education systems that are socially just at the European level, in addition to being of the highest quality in the world. A mechanism for the compensation of imbalances within and between member

states is needed. Indeed, this is essential in order to attain the goal of greater social integration with fewer inequalities, as these are the breeding ground for populism as well as for the spread of disinformation and negative attitudes towards the European project. A shared sense of belonging is what we are aiming at.

We progressives have always seen further than others. We have always been at the forefront of the systemic transformations needed to allow our people to lead better lives. We know that a strategic redesign of European education policies is essential for the future of the EU – particularly in times of a post-Covid-19 recovery. We know that we urgently need to address the systemic inequalities that lead to unfairness among citizens because these are the foundations of social injustice and collective fragility. We know that knowledge-based economies in a deglobalised world require transnational education and research of the highest quality without elitist social closure. And we know that digital transformation and artificial intelligence are leading to a profound societal change that our citizens must be prepared to embrace and exploit.

It is therefore high time for all progressives in the EU to come together, assess the new realities, and prepare a bold plan for EU education policies. A leaders' conference on this multi-stakeholder issue – discussing policy areas like social, health, development, gender, and competition – would be a step in the right direction. We owe this to Europe's future generations.

► *Education became an economic commodity. Research and education policies were aligned with competitiveness policies, and education was linked to employment strategies. Neoliberal education policies resulted in obscuring the humanistic purpose of education and its social integration potential, and instead functionally linked it with market strategies.*



*Jernej Pikalo,  
Professor of Political  
Science at the University  
of Ljubljana, former  
Deputy Prime Minister  
and Minister of Education,  
Science and Sport*





# Towards a European Education Union

by Victor Negrescu

The future of Europe depends on how decision-makers manage to raise the profile of educational policies in the design of their recovery plans. The Covid-19 crisis has shown the weaknesses of our education systems and the growing need for a common European response, designed to prepare our societies for future challenges. A European Education Area was launched a few years ago, but the current situation highlights the need for a step further: a true European Education Union.

More than 1.6 billion learners in more than 190 countries, representing 94 per cent of the global learner population, were affected by the closure of educational and training institutions at the height of the Covid-19 crisis. The same story played out across formal and non-formal education settings: crèches, preschools, vocational education, training colleges, universities, youth clubs and adult education institutions closed their doors and, in many cases, when the infrastructure was available to them, shifted online. Digital education became a necessity, a widespread solution for how to face the lockdown and provide education to as many learners as possible.

## | THE DIGITAL CHALLENGE

Despite the remarkable creativity of educational establishments, parents, teachers, pupils and NGOs, the rushed digital transition generated important inequalities in terms of access to digital education and the quality

of training provided. Even in the high-income countries, ten per cent of schoolchildren were left with no form of learning while some countries, like Romania, had close to 1 million children (a third of the country's pupils) without access to digital education. Access to quality digital education had become a privilege.

Facing this new reality, EU member states tried to provide national strategies, which have nevertheless led to inconsistent results. The European education landscape has been divided by unequal lockdown practices, and differentiated access to quality devices, tools, and software. Strangely enough, the most used educational apps across Europe were not European-made, while the devices and methods employed for the digitalisation were clearly not adapted to quality educational practices. **New and important digital education challenges appeared regarding the management of screen time for children, the lack of security and data protection of the educational platforms, insufficient teaching skills or the difficulty of digitalising practical and technical classes.**

► *New and important digital education challenges appeared regarding the management of screen time for children, the lack of security and data protection of the educational platforms, insufficient teaching skills or the difficulty of digitalising practical and technical classes.*



A European Education Area (EEA) has already been under debate for several years – and the EU Commission is expected to announce further steps soon. **The EEA should, among other things, make studying and learning abroad easier, and ensure the recognition of higher education qualifications across the EU.** But the new reality of online teaching during the pandemic has underlined the need for a further bold step of integration: a common European approach to digital education. The Commission has been put under pressure by the European Parliament to accelerate the revision of the Digital Education Action Plan and to launch new and practical initiatives designed to help member states, such as the e-twinning programme enabling online exchanges of best practice, which has proved to be successful. At the same time, the European legislature has initiated its own initiative report, defending a European approach towards an inclusive and qualitative digital education transformation. At

the request of the S&D Group in the European Parliament, a strong resolution for more investment in education and the acceleration of the implementation of the European Education Area has been approved.

#### | NO SUCCESS WITHOUT INVESTMENT

**One of the key proposals from the S&D Group in the European Parliament was to ask member states to allocate at least ten per cent of their recovery plans to education.** The amendment was approved by the Parliament but not finally supported by the Council, which was concerned with keeping control on how the EU Recovery and Resilience Facility (RRF) is managed. But the institutional fight continues, and the amendment has been consistently included in several other legislative files. At the same time, the new RRF calls for the allocation

of at least 20 per cent for digitalisation, which should include digital education as well as the development of digital skills.

**It is all very well to speak about education, but without enough investment, it is hard to have quality education and to adapt our educational systems to the new digital and green requirements.** The education strategies that have recently been presented by the European Commission lack a clear and integrated plan with defined milestones to deliver an increase in digital skills at European level and a fair distribution of these skills all over the EU. It is crucial to avoid the mistakes of the previous Digital Education Action Plan, which was even not fully implemented.

Education is a complex topic leading to much passion and many opinions, but I am a strong supporter of a European approach towards education. Not to eliminate the differences



or oblige the top-ranked education systems to stop their evolution, but to accelerate synergies, to foster cooperation, recognise diplomas, fight against inequalities, learn from each other and develop new tools, methods and projects together.

### TOWARDS A EUROPEAN EDUCATION UNION

Instead of having isolated calls for projects and actions, the European Union should focus, as a first step, on completing the European Education Area that is already envisaged. We should integrate better education in the European semester. A specific assessment of national education policies and the implementation of EU strategies could enable us to build a common European education ecosystem and develop new EU-wide digital initiatives. Such an ecosystem, which is already partially envisaged through the creation of Digital Education Hubs, implies active involvement of relevant stakeholders and actors, European innovators in the field, educational institutions and key decision-makers. Projects like the Erasmus programme which enables mobility, the European university framework, with the European Parliament's newly proposed online dimension, or the DiscoverEU programme are uniting us even further and showing the strength of being together in our own particular diversity.

**It is key to adapt to future challenges, and our political family strongly supports investing more in new Artificial Intelligence (AI) and robotics initiatives that are designed to increase the level of education on these topics.** We also strongly support developing Green Education at the same time, teaching

future generations about the importance of protecting the environment and how to search for alternative solutions to reduce environmental damage. Against the backdrop of the debate about European resilience, true citizenship education is needed, and ways should be devised for teaching and learning more about our rights and duties at European level. I therefore support the call for the creation of an EU agency for Citizenship Education, designed to foster synergies in the field and to increase the level of understanding of the European Union.

Our progressive family needs to bring the issue of education to the centre of the debate about the future of Europe. **There are so many things we could do together. The coronavirus pandemic has shown the weaknesses of our education systems and it has clearly shown that many new challenges cannot be dealt with only at national or local level.** It is time to raise the bar, to reconsider education as a true investment, not as a cost, and to aim for more. We need a true European Education Union, building on the common legal framework of the European Education Area, but going far beyond that: a strong European education ecosystem, but also a European community of shared practice, strategies, targets, and actions in the field of education. Working together at the European level on education would not mean to erase our differences or to affect the principle of subsidiarity, but would imply developing common European policies and tools that could enable us to meet our targets at the European level, knowing that the single market requires common answers and actions. The upcoming Social Summit in Porto and the expected Council recommendations on education are the key moments to start this debate and to fix strong and specific targets for the future of European education.

► *It is all very well to speak about education. But without enough investment it is hard to have quality education and to adapt our educational systems to the new digital and green requirements.*

*Victor Negrescu,  
Vice-president of the  
Education and Culture  
Committee of the European  
Parliament, rapporteur  
on the Digital Education  
Policy, former EU Affairs  
Minister of Romania and  
university professor*





# Discover the new FEPS Policy Study

## TOWARDS AN INDIVIDUAL RIGHT TO ADULT LEARNING FOR ALL EUROPEANS



by  
Sofia FERNANDES  
Klervi KERNEIS  
Foreword by Jacques DELORS

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# First years last forever

by Maria Herczog

Despite the evidence from research and practice, as well as substantial investment in early childhood education and care in Europe, there is still a long way to go to achieving access for all children to high-quality free services that pay special attention to children in vulnerable situations, in respect of child rights and developmental needs.

Early childhood education and care services (ECEC) for children before primary school education have two aspects: on the one hand, they enable parents to work while the child is cared for, and on the other, education in a broad sense supports children's development, their evolving capacities and a joyful childhood. Both aspects need highly qualified, motivated, respected, and valued personnel, as well as suitable conditions to enable the best development of children. It is becoming increasingly accepted that early years' provision is the foundation for one's entire life and that offering this in the best possible way serves the interest of children as well as of society overall.

EU leaders have acknowledged ECEC as a core social right of all children in Europe. **One of the 20 key principles of the European Pillar of Social Rights acknowledges children's right to good quality and affordable ECEC, emphasising that those in vulnerable situations have the right to specific measures to ensure equal opportunities.** The EU Quality Framework for ECEC was a proposal by experts from various European countries in 2014. It has five dimensions – access; workforce; curriculum; monitoring and evaluation; governance

and funding – and could serve as a guideline for the implementation in all member states.

The European structural and investment funds (ESIF) make an important contribution to the implementation of child policy reforms, and are sustained through funding from national budgets. The planned Child Guarantee programme is also meant to prioritise ECEC for children in disadvantaged situations. Independent monitoring and evaluation, as well as outcome measurement of the ECEC programmes supported by the EU, should be required to ensure their proper planning, implementation, efficiency, and effectiveness. The evaluation of ECEC programmes should consider the parents' as well as the children's perspective and opinion.

According to the latest Eurydice Report in 2019, around 31 million children in the EU are below school age. These children are the potential beneficiaries of ECEC. However, **on average only 34 per cent – approximately five million children under the age of three – attend ECEC, and only seven EU member states guarantee a place in publicly funded provision for each child from an early age.**

Almost half the EU member states guarantee a place in ECEC from age three, with a growing number of countries making attendance compulsory for children during at least the last year(s) of ECEC. The EU benchmark of 95 per cent of children above four attending early childhood education and care has by and large been achieved, but there are still substantial differences across countries, regions, and areas.

**Those children and families who need these services the most often lack the opportunities to access them, or if they do have access, the quality of care is often insufficient.** There are inequalities, discrimination, segregation, poorly equipped and resourced services, as well as often poorly qualified and remunerated caretakers.

ECEC should be part of an integrated system, considering the diverse needs of children from different backgrounds and conditions, and should provide them with an individual, needs-based education. **Applying integrated and child-centred approaches that cater for all aspects of child development and well-being and that further strengthen the coordination**

► *The European Pillar of Social Rights acknowledges children's right to good quality as well as affordable early childhood education and care, and it ensures specific measures for equal opportunities to those in vulnerable situations.*

► *Investing in children ensures their well-being. It is also the best and most profitable opportunity for the whole of society, given the social return on investment.*

**and interaction between health, education, social and child protection systems, as well as integrated and coordinated service delivery at a local level, would improve the quality and effectiveness substantially.** ECEC should be free of charge, like primary and (in most countries) secondary education.

Home-based care for the youngest children, or for those with special needs, provided by childminders, needs more guidelines, assessment, and preparation. But there are still only a few countries where this takes place. This type of service can offer more flexibility and opportunities for children with specific needs, and would be efficient in settlements with a small number of children, or for parents with irregular working hours.

**Tackling child poverty and social exclusion, as well as promoting child rights and well-being, requires a multisectoral, multidimensional and integrated approach, where early years education should play a key-role.** Children with special needs, Roma, migrant, refugee children, and others in especially vulnerable situations, often face multiple barriers in all areas of their life. Their inclusive participation in ECEC is therefore extremely important. It also means early support and prevention for them and their families, and access to more targeted services or out of home placement for the children. Parents should be considered as partners who need proper information, support, and guidance. This has a positive impact on the development of children, and provides a good model for cooperation.

ECEC services should be more flexible and provide for longer hours and additional services, depending on the needs and

opportunities of the families. These services should also take into consideration the developmental needs of children in order to offer the best staff-child ratio and group size. Furthermore, there should be a smooth transition between ECEC and primary school in line with the evolving capacities of children.

The recently launched European First Years First Priorities Campaign on early childhood development, led by Eurochild and the International Step by Step Association (ISSA), prioritises children from birth to age six, and pays special attention to the first 1,000 days of the child's life and to the most vulnerable children (Roma and Traveller, migrant and refugee children, children with disabilities, those at risk of entering, or in, alternative care, and those living in extreme poverty). The nine participating EU member states will help create broad coalitions of national and international partners for stronger policies and practices. These coalitions will provide useful information for EU policies, as they exchange good practice among the member states.

In 2019, the EU institutions have approved new legislation on work-life balance that introduces minimum standards for paid parental leave across the EU. **This legislation however needs to be adapted to make sure that parental leave is paid for at least six months**, taking into consideration the exclusive breastfeeding recommendations of the World Health Organization and the importance of early bonding and attachment. Nordic experiences have shown this to be favourable and cost-effective. It should be covered by social security or health insurance as a universal service for all. Six-month parental leave also has an impact on ECEC



service needs, as well as on the work-life balance. More research is needed into the impact of leave provisions on the well-being of children and parents. **Investing in children ensures their well-being, and it is also the best and most profitable opportunity for the whole of society, given the social return on investment. Children are not only the future, but also the present, and they have the right to enjoy their childhood in the fullest possible way.**

*Maria Herczog,  
Senior Policy Analyst,  
Institute for Human Services,  
Columbus (Ohio), and  
Program director, Family,  
Child, Youth Association,  
Budapest, Hungary*





# Implementing the European Skills Agenda

by Siria Taurelli

The European Skills Agenda is a call for action on a set of ambitious targets. It involves the upskilling and reskilling of millions of adult people by 2025. To implement the Skills Agenda, governments and social partners, state and non-state actors, will have to innovate their cooperation arrangements and learn new roles and responsibilities.

The European Skills Agenda for sustainable competitiveness, social fairness and resilience was launched in July 2020 and marks a new, higher commitment to investing in people through their skills, competencies, and knowledge. It sets targets for the reskilling and upskilling of more than 100 million people across all EU member states, and it sets out the conditions and measures to attain these targets.

The targets set to be attained by 2025 are four. The first is raising the upskilling and reskilling of adult people by 32 per cent, which implies that 120 million adults across all EU member states should participate in learning every year. The other three targets are: raising the number of low-qualified adults participating in learning activities by 67 per cent per year, raising the number of job-seekers with recent learning experience by 82 per cent, and raising the number of adults with basic digital skills by 25 per cent.

If we take the current level of adult participation in learning as the starting point, these targets are ambitious. **The reality is that the access of adults to training opportunities is**

**currently relatively low on average in the EU.** In other words, based on the evidence provided by survey data, the targets have at least the merit of showing the scale of the challenge ahead for realising lifelong learning in practice.

In this light, the heart of the Skills Agenda is a call for action on a package of 12 measures that can substantively increase adults' participation in learning. The measures cover a wide range of interventions, including for example: alliances between the skills demand and supply side (the EU Pact for Skills, which was launched in autumn 2020), data analysis on skills needs, enhancement of basic, transversal and entrepreneurial competencies, validation of short-term courses, and the identification of mechanisms to mobilise public and private financial resources.

These measures are interdependent. The alliance of those who demand skills and those who supply them, the Pact for Skills, will support the implementation of the other measures. **It is thus necessary to unlock financial resources to fulfil all these actions. Indeed, the Pact**

**for Skills and the financing are more than technical solutions: they are conditions for implementing the whole Skills Agenda and for leveraging adult learning in the direction set out by the four targets.**

The Pact for Skills should involve skills providers, employers and employees, adult education associations, expert organisations, national and/or local authorities or governmental agencies and sectoral organisations that unite around a common vision of adult learning. The Pact's signatories adhere to specific, measurable commitments about fair access to high-quality upskilling and reskilling opportunities. There are situations where the Pact will be particularly useful, as when a sector or an integrated value chain transitions to a greener business model or increased digitalisation, which often creates the need for new skills for numerous employees. Training of good quality requires investment, so resource mobilisation is essential in the Skills Agenda. **In order to achieve a number of 100 million adults participating in learning every year in the EU, state budgets as well as private contributions will need to be increased.**



- ▶ *The European Skills Agenda sets targets for reskilling and upskilling of more than 100 million people across all EU member states, and it sets out the conditions and measures to attain these targets.*

The Pact for Skills and the mobilisation of financial resources should be seen as enablers of all the measures in the Skills Agenda. Yet they are novel avenues, which means that innovation and a mix of lessons from past experience should be used to make the Pact for Skills and the unlocking of financial resources operational.

A source of inspiration for the Pact for Skills is the EU Blueprint for sectoral cooperation on skills. The Blueprint initiative has formed sector-specific partnerships that gather together businesses, trade unions, research institutions, education and training institutions, and public authorities. These stakeholders act jointly to address skills shortages and unemployment in their respective sectors. However, the Blueprint has so far unfolded at EU-level and created transnational alliances, while the Pact for Skills should respond to or anticipate training needs that are specific to a country or territory, and it should commit to upskilling and reskilling people according to well-defined targets. Another reference is offered by public-private partnerships (PPPs) in vocational education and training, in which public and

private actors define a common endeavour in the field of skills, and then co-design and co-finance its activities, joining forces in its implementation.

The Pact for Skills, however, will address adults' skills needs at a larger scale than most of the PPPs that are currently providing vocational education and training. Moreover, it will include a wider range of actors such as, for example, centres of expertise on skills, trainers of different specialities and levels of competence, experts in adult pedagogy, local authorities and technical agencies. The Pact for Skills should also involve social enterprises, non-governmental organisations and other actors in addition to the social partners because a wide range of actors provide training for adults. This wide range is due to the fact that adults mostly learn outside the formal school system. They rather tend to participate in activities in non-formal settings, for example through courses that are organised by employment offices, employers or independent training organisations, as well as in informal settings, for example through their colleagues at the workplace, or during social activities in the community.

**With all this, and with flexibility of the training options, the Pact for Skills has the potential to motivate all adults to learn, even those who do not yet regularly participate, and it has the potential to leave no one behind.** The Pact for Skills will have to develop innovative cooperation mechanisms, create new agreement formats, blend skills intelligence from different sources, develop engaging learning environments and tools for cooperating on large-scale projects. Due to the variety of solutions that will be necessary, there should be different Pacts, depending on the sectoral and territorial characteristics, the labour market, and the various needs of the individuals.

As stated earlier, the other relevant condition for implementing the Skills Agenda across all member states is the mobilisation of financial resources. This, too, will require building on past experiences and innovating at the same time. While the EU budget can act as a catalyst for additional investment in skills, instruments for public and private financing should also be developed at national and sub-national level. Fiscal incentives will remain an important tool for motivating in-company training and retraining. The fiscal leverage has worked in creating training funds (for example, at the level of sectors and regions) and this model can be expanded further. Other existing financing mechanisms include the above-mentioned PPPs for skills development, as well as learning vouchers which can be used by individuals to cover the cost of a training course of their choice.

New methods and tools for financing adult learning are starting to be used within and beyond Europe. A method worth mentioning is the individual learning account (ILA), which is an entitlement either in terms of time or money per hour of work. ILAs aim to create a portable individual right to training for all workers, including those in non-standard contracts or with occasional jobs, with a view to fostering inclusiveness. According to a recent report, in countries where ILAs already exist, they have a potential to increase the quality of training offered and to foster a culture of learning.

Another innovative mechanism is impact financing, an approach to financing based on the value that a programme or project will generate in the long term. Social Impact Bonds are a specific instrument of impact financing that focuses on the value generated by social projects. Here, the measure of value is the benefit for people, or for the planet. Recent experiences have shown that Social Impact Bonds are promising funding instruments for projects that increase the percentage of children completing school in a given urban district; generate higher youth employment of good quality; raise the adult employment rate through quality training; and improve health due to decreased carbon emissions. Impact financing is not yet frequently used in adult training or in lifelong learning more generally. But upskilling and reskilling are clearly an area where this method of financing would find wide application.

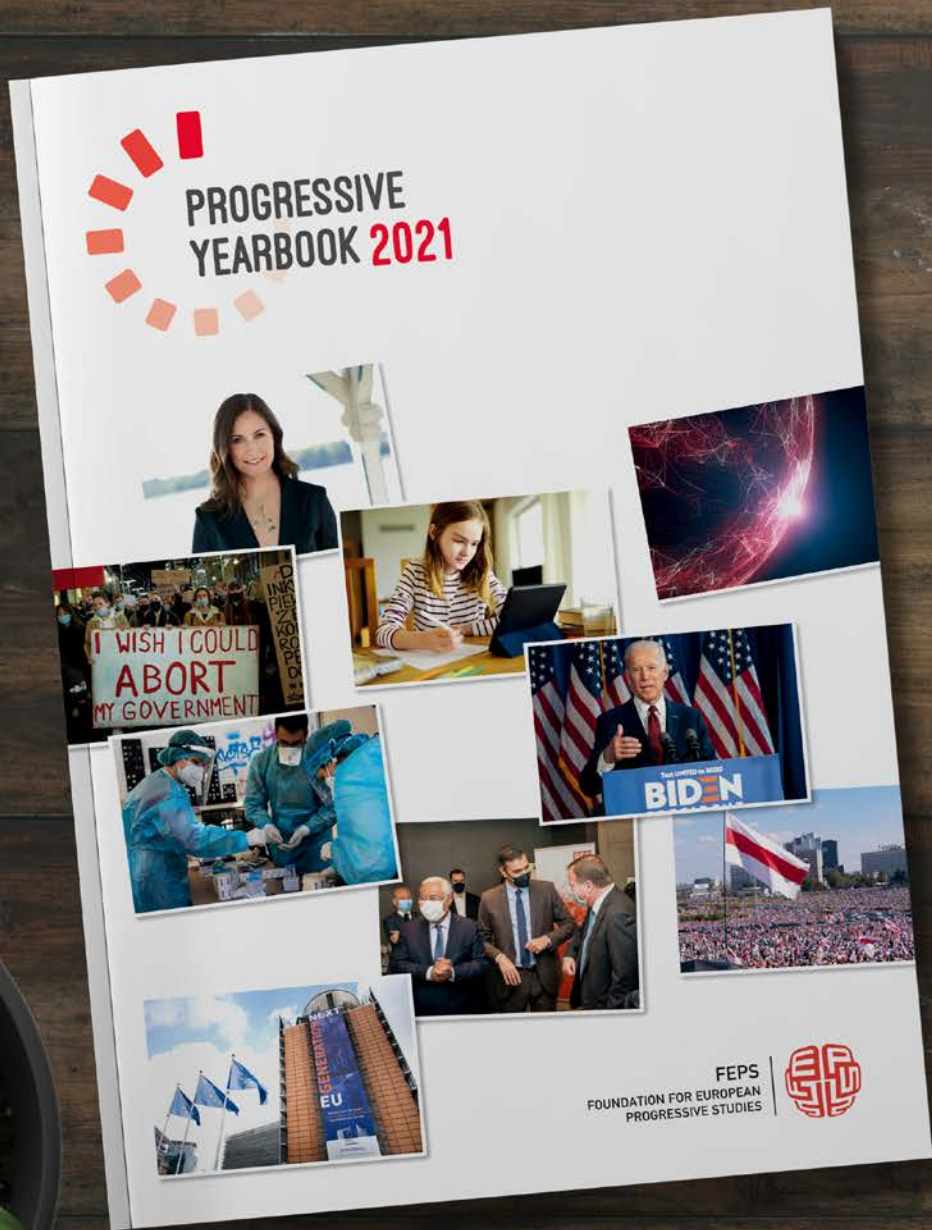
To make the Skills Agenda a reality, various institutions, individuals, private organisations, social partners and civil society organisations need to join forces and cooperate in activity implementation and financing. Much can be learned from past experience but, given the unprecedented size of the objectives to be attained, there is a need to create innovative solutions too. Designing and managing new upskilling and reskilling schemes will require capacities that the public, private and third sectors should develop. **These innovative solutions and new capacities are also important for fostering coherence with the European Pillar of Social Rights, where equal access to education and training features as a priority right of EU citizens.**

► *It is necessary to unlock financial resources to fulfil all these actions. The EU Pact for Skills and the financing of it are more than technical solutions: they are conditions for implementing the whole Skills Agenda.*

*Siria Taurelli,  
Content Coordinator of  
Governance and Quality  
Assurance of Lifelong  
Learning, at the European  
Training Foundation (ETF)*



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# Defending fundamental rights and solidarity in the New Pact on Migration and Asylum

by Birgit Sippel

In September 2020, the European Commission finally presented its New Pact on Migration and Asylum. The proposals were supposed to inject much-needed momentum into the reform of the European asylum system, on which the Council had delayed for too long. But again, we see member states maintaining well-known positions to block even the slightest progress, and unable to come to a decision.

For Socialists and Democrats in the European Parliament, one thing has been clear from the beginning: the reform must address migration challenges in a way based on solidarity. We need to move away from the criteria of the country of first entry, which affects member states at the external borders of the EU disproportionately.

Instead, **a proper relocation mechanism is necessary. We must show solidarity with member states, their local citizens, and not least with the vulnerable people who are in need of our protection.** This is our duty, based on our European values and treaties.

Yet we are not only lacking momentum in the Council. The New Pact also draws the wrong conclusions from past errors. Instead of moving towards more solidarity and a collective approach, the proposals go the other way. It tries to please member states who, in their mission to reject any humanity and

solidarity in European migration policy, are even willing to break European law.

The Commission also puts a heavy emphasis on increasing the number of returns. **While the efficiency and sustainability of returns need to be improved**, based on sustainable cooperation with the countries of origin, **lowering the standards of the classification by which countries are considered safe cannot be the solution.** Returns must be conducted in respect of the principle of non-refoulement. A robust and mandatory relocation mechanism could support countries of first arrival.

The destruction – last September, only few days before the publication of the New Pact – of the Moria refugee camp on the Greek island of Lesbos, where inhumane conditions had long prevailed, should have been the last straw in highlighting what the Fundamental Rights Agency calls the "single most worrying fundamental rights issue" in the EU. A change of approach should have followed.

Instead, the proposals of the Commission call for even more detention, more camps at the EU's external borders, and screening and border procedures that limit the fundamental rights of asylum applicants.

Screening and border procedures are designed to prevent entry into the EU by upholding the legal fiction of non-entry, during which people are de facto on EU territory but are de jure treated as if they have not entered. The procedures apply to many people fleeing from war, persecution and torture. The objective is to prevent people from even trying to come to Europe.

The screening, which includes health, identification and security checks, irreversibly affects applications for international protection by determining whether the person is subject to a border procedure. However, the short timeframe of just five days for the screening risks a decision being based on incomplete or inaccurate data.



Moreover, **the Commission's proposals include no legal remedies against the outcome of the screening.** This makes the possibility of working with inaccurate data even more worrying since decisions made on inaccurate information, and without an applicant's access to judicial review, pose a serious risk to fundamental rights.

During a border procedure, the applicants are detained, and their application is processed in an accelerated procedure, based on the assumption that the application has little chance of success anyway. For countries of first entry, both screening and border procedures mean substantial additional responsibilities. Meanwhile, solidarity measures remain vague and to be used only in situations of increased pressure or crisis.

What is more, even with this diffuse and temporary solidarity, **member states can still cherry-pick measures with little regard to actual needs on the ground. This solidarity à la carte gives governments the chance to praise their own engagement and solidarity, when in reality it is anything but.**

The answer, therefore, cannot be to continue on this path of deterrence to prevent people from coming here. The continuation of tragic deaths in the Mediterranean over the past years has shown that people will continue to flee from desperation and violence, even at the risk of their own life.

We need an asylum system built on solidarity for member states and refugees alike, as well as on respect for fundamental rights. We cannot afford to leave this collective task only to the few member states that happen to be at the EU's external borders.

**To reduce irregular migration, we need to combine real solidarity with strengthened and expanded legal avenues both for people seeking international protection and for people looking for employment.** A first step should be the conclusion of the Blue Card reform



that simplifies the conditions for entry and residence for highly skilled third country nationals. The Commission must find the courage to be far more ambitious than with the New Pact when presenting proposals for legal migration.

Despite all the shortcomings of the New Pact, we Socialists and Democrats are ready to continue the reform and shape it in a humane way, while defending our values. We must be determined to prevent a second, third or fourth Moria.

This goes beyond questions of migration and asylum. Because if we give up on humanity and fundamental rights when dealing with people who are seeking protection, what are our values – supposed to protect all of us all – worth at all?

► *The proposals of the Commission call for even more detention, more camps at the EU's external borders, and screening and border procedures that limit the fundamental rights of asylum applicants.*



*Birgit Sippel,  
Member of the European  
Parliament since 2009*

# The missing link between (academic) knowledge and the EU governance of migration

*A critical look at the foundations of the New Pact on Migration and Asylum*

by **Giacomo Orsini**

In March 2020, a number of academics in charge of different EU-funded projects on migration sent an open letter to the European Commission (EC). By addressing the president of the EC as well as the commissioners for Innovation, Research, Culture, Education and Youth, Home Affairs, and Crisis Management, about 50 prominent scholars lamented policymakers' neglect for any empirical evaluation when dealing with migration and the governance of it. They highlighted authorities' complete lack of engagement with the results of their studies and exposed the brutality of Europe's approach to the management of non-EU citizens' mobility in(to) Europe.

As an academic myself who has conducted several investigations to analyse and deconstruct the EU governance of migration where policies are actually implemented (for example on the border island of Lampedusa, in Maltese reception centres, in a family tribunal in Brussels, or in the office of the UNHCR representation in Rabat), I could immediately connect with what my colleagues blamed the EC for. When looking at European migration policies from the bottom (that is, from the perspective of migrants being subjected to them or border guards and other officials implementing them in their everyday lives), one quickly realises how irrational and inhumane they are.

In this respect, the New Pact on Migration and Asylum does not mark any significant change. **This comprehensive policy package does not diverge from the policies which the EU implemented in the past. The new measures keep ignoring evidence-based knowledge on migration – knowledge which is often generated within EU-funded research projects.** This is the case, for instance, with the proclaimed goal of strengthening "international partnerships" with transit countries and countries of origin.

To enhance the international dimension of migration management and control, the new

strategies align with two major and long-standing priorities of the EU. First, by strengthening the cooperation with transit countries and countries of origin, EU authorities aim to establish more effective deportation schemes for unauthorised people who are present in Europe. Second, in promoting development in these non-EU partners, the EU aims to generate an incentive for local authorities to cooperate, while simultaneously reducing poverty and, by this, unauthorised migration towards Europe.

Altogether, for about three decades, these two key areas of intervention have been the pillars of Europe's 'externalisation' of border and

migration control. Despite their relatively long history, however, both these strategies seem to be grounded on very little if any empirical understanding of how migration and the governance of it unfold on the ground. This is the case on at least two levels.

► *When looking at European migration policies from the bottom, one quickly realises how irrational and inhumane they are.*

First, however intuitive it might look, **EU authorities' view on the development-migration nexus is not empirically sound.** In fact, as is abundantly demonstrated in countless academic studies on the subject – some of which date back to the 1990s – such a correlation is not linear at all. In fact, up to certain levels of GDP per capita, people will increase their mobility and eventually decide to emigrate to another continent. It is only "when countries shift into upper-middle- and higher-income categories [that] further development [can eventually] decrease emigration levels", as Hein de Haas writes in his chapter 'Paradoxes of Migration and Development' in the *Routledge Handbook of Migration and Development* (2020). In other words, **promoting economic**

**development produces an increase in emigration rather than a decrease: a trend which is inverted only after high levels of individual or household income are achieved.**

Second, deportations are simply too complex and contentious to be successfully accelerated. Difficulties in obtaining the necessary permissions for repatriation come from the very fact that undocumented migrants do not possess an identity document. Regardless of their official commitment in cooperating with the EU in facilitating deportations, if the authorities from the country of origin of the deportee do not want to collaborate, identification can simply become impossible. We must keep in mind that most governments in transit countries and countries of origin are aware of how much public support they lose whenever they assist the EU with deportations. Similarly, they are also conscious of how important emigration is for their national economies – for example through remittances – as well as for maintaining public order and political stability – as dissidents are often among the first who emigrate to escape repression and persecution.

Such considerations can (and will) apply even if the EU increases the incentives – for example by expanding or developing 'orderly channels for legal migration' – for countries to strengthen their cooperation on deportation. After all, for a forced return to take place, it is the country of origin of the migrant that must provide

the necessary documentation. Even when a state has agreed to collaborate, a lot of room remains for its officers to de facto hamper identification – for example by hiding any evidence on the returnee's identity.

► *Deportations are simply too complex and contentious to be successfully accelerated.*

In sum, **however obvious it might sound, the most revolutionary move the EU could make to actually improve its governance of migration is to make use of its own investments in migration research.** Besides changing Europe's approach to migration and asylum, this could also make it more humane and just.

Giacomo Orsini,  
Postdoctoral Researcher  
at the Centre for the  
Social Study of Migration  
and Refugees of Gent  
University, Lecturer at  
the Institute for European  
Studies of the Université  
Libre de Bruxelles



# Municipalities as main players in EU asylum policy

by Gesine Schwan

At the end of September 2020, the European Commission presented a proposal for a new asylum and refugee policy. It is very detailed with a lot of legal regulations. But it does not address the crucial points for an effective solution that corresponds to the challenges on the ground, to those of international law and, above all, to the ones of human rights.

There is no reliable, decentralised 'distribution' procedure for refugees (it would, by the way, be more correct to say 'admission', because refugees are not fruit that can simply be distributed) nor is it clarified where and according to what procedure the asylum process should take place. There is no proposal either to relieve the southern European countries of the organisational, procedural and financial burden of the first arrival (beyond the existing possibility of asking European countries for help, which until now has not led to any sustained success).

The solidarity obligation of admission is simply deleted, and there are no incentives for voluntary acceptance either. Those countries that have so far refused admission are to be forced into 'solidarity' by being obliged to organise deportation instead. **The term 'deportation partnership' alone symbolically expresses the spirit of the entire proposal: as if the deportations could create solidarity between the European countries, or as**

**if the deportations were an expression of solidarity.** What about the solidarity with the refugees, which is required under human rights? Essentially, things stay as they are. The Dublin Regulations are given up – but only verbally, not in practice. **The only overall goal of the proposal is to keep refugees out of the EU and out of individual countries.**

► *The solution is to organise the admission of refugees on a voluntary basis and to include the interests of the receiving municipalities, which are the ones doing the actual integration work.*

**The solution is to organise the admission of refugees on a voluntary basis and to include the interests of the receiving municipalities, which are the ones doing the actual integration work.** A coalition of receptive European

states, together with the municipalities concerned, could advance the admission process.

Municipalities should set up development councils. Mayors should invite representatives of the elected members of the municipal councils, as well as of the administration, and representatives of local companies and organised civil society. Together they should discuss the future, along with a development strategy for the municipality. This would also incorporate the admission of refugees and a plan for the integration of the entire municipality, including the refugees. The final decision on this would lie with the elected representatives. An EU fund for municipal integration and development should finance the admission and, at the same time, additional development tasks for the municipality. This would do justice to the refugees as well as the locals.

**Because of their power structure, the nation states in the EU are not in a position to give constructive answers to the refugee and asylum question.** However, all over the world, municipalities are increasingly the engines of innovative democratic politics. They form networks with one another and could become an integrative 'safety net' for citizens in the EU.

Gesine Schwan,  
President of the  
Humboldt-Viadrina  
Governance Platform  
and Chair of the SPD  
Fundamental Values  
Commission



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## Cherishing All Equally 2020:

inequality and the care economy



Robert Sweeney



# Let the coronavirus be the revival of a professionalised welfare state

by Mari Huupponen

The first rule of the Swedish coronavirus strategy was to protect the elderly. But we failed. The welfare state, once the pride of the Social Democratic government, has been weakened by decades of austerity and profit-oriented management logic.

As a part of building the welfare state in the 1960s and 1970s, the Nordic countries professionalised the kind of work that female family members, housekeepers and nannies had previously executed as unpaid housework or low-paid unskilled work. Taking care of children and the elderly became a profession that required skills and a vocational education – thus allowing women to work full-time outside their homes, often working in public sector jobs themselves, while being able to rely on high-quality care for children and the elderly.

Meanwhile, something happened. In the 1990s, there was suddenly a consensus that the welfare system had grown too big, and privatisation and austerity policies were considered the solution. Critics of the welfare state argued that the public sector should be a flexible market with private companies delivering services more efficiently.

## IS OUR CARE SYSTEM AS GOOD AS WE THINK IT IS?

For typical smug Nordic Social Democrats, our social care system represents the crown jewel of Social Democratic feminism, and we are proud of it. On paper, nothing could protect the frail and elderly more ideally than a comprehensive welfare system, financed by taxes – the Nordic welfare state. The social security system, pensions and a care system in which professionally trained care workers assist the elderly in care homes or in their own homes would guarantee the protection of the elderly from the potentially deadly virus. Watching the news in February, one could see it as a certainty that the Nordic care model was the one thing that would save us from Italy's tragic death count.

However, half a year later, this certainty had turned out to be a deadly illusion. In Sweden

too, nursing homes were hit by coronavirus, with hundreds of cases confirmed in homes in Stockholm, the worst affected region.

## WAKING UP FROM THE NEOLIBERAL ILLUSION

This should not have come as a surprise. According to care research, it is likely that the catastrophic state of Swedish elderly care has contributed to the widespread transmission of the virus in nursing homes. The municipalities, in charge of elderly care, lacked what they needed to stop the transmission after years of underfunding and personnel cuts – or rather, an extremely streamlined personnel policy, with constantly changing temporary staff caring for large numbers of elderly people during a shift.

► *The system that had once freed women is suddenly one that makes women sick.*

Consequently, there have been discussions on whether precarious working conditions and lack of job security are factors contributing to the spread of the virus. According to Ingmar Skoog from the University of Gothenburg, one fifth of care staff for the elderly

► *In February 2020, it seemed a certainty that the Nordic care model would save us from Italy's tragic death count - half a year later, this has turned out to be a deadly illusion.*

consists of temporary staff – and a considerable percentage of the temporary workforce are untrained. Tine Rostgaard from Stockholm University made the point that the relatively high Covid-19 mortality rate in Swedish elderly care takes place in an extremely privatised environment. When Rostgaard compared nursing homes in Sweden, Norway and Denmark, care units in Sweden were larger, had fewer staff, and a lower percentage of the staff was adequately trained.

The efficiency of the private care market that the politicians of the 1990s craved was supposed to be achieved by underfunding, controlling, auditing, high demands for documentation, standardisation, a minimalist and precision-based HR policy, reduced wages and constantly deteriorating conditions. Private care companies employ a lower percentage of professionally trained care workers, and a higher percentage of personnel paid by the hour. This can make the decision to stay at home with mild flu-like symptoms a difficult one. No line of business in Sweden has higher sick leave levels than elderly care. **The system that had once freed women is suddenly a system that makes women sick.**

### | A CASE FOR A STRONG WELFARE STATE

**Privatisation of healthcare as well as profit-orientated management techniques have significantly changed public welfare in**



**Sweden** since the 1990s. Individual care workers are now guided more by local management and financial control systems than by common professional standards. Research argues that this system results in a 'deprofessionalisation' of public sector workers, or even a 'decline of professions'. There is essentially no time for professional care for the elderly, as the tasks which have to be performed are clearly defined by a tight time schedule. In a market-model care economy, patients are reduced to time-consuming objects and care workers mutate into profit-orientated efficiency drones.

Over 90 per cent of the workforce in elderly care are women, and among those dependent on care, women are also in the majority. Underfunding elderly care has affected women the most. To build a sustainable care system as well as a healthy work environment with good jobs, career opportunities and **a high quality of professionalised care is a fundamental feminist question.** It might save us next time. Let us learn something from the pandemic. Let

us build a strong welfare state and be better prepared the next time a crisis hits. After the pandemic, **we must build a resilient welfare system that is based on professionalised care work.**

*This article was first published by the Friedrich-Ebert-Stiftung*

*Mari Huupponen,  
Public health scientist  
and Trade Unionist,  
Kommunal (Municipal  
Workers' Union), Sweden.  
Member of the FEPS-FES  
care experts group*



# Gender inequality and the care economy: time for a change

by Robert Sweeney

The distribution of both paid and unpaid care work in society is probably the single largest factor affecting economic inequalities between men and women. Because they provide the overwhelming amount of unpaid care, women have often been excluded from economic, political and cultural life. And while the professionalisation of the traditional care sector raises the female employment rate, it also results in more women working in jobs that are often low paid. In other words, public provision of childcare and care for the elderly alleviates some of the disadvantages that women face in the labour market, but exacerbates other inequalities. A variety of interventions are needed if economic inequality between the sexes is to be reduced.

The relationship between paid care and economic gender equality is complicated. For example, when it comes to employment and earning rates, it is important to highlight that **the paid care economy is a major source of employment for women**. Countries with large, professionalised care economies, including the healthcare and education sectors, have lower employment and earning differences between men and women. The paid care economy is an important source of economic autonomy for women. Differences in income from paid work tend to be lower in Nordic and, interestingly, Baltic countries.

However, **the effect of the care economy on the gender pay gap** – the hourly income differences between the sexes – **is more**

**complicated**. On the one hand, **public provision of care, especially childcare, levels the playing field** in important respects. It allows mothers (and fathers) to allocate more time to their careers after the birth of children. There is strong evidence that the single most important cause, or proximate cause, why there are fewer women in top positions is a lack of female applicants. And motherhood makes women much less likely to apply for such roles, due to the unpaid care responsibilities that come with motherhood. As a result, the arrival of children increases the gender pay gap, which tends to be biggest in long-hour, well-remunerated professional occupations.

This points to another contour of disadvantage: discrimination. Evidence shows that

discrimination against mothers, and against women as potential mothers, occurs in long-hour well-remunerated jobs in the private sector. In occupations such as law, for instance, firms are more reluctant to hire women with the same qualifications as men because they are perceived as a 'flight risk', meaning they may go on maternity leave. Mothers re-entering the labour market are also likely to earn less than identically qualified men and non-mothers. In public sector organisations, it has less to do with discriminatory hiring and more about fewer female applicants that results in fewer women at the top, at least in high-income countries. In both cases, public provision of childcare has an important role to play in mitigating these disadvantages.

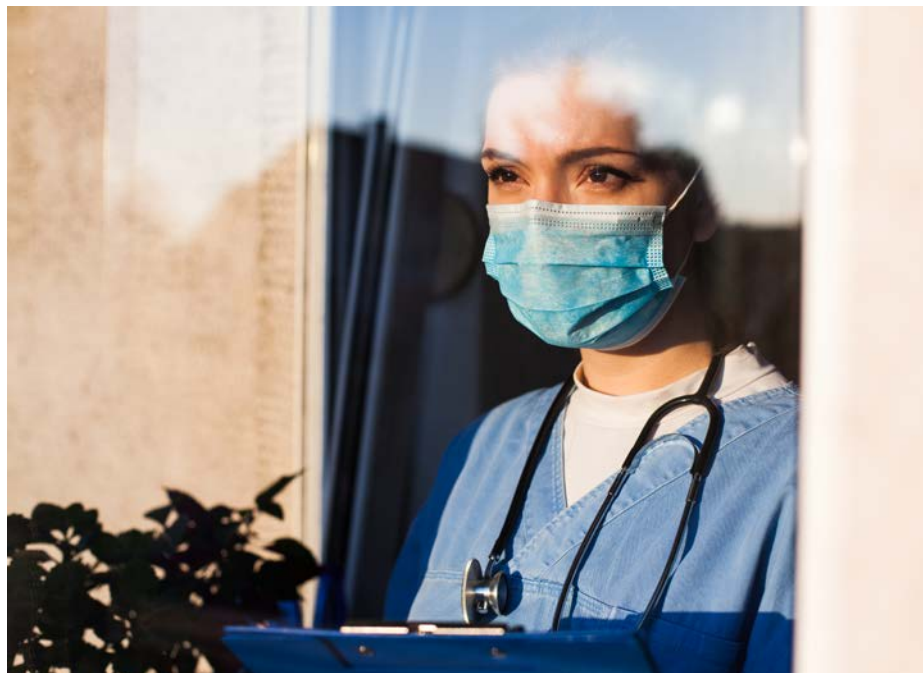


On the other hand, however, **countries with large care economies tend to have bigger gender pay gaps.** Nordic countries, for example, have bigger gender pay gaps than the more traditional countries of southern Europe where fewer women do paid work. Why? Because of occupational segregation, the tendency for men and women to work in different jobs. **The expansion of the traditional care sector such as paid childcare and care for the elderly raises the female employment rate, but also results in more women working in jobs that are often low paid.** Moreover, the care economy provides opportunities for highly qualified women to work in running and managing public sector organisations. As a result, they are less likely to work in better-paid private sector jobs.

There is no single silver bullet to address these inequalities. In all countries of the EU, women do more total (paid and non-paid) care work than men. **Greater involvement of men in paid and unpaid care work is overdue.** On top of that, society's institutions and culture exert a powerful influence on the occupational decisions men and women make. For instance, one reason men do not choose paid care work is fear they would be viewed as un-masculine.

**Ongoing awareness-raising of the importance and value of paid and unpaid care work is needed.** Understanding the importance of unpaid work is necessary to lighten the workload on women, while **valuing paid care work would create a fairer labour market**, including the possibility to reduce segregation.

**Better pay and conditions for those jobs where women are concentrated** is clearly desirable and would make these jobs more attractive for men. Again, the care sector itself is a prime example. As a non-automatable, time-intensive, face-to-face service, for-profit care businesses do not generate increases in the surplus which form the basis for sustained wage increases. To the extent that care work is commodified, then, pay and conditions will be poor. **This can be overcome by investment in the public provision of care, underpinned by a system of collective bargaining.**



Segregation is lower at the higher end of the pay scale. In addition to institutional factors, the somewhat different occupational preferences of men and women seem to be a decisive factor of their career choices. This includes women typically expressing a greater desire to do work that benefits society and to work with people. For those at the top of the pay ladder, then, a somewhat different policy mix is warranted. One element would be to reduce the distance between the ladder's rungs – for example by reducing the gap between management and average pay. After all, the pay gap is usually larger at high incomes. Another element would be affirmative action or diversity policies to increase the number of women in senior roles, which many companies and public sector organisations are already doing. A longer-term solution would be to restructure our modes of work – for example by facilitating more part-time work – so that caregivers are not penalised. The EU Pay Transparency Directive is an important step and a signal that the economic inequalities between men and women can and should be overcome. Of course, **pay transparency is but one step and an array of measures is needed, not least the political will for structural change.**

► *The expansion of the traditional care sector, such as paid childcare and care for the elderly, raises the female employment rate, but also results in more women working in jobs that are often low paid.*

*Robert Sweeney,  
Policy analyst and  
researcher on economic  
policy at the Think-tank  
for Action on Social  
Change (TASC)*



# The real invisible hand: women and the need for a care economy

by Ana Sofia Fernandes

The Covid-19 pandemic has exposed lingering disparities in wages, pensions, levels of poverty, and household responsibilities between women and men. At the same time, it has highlighted the vital importance of care work – much of which is performed by women – in our societies. How can we address this imbalance?

Women have kept our societies functioning during the pandemic, exceeding what they have always done, but with scant social recognition and appreciation. They are the majority of health and care professionals, providing care to the sick, the elderly, to people with disabilities and special needs. They are providing care at home during lockdowns, replacing education and health professionals, while all the time trying to reconcile this unpaid work with their own professional responsibilities. They are securing our food chains, given that they form the majority of workers in supermarkets and food distribution services. And they are ensuring a safe environment, often at the expense of their own health and that of their families, given that they represent the overwhelming majority of workers in the cleaning and hygiene industry. On top of this, they are providing support and comfort to groups who are experiencing particular distress and suffering because of the

pandemic: female victims of intimate partner violence, homeless women, elderly women, undocumented women.

In short, **women are the invisible hand holding our society together.**

Although women have always shouldered most caregiving responsibilities, they are often the least valued and worst-paid workers in sectors without which, as we have now come to realise, our societies and economies would simply collapse.

Unlike the 2008 crisis, the pandemic has affected industries where women are overrepresented. Women are thus at greater risk of losing their jobs, income, and economic independence. The post-Covid-19 period is therefore a crucial moment to acknowledge the contribution of women to the economy, and to value care work as a foundational pillar of society. **We need a**

**Care Pact to avoid some of the disastrous consequences of the pandemic and to chart a path forward.** A Care Pact, articulated with the Green and Digital transitions, would forge a virtuous circle promoting the sustainability of society and the planet.

This pandemic has demonstrated that care is a collective need that requires collective responsibility and a life cycle perspective encompassing childcare, care for the elderly, care for dependents, and care for ourselves. A Care Pact would provide a coherent framework for addressing these needs, with the added advantage of reminding us that investment is never gender neutral. The living conditions, the needs and baseline situation of women and men are different, and they are differently affected by this crisis. By failing to address these differences and designing one-size-fits-all, male-biased public policies, and investments – for example, by choosing



to invest mainly in sectors where men are the majority of workers – may have the unintended consequence of worsening inequalities between women and men.

**A Care Pact should also articulate all policies that seek to promote social cohesion and equality between women and men.**

Such policies include those resulting from the future action plan for the implementation of the European Pillar of Social Rights, and in particular, principles 9 (Work-life balance), 11 (Childcare and support to children), 16 (Healthcare) and 18 (Long-term care). They also include promoting properly remunerated and legally protected jobs in the care sector, where there is an enormous potential for job creation.

**As this pandemic has shown, care is the backbone of society. It has kept society moving when everything stopped.** It is the real invisible hand that keeps the economy

going. Invisible, undervalued, unaccounted for, and poorly paid. It is time to change this paradigm. It is time to 'care for the future', to quote the title of a visionary report chaired by Maria de Lourdes Pintasilgo in 1998 for the UN Independent Commission on Population and Quality of Life. It is time to build back better, leaving no one behind, as the Secretary-General of the United Nations has repeatedly urged.

In short, **it is time to recognise that care work is at the core of our societies and to remunerate it accordingly.** After all, caring and being cared for are a fundamental part of being human.

► *We need a Care Pact to avoid some of the disastrous consequences of the pandemic and to chart a path forward.*

*Ana Sofia Fernandes,  
President of the Portuguese  
Platform for Women's Rights,  
Vice President of the European  
Women's Lobby, member of the  
EU-UN Spotlight Initiative Civil  
Society Global Reference Group,  
and adviser at the Portuguese  
Economic and Social Council*



# The cross-border care labour market in central Europe: the myth of an egalitarian and integrated Europe

by Petra Ezzeddine and Zuzana Uhde

The care crisis caused by the Covid-19 pandemic has shed light on the everyday functioning of live-in care migration from central and eastern Europe. This presupposes the transnational lives of migrant care workers in an egalitarian and integrated Europe, but paradoxically, this is not the case.

Germany and Austria are among the countries with the highest number of live-in care workers from central and eastern Europe for the elderly (approximately 300,000-400,000 in Germany, and 60,000-85,000 in Austria). In Germany, these live-in care workers mostly come from Poland, in Austria from Slovakia and Romania. But women from other countries such as Hungary or the Czech Republic are involved in the live-in elderly care sector as well.

Austria has some of the most formalised 24-hour home care legislation in the EU. In 2007, a law was adopted that aimed to legalise 24-hour care work, which until then women from the new EU member states had performed in the grey zone of the informal economy. The significant aspect of this law is that care workers are now formally self-employed (working under a trade

licence). But this exempts 24-hour home care for the elderly from several areas of labour-law protection, including a minimum wage, regulated overtime and obligatory breaks, and other employee' rights in relation to employers.

As elsewhere, the cash-for-care benefits aimed at the direct purchase of care in Austria override the investment in the public care sector. **The rationale of this exemption from labour rights is primarily based on the priority given to the interests of older Austrian citizens and their families, often at the expense of migrant care workers.**

The system is openly built on a nationalist ideology using the concept of borders to exclude migrant women from the state's responsibilities for social reproduction. For example, **some years ago migrant care workers whose**

**children did not live in Austria lost their entitlement to childcare benefits.** However, this contrasts with their living conditions: many of them travel back and forth in two-week intervals between their country of origin and Austria. And those who have young children care for them on a constant basis, even though the children might reside in the country of origin.

**The rapidly unfolding situation of nation-state based anti-pandemic measures in March and April 2020 made the tensions and disparities of the cross-border care market in central Europe politically visible.** Closing borders within the EU caused difficulties for migrant care workers and for the states where the provision of care for the elderly relies on the work of migrant care workers.

After negotiations initiated by the Austrian and German health ministers, a series of exceptions was quickly put in place for 'care corridors' in central Europe, ensuring that migrant care workers are now able to continue providing care despite the closure of borders. Political negotiations and media discourse operate with a moral pressure in times of a crisis, stressing 'care bonds' and responsibilities between care workers and the elderly in Austria and Germany.

Care workers from the Czech Republic, for example, were suddenly faced with a two-week period of mandatory quarantine (strictly



- *The cross-border care labour market in Europe creates a legal scheme of structural inequalities and exclusion, based on nationality, despite the myth of an egalitarian and integrated Europe.*

isolating themselves at home) and the obligation to prove negative results from Covid-19 testing (new tests every 14 days for which they had to pay themselves) when travelling back home to the Czech Republic. **The dominant media discourse about Czech circular migrants (pendlers) generally described them as a serious threat to public health in their home country.** As some care workers reported to their Facebook support group 'Pendlers without borders', their families often faced social stigmatisation from their local communities back at home, which claimed their families were potentially contagious.

**Those who had to shoulder the social and financial burden of the 'care corridors' and the 'care bonds' were the caregivers.**

Support groups for care workers used the opportunity to highlight the lack of European solidarity even before the pandemic: countries in central and eastern Europe face a care drain, and migrant care workers, although essential to the social systems in western Europe, are structurally vulnerable and ruthlessly exploited. The association Eurocarers, representing care workers and

their organisations in Europe, made a strong public statement calling for health protection and enforcing labour rights in the home care sector during the Covid-19 pandemic. It also pointed out that migrant care workers represent an indispensable pillar of what we understand as a European humanism.

The cross-border care market is often portrayed as a win-win model in which elderly people in western Europe receive affordable and quality care, and migrant women from central and eastern Europe have jobs which pay more than most others at home. In the central European context with a shared and entangled political history, starting with the Austro-Hungarian monarchy and ending with the enlargement of the EU, it is more difficult to establish the 'otherness' of care workers, which is elsewhere derived from racialised or ethnic stereotypical representations. The ethnicity works here as an informal asset not because of difference but because of similarity and cultural closeness. **The cross-border care labour market in Europe in fact creates a legal scheme of structural inequalities and exclusion, based on nationality, despite the myth of an egalitarian and integrated Europe.**

*Petra Ezzeddine, PhD, social anthropologist and an assistant professor at the Charles University (Prague)*



*Zuzana Uhde, PhD, researcher at the Institute of Sociology of the Czech Academy of Sciences*



# Using the history of technological revolutions to understand the present and shape the future

by Carlota Perez

The beginning of 2021 feels like a crossroads. We have now been through three major crises in the last 20 years, each worse than the previous one: the dotcom bubble of 2000, the Great Recession of 2008, and the global recession triggered by the Covid pandemic, bringing what might be the biggest economic downturn since the Great Depression of 1929. The reconstruction after this period will require an enormous global collective effort.

Given its nature, and despite the orders of magnitude being completely different, this reconstruction can be compared to the effort of reconstruction after the second world war. This comparison can be made because such moments reoccur in history, at least from the onset of the first Industrial Revolution. They are part of a pattern inherent in the development of capitalism, which advances by technological revolutions, each of which goes through two very different periods.

**The first period is the disruptive installation of a new set of ground-breaking technologies.** This is an era of unfettered markets and 'creative destruction' implanting the new and destroying the old. It is a time of new millionaires at one end and loss of jobs, incomes and skills at the other, of new industries, regions and countries rising and others declining and

deteriorating. Finance takes over and controls the economy. **The resulting bubbles end in collapse and the ensuing recessions reveal what was happening under the bright lights of the gilded age of prosperity.** Then the anger and resentment of the victims creates the perfect social ferment for the rise of populists offering heaven, and especially offering destruction and punishment for the culprits, whoever they may be: the Jews or the Muslims; the bankers or the imperialists; the politicians or the elites. The 1840s, the 1890s, and the 1930s have all been such times, and we are in one again right now. Traditional political parties divide, new movements and parties emerge, populists at both extremes thrive; the centre weakens and hollows. The political world is in tatters, the authoritarians take over, the anger can turn to violence and mad leaders can turn to war, as indeed occurred in the second world war.

But what follows can be – and historically has been – the good times, the golden age: the Victorian boom, the Belle Époque, the post-war boom or *trente glorieuses*. **The second period of each revolution is the reconstruction of a stable society, recoupling finance with production.** It is the time when intelligent governments step in to establish a win-win game between business and society. **It is when capitalism becomes legitimate by making the search for the profit of the few result in benefits for the many.** It is when the potential of the

► *Each technological revolution has been shaped differently. Technology provides the options – society chooses the future and actively shapes it.*

new technologies is clearly directed by systemic policies towards the best possible ends. This is the task ahead for the progressive forces. This is the time to succeed. It requires as much boldness and imagination as was displayed by the creators of the welfare state.

It is not, however, about the bright ideas of some intelligent politician, nor about bringing the 'good' past back again. It is about shaping the new technologies to fulfil the needs of a newly defined 'good life' for the majorities, enabling the fullest use of the installed technological potential, with a new set of institutions and policies that can achieve these goals. It is about identifying the challenges recognised by society, as well as the trends already existing in lifestyles and in production methods, in order to accelerate them by tilting the playing field so that markets function with best results when following those directions.

**Awareness of the planet's environmental challenges has been growing amidst controversy for decades. Action has been taken at a pace not determined or fast enough to succeed on time.** Ironically, in the midst of the pain that Covid-19 has brought us, the pandemic has also accelerated some of the habits that were previously propagating only slowly: online meetings avoiding travel, teaching online leading to changes in the classroom (lectures online and discussion and exercises in class), less commuting, working from home, and so on. But there is also much other behaviour signalling this new green direction, and it is often found among the young, as is usually the case historically. Young people are thus increasingly showing their preference for natural vs. synthetic; 'gourmet', vegan and organic food vs. processed; exercise for well-being; intense use of the internet; anti-waste, pro-recycling behaviour; living as active 'prosumers' rather than passive consumers; choosing sustainably sourced products; favouring fair trade and social responsibility and so on. It is not by chance that many of these new habits depend on information and communications technology (ICT). And this is only a hint of things to come.

### WHAT CAN PREVIOUS TECHNOLOGICAL REVOLUTIONS TEACH US ABOUT THE PRESENT CHALLENGES?

#### The shaping makes the difference

Each revolution has been shaped differently. Technology provides the options; society chooses the future and actively shapes it.

► *We are currently in the midst of a paradigm change, away from mass production to digital, green, dematerialised, flexible and decentralised production. Success, in business and in politics, goes to those who understand and shape the new technological potential.*

For instance, during the Age of Steel and heavy engineering, the UK relied on its global empire to persist in free market policies but was ultimately left behind by a cartelised and unionised Germany and by the protected America of the Gilded Age.

The mass production revolution, in turn, was also shaped differently by Nazi fascism, Sino-Soviet socialism, and the Keynesian social democracies, where suburbanisation and the cold war, with the welfare state and high taxes for the upper income brackets, gave direction to its most successful deployment.

### WHY DO WE HAVE SO MUCH POPULISM?

Populism is the harvesting of resentment. Installation periods destroy jobs, skills, industries and regions. Other, usually new, players

grow, become rich and succeed. On the left the culprits are identified as capitalism, big business and the politicians. On the right the culprits are identified as 'the other countries' and the migrants, the Muslims or the Jews. **Messianic leaders represent, stoke and attract real public anger and they resort to every tool available. Even if they cannot deliver. The polarisation of the economy and society leads to accumulating tensions, which ultimately lead to major crashes.**

After that, the time is ripe for intelligent institutional innovation to set up a win-win game between business and society.

Every paradigm shift leads to a realignment of the political spectrum. Traditional parties divide and new movements emerge. There is a shift in culture, values and aspirations.

Yet this is not a matter of 'left' or 'right'. We are currently in the midst of a paradigm change, away from mass production to digital, green, dematerialised, flexible and decentralised production. Success, in business and in politics, goes to those who understand and shape the new technological potential.

### HOW DID WE RETURN TO EXTREME FREE MARKET IDEAS?

Technological revolutions also result in a changing historical pattern for economic ideas. The unfettered market inequalities of the first half of the revolution create pressure to bring back a proactive state in the second half; the exhaustion of a revolution, and the need for the next one, tend to reclaim the role of unfettered markets for the 'creative destruction' process.

In the 1970s and 1980s the mass production revolution reached maturity and exhaustion. The advanced countries began suffering from stagflation – inflation plus unemployment so they could not pitch one against the other!

Investment along the same mass production lines found limits and business looked for solutions. The stage was set for the neoliberal takeover and the time was favourable for the huge experiment involved in the installation of the Information Revolution and of a new paradigm for investment and innovation. **Governments therefore actively handed the economy over to the market, and the processes of polarisation and inequality took off undisturbed and were even facilitated.**

Mergers and acquisitions stepped in and labour unions were hollowed out; planned obsolescence and import substitution were introduced to extend saturated markets; when cost reductions were no longer possible, either prices had to increase, or labour was outsourced abroad; the cumbersome data, size and structure of the new global corporations that were going global led to the use of computers and decentralised value chains; excess pollution and the energy crisis led to electronic controls of emissions and increases in efficiency; and as profits became narrower and narrower, finance became bolder and bolder, invented new tricks and looked for risky innovation and new countries to invest in.

A revolution was dying and gasping for air in the global space, and the nascent information revolution – globalising by nature – was instrumental in moving production to Asia and shipping it around the world, while inadvertently establishing itself as the new paradigm and the most advanced set of tools for reshaping management production, trade and finance. Only governments – at least most of them – seemed to lag behind.

**WHAT HAVE SOCIAL DEMOCRATS BEEN DOING AND WHY IS IT NOT WORKING?**

Austerity and free market policies have not resulted in a fair society. If we compare inequality in two advanced economies, Germany and South Korea, with inequality in a developing one, Chile, we see that the first two show the same levels of equality, among the best in the world, while Chile has a very bad one (Fig 1).

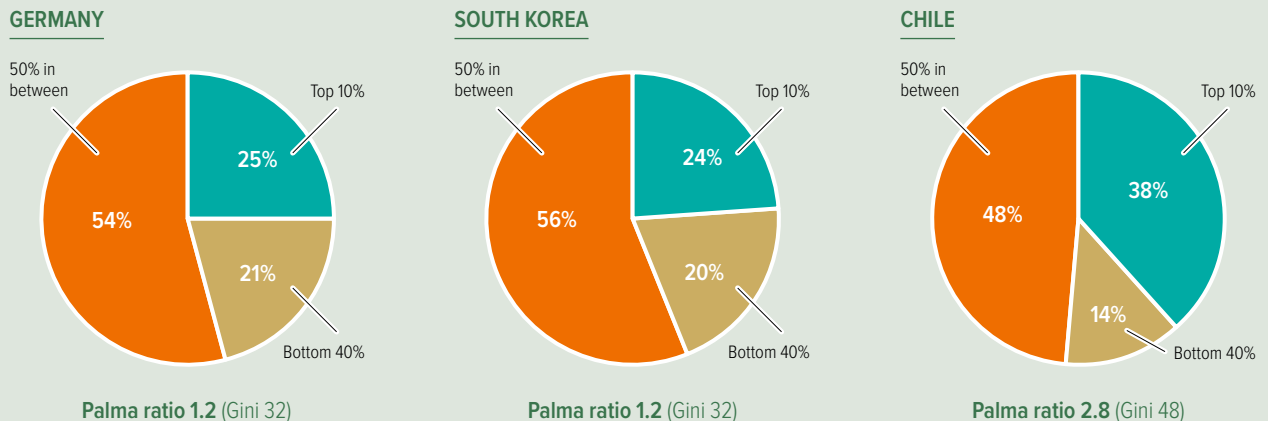
But a closer look reveals that by market outcome, that is, before taxes and transfers,

Germany's inequality index has become worse than Chile's (Fig 2). And note that it cannot be ascribed to the 1989 reunification. Germany's good equality levels are only attained after massive redistribution. Social welfare policies can – and do – re-establish fairness, but at a very high cost (Fig 3).

And as the gap grows wider, government has to concentrate on overcoming market inequality instead of investing and innovating. Yet the orthodox economic promise that extra income at the top would lead to more private investment has not held true (Fig 4). And as investment declined, so did productivity (Fig 5).

Germany is thus left with a weaker economy having to maintain an increasingly expensive welfare state without increasing the taxes on the richest. And without providing directionality for investment and innovation. By contrast, South Korea kept inequality at EU levels with only a fraction of the redistributive effort (Fig 6). And South Korea's share of investment in GDP is therefore much higher (Fig 7).

**FIGURE 1**  
Measuring inequality in three countries with the Palma ratio

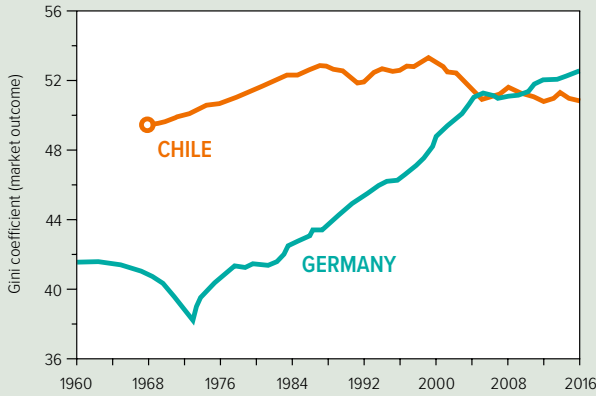


Source: Palma, J G (2020) "Behind the seven veils of inequality", in *Development and Change* 50(5): 1133–1213



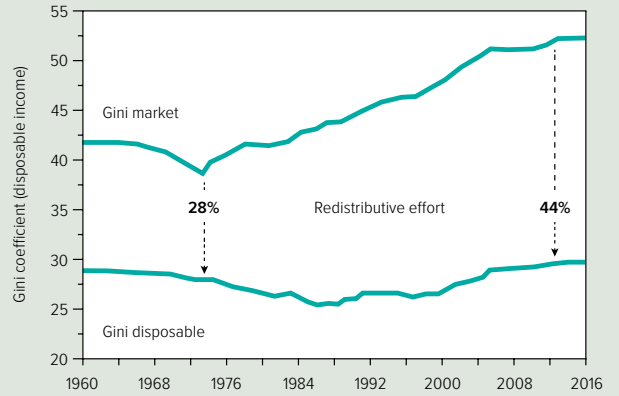
**FIGURE 2**

Market Gini (before taxes and transfers)  
Germany and Chile 1960-2016



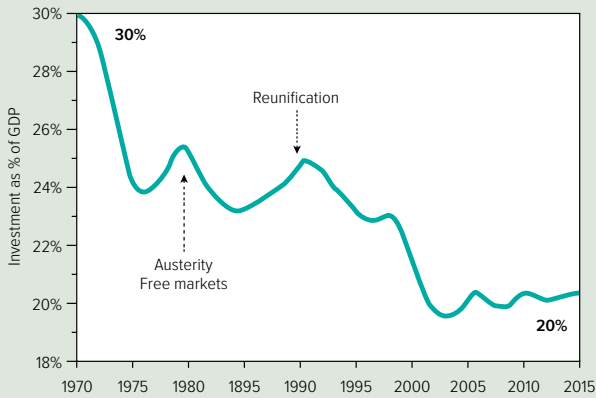
**FIGURE 3**

Market and disposable income Gini (after taxes and transfers)  
Germany 1960-2016



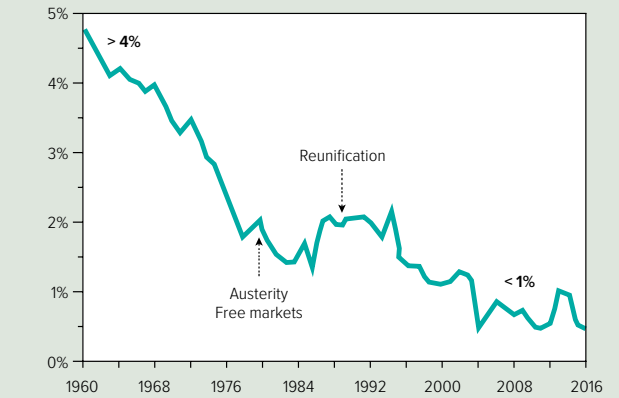
**FIGURE 4**

Investment as % of GDP – Germany 1960-2016



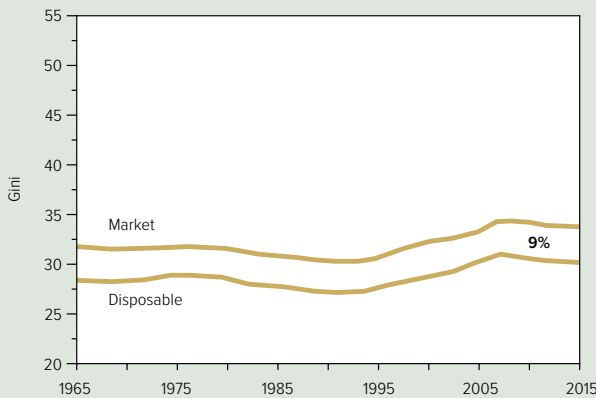
**FIGURE 5**

Annual increase in productivity – Germany 1960-2016



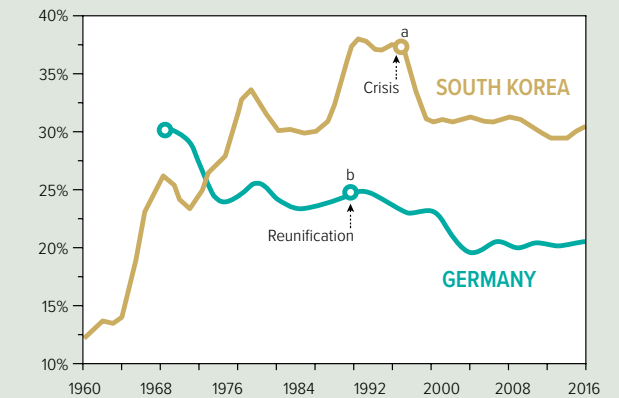
**FIGURE 6**

Market and disposable income Gini coefficient  
South Korea 1965-2015



**FIGURE 7**

Investment as share of GDP  
Germany and South Korea 1965-2017



- *We need legislation that will make producers and sellers responsible for the whole life (and death) of each product in order to encourage products of high quality that last hundred years.*

#### THE QUESTION THEN IS: WHAT SHOULD WE DO NOW?

Golden ages are win-win games between business and society. One could say that such a formula is the definition of Social Democracy. And that is why Social Democracy is the way out! But it requires both an active state and dynamic markets with a consensus strategy and coherent policies in clear and stable directions.

#### SO, HERE'S THE DEAL

**The policies to be adopted must fit (and use) the current Information Revolution, not the previous mass production one.** It all depends on a powerful understanding of the new paradigm and its potential. That is exactly what the visionaries of the second world war reconstruction understood and acted upon (perhaps intuitively).

During the golden age of mass production we achieved full employment, universal education, healthcare, universal suffrage and security based on home ownership, car ownership and mass consumption. But at a high cost: we destroyed the environment and excluded the 'developing' world.

With a digital golden age we can have all of that, but in a different way: smart and green, with meaning, creativity, social networks, life-long learning based on collaboration, access, rental, maintenance, recycling and reuse. With an improving global society and profitable businesses, flourishing on a healthy planet.

#### INSTEAD OF 'THE AMERICAN WAY OF LIFE', A 'GLOBAL SMART, GREEN AND FAIR' WAY OF LIFE

##### Why 'smart and green'?

Whereas the energy-intensive, unavoidably wasteful, mass production revolution is the main cause of climate change and resource depletion, the Information Revolution, with the intangible nature of software and internet 'mobility', provides the best set of tools to turn products into services and generally reverse the old trends. With its networking, platforming paradigm, the Information Revolution can completely change our forms of work, interaction, consumption and resource use to preserve and to 'enhance' the environment, enabling us to live better and healthier lives.

Smart green lifestyles and production methods must lead the way, and we are already on it. Some examples are streamed music and films, online news, digital books, rental and maintenance of truly durable goods, car sharing, mixed mobility, computer guided hydroponic agriculture around cities and healthier regenerative agriculture in the countryside, interactive smart electric grids, massive open online courses (MOOCs) and other online teaching and learning, virtual events, online meetings.

##### Why 'fair and global'?

Because we are all in this together! If the rise in violence, desperate migration, and populism had not convinced us, the pandemic certainly has! So, it is for fundamental humanitarian reasons as well as practical ones related to peace and profitability.

**The boom in the advanced world after the second world war was the result of a fair income distribution in the North that created dynamic demand for profitable business. But in order to pay high salaries and invest in equipment, oil and materials were kept cheap, which held the underdeveloped countries back.**

Today, the global economy needs fossil fuels and materials to be expensive so that conservation, dematerialisation and sustainability becomes the more profitable direction for innovation. Many consumer goods have become cheap commodities so that, despite no longer being very profitable, their consumption continues to overuse materials. Planned obsolescence continues to discourage maintenance. **We need legislation that will make producers or sellers responsible for the whole life (and death) of each product in order to encourage products of high quality that last hundred years** – extremely high quality and expensive at first, and cheaper as they age, but with continuous maintenance and upgrading, electronic diagnosis, 3D-printing of spare parts and so on – until they are disassembled and recycled. A shift from possession to rental with upkeep and disassembly would create hundreds of thousands of jobs and allow those emerging from poverty to access refrigerators and other life improving products at an affordable cost, all without an excessive use of natural resources. And the rental business would be profitable and local everywhere, no matter where the goods are produced.

Other future profitable innovations would be in services, new materials, sustainable mining

and agriculture, food, and so on. Development in the Global South will improve the lives of millions, reduce local wars and desperate migration. And it will create demand from the Global North for engineering, education, adapted capital goods as well as other products and services. In short, full global development is the best way to create employment by expanding demand for the advanced world, and expanding production and innovation in the countries currently lagging. **And intelligent globalisation is intelligent specialisation and 'glocalisation' with a balanced distribution of production across the planet.**

Global governance will be needed to shape direction through taxation or price structure. For instance, higher prices of fossil fuels and raw materials would encourage innovation to increase efficiency and saving, and would also encourage the use of biomaterials and other solutions, while funding sustainable development in the producing countries. If we want investment in productive areas and away from finance, a global financial transaction tax could fund a 'Marshall Plan' for development in the South that would encourage investment and an innovative sector in sustainable capital goods adapted to local conditions.

#### And what about social fairness?

In this context, the welfare state has to be completely transformed and government has to become as agile as Amazon. The gig economy is here to stay and **a universal basic income, handled with artificial intelligence (AI) and to be returned as tax by those who earn enough not to need it, could provide the**

**necessary stability to households, and with them, to the economy.**

The pandemic has also proven the importance of essential service workers. Good wages for workers, unlike those of CEOs, have a multiplying effect on demand and encourage investment.

**Progressive taxation and the elimination of tax avoidance and tax havens are obvious though extremely difficult tasks.** Perhaps the Covid rescue packages, which showed that when business is in trouble it runs to government for support, have created a favourable political climate for improving tax fairness. But it is not only a question of quantity because taxes are also the most powerful instrument for giving directionality. At present, capital gains are taxed much less than salaries or corporations. And this is part of why finance can happily set up 'high frequency' transaction systems and maintain a short-termist behaviour that decouples the financial world from the real economy of production.

**The other huge problem to be addressed is achieving agreement for setting up global regulation of certain things – of which finance is one and some aspects related to the environment are another – so that races to the bottom can be avoided.**

Regulations for affordable green housing would not only tackle one of the main sources of carbon emissions (home energy) but also stimulate innovation and job creation. Above all, affordable green housing would assure a better quality of life, and the desirability for this clearly showed during the pandemic.

► *The deployment of smart, green, fair and global growth can be a positive sum game between business and society, between advanced, emerging and developing countries, and between humanity and the planet.*

The current leadership has the opportunity to unleash a global sustainable golden age. Providing a context with clear directions and missions; favouring production and definancialising the economy, while rethinking Keynes plus Schumpeter, and being as bold and imaginative as those who set up the Bretton Woods system.

**The deployment of smart, green, fair and global growth can be a positive sum game between business and society, between advanced, emerging and developing countries, and between humanity and the planet.** And there is no better time in which to set it up than in the post-pandemic reconstruction.



Carlota Perez,  
Honorary Professor,  
Institute for Innovation  
and Public Purpose,  
University College London

# Fighting precarity: a paradigm shift from equality-in-prosperity to solidarity-in-wellbeing

## *Notes on a political economy of trust*

by Albena Azmanova

We stand at a pivotal point in history – one that contains the opportunity to replace the equality-in-prosperity formula of progressive politics with a new one: solidarity-in-wellbeing. For the past hundred years, the critique of capitalism has centred on unfair distributive outcomes (economic inequality), as well as the damage that consumerism and the commitment to economic growth cause on human life, society and the natural environment. So far, solutions have ranged from wealth redistribution and increased worker representation in companies' decision-making bodies, to socialisation of the production process (via collectivisation of property ownership), and 'green growth' by way of replacing fossil fuels with clean energy sources.

### CONTEMPORARY CAPITALISM: A DIAGNOSIS

In *Capitalism on Edge* (2020), I have observed that the nature of contemporary capitalism makes these strategies ineffective for progressive politics. This is because under the conditions of global market integration, the key systemic dynamic of capitalism – the competitive production of profit – cannot be effectively countered by distributive measures and structural reforms. A comprehensive plan for transcending capitalism and eliminating the injustices associated with it (impoverishment, exploitation, alienation and ecological crisis) must thus address all three dimensions of capitalism's impact:

- 1) the *relational* dimension of the unequal distribution of power which generates inequalities and exclusion;
- 2) the *structural* dimension of the institutions through which relational injustices occur;
- 3) the *systemic* dimension of the competitive production of profit which binds science and human creativity to the profit motive.

In what follows, I will address the importance of this third dimension for progressive social reform and will propose some solutions.

The overarching significance of this third, systemic, dimension in the functioning of

capitalism is determined by the idiosyncrasy of our current modality of capitalism.

In its historical development, democratic capitalism (the prevailing form of capitalism in Western societies) has transitioned through four sequential forms: the *liberal* (entrepreneurial) capitalism of the 19th century, the *coordinated* (or 'organised') capitalism of the four post-war decades, the *neoliberal* capitalism of the last two decades of the 20th century, and currently, what I have described in my recent book as '*precarity* capitalism' – a modality that emerged in the early 21st century and matured in the course of coping with the economic crisis of 2008 and the Covid-19 pandemic of 2020.

This current modality is marked by two distinctive features. First, global market integration has expanded the scope and deepened the intensity of competitive pressures. Importantly, **the global economy can no longer be plausibly described as a space of national economies integrated through trade. It is a system of transnational production networks and supply chains which engulf a multitude of political regimes** (from the autocracies of Vietnam and China to the liberal democracies of Europe) and national economic systems (from the state-controlled socialism of Vietnam and the state-managed capitalism of China to the free market capitalism of America).

The ease with which autocratic regimes increase profits through wage repression and environmental devastation further intensifies the competitive pressures on liberal democracies. Furthermore, the IT revolution, or digitalisation, has facilitated automation. This, in turn, has allowed an increase in productivity while at the same time reducing the need for human labour. These features of capitalism began emerging in the late 20th century.

As a result, governments across the left-right political spectrum began to undertake a policy shift to adjust to this new reality: they committed to maintaining competitiveness in the global market as a top policy priority. The switch from the growth-and-redistribution agenda of the post-second world war welfare state to a stress on *competition* in the late 20th century and, even further, to an emphasis on *competitiveness* in the early 21st century has had a far-reaching societal effect.

**In pursuit of competitiveness, governments started to undertake the liberalisation of labour markets which allowed them to produce a flexible workforce that could be adjusted to the demands and pressures of global competition.** At the same time, governments began helping those economic actors (large corporations) that already had a competitive advantage in the global economy.



This increased competitive pressures on the rest of market participants. Governments also *reduced social spending* as they deemed that in conditions of open markets, where capital flight is easy, the state had lost much of its power to tax capital. This tendency was exacerbated by the financial crisis of 2008 as governments adopted 'austerity policies' (via the reduction of government spending and/or income tax increases) in an effort to reduce budget deficits and stabilise their finances.

**The combined effect of these technological and policy shifts has been the creation of massive precarity – a state of economic, social, and psychological insecurity.** The experiences of precarity vary according to type of employment and level of remuneration. However, overall, precarity as a social condition rooted in real, perceived, or anticipated threats to livelihoods, cuts across gender, age, class, and occupational differences. **Precarity is at the centre of the social question of our times and should be the focus of progressive economic and social policy. It is the failure of public authority to counter precarity that has eroded solidarity, diminished citizens' trust in the main institutions of liberal democracy, and fostered the anti-establishment revolt – the upsurge of populism.**

Precarity is generated along two trajectories: a personal and a societal one. Along the personal trajectory, precarisation is a result of diminished security of key sources of revenue. This is, typically, a result of job insecurity, the investment of personal savings (including through pension funds) in global financial markets, and the reduction in scope and amount of social security provisions. Along the societal trajectory, precarisation results from diminished investment in public services such as healthcare and education, and from subjecting essential spheres on which societal well-being depends (such as science, culture, education and health) to the imperatives of profit-creation.

► *A distinctive feature of capitalism is not simply that the economy is run through competitive practices aiming at economic efficiency, but that economic activity is motivated by the competitive production of profit.*

This has resulted in the fragility of our societies and their incapacity to safeguard their well-being despite their material affluence and their unprecedented scientific and technological sophistication. **The Covid-19 pandemic (the transformation of an infectious disease into a public health crisis) is a direct outcome of the societal trajectory of precarity. Cuts to budgets for research and public health-care had left governments with deficient capacity to react in a timely manner to the spreading contamination.** They had lost time for vaccine-development and struggled to provide essential equipment for medical personnel and patients, as well as to organise large-scale testing of their populations.

► *A social justice agenda focused on growth and redistribution is incompatible with environmental justice.*

An example of one of the engines of social precarity is that in 2017, within the Innovative Medicines Initiative (a public-private partnership funding health research and innovation), the European Commission proposed the development of vaccine for pathogens of the Covid family. The participating pharmaceutical companies rejected the proposal on the grounds that such investment would not be profitable. The rationale of market efficiency was thus allowed to guide policymaking on matters of public health, with tragic consequences for society.

**Because the core dynamic of capitalism – the competitive production of profit – is at the root of both trajectories of precarisation, policies that oppose this dynamic will result in exiting capitalism.**

Of course, every society needs to *produce* its material conditions, preferably in an efficient manner, if it values its natural resources and labour power. *Profit* is the outcome of economic efficiency. *Competition* can spur innovation and even foster solidarity through a commitment to a common cause. However, **a distinctive feature of capitalism is not simply that the economy is run through competitive practices aiming at economic efficiency, but that economic activity is motivated by the competitive production of profit** (what Karl Marx called 'the profit motive'). What marks capitalism is the association of the three elements: the productivist nature of work, the motivation of economic activity by profit, and the competitive nature of the pursuit of profit. Opposing the competitive production of profit – capitalism's very constitutive dynamic – would thus amount to demolishing capitalism without the help of a guiding utopia (eg, socialism) or a revolutionary break.

#### POLICY REFORMS: TOWARDS A POLITICAL ECONOMY OF TRUST

Three considerations will guide my proposal for a policy reform.

**First, it is important to note that the classical toolbox of Left policies (redistribution and collectivisation of production) is currently inadequate for countering precarity.** This is because even societies which are relatively (or even perfectly) egalitarian, and in which productive capital is owned or controlled by the workers, would remain subjected to the pressures of the competitive production of profit that global markets generate. Units of socialist organisation of production would thus behave as actors in a capitalist system to the extent that livelihoods continue to be dependent on the successful pursuit of profit in the global economy – with all the resulting damage this incurs on individuals, societies and nature.

Progressive social reform therefore needs to focus as a matter of priority on countering the competitive production of profit as a key engine of social precarity.

**The second consideration regards the futility of a return to the growth-and-redistribution policy formula** that had secured the relatively egalitarian prosperity during the golden age of the welfare state (from the 1950s to the early 1980s). Going back to this formula is futile because it was based on stimulating consumption by boosting demand – an approach that proved to be detrimental to nature. A social justice agenda focused on growth and redistribution is therefore incompatible with environmental justice.

Instead, fighting precarity perfectly aligns social and environmental justice, because the focus is on the stabilisation of economic and social conditions, on securing personal and societal well-being, rather than on the pursuit of material prosperity.

**Third, social solidarity is the proper basis of a thriving society.** Solidarity is not synonymous with economic equality, just as inequality is not necessarily detrimental to solidarity. Thinking of social justice in terms of equality between individuals obscures the importance of the commons and reproduces the individualistic fallacy typical of neoliberalism. If precarity is the main culprit in the destitution of our societies, obtaining solidarity by fighting precarity is therefore the main objective of 'a political economy of trust'.

► *If precarity is the main culprit in the destitution of our societies, obtaining solidarity by fighting precarity is the main objective of 'a political economy of trust'.*

### 1) Fighting personal precarity: voluntary employment flexibility

As noted earlier, we inhabit a social context marked by a political economy which does not produce good jobs for all, while labour decommodification is technologically attainable due to the unprecedented advancement of information technology. The reduction of time spent in paid employment, as well as the flexibility of employment, are highly valued in our societies. However, employment flexibility enhances personal freedom only if flexibility is voluntary. In other words, **the conditions must be put in place to allow people an easy entry into the labour market, as well as an easy exit from it – in a formula of voluntary employment flexibility.** This can be achieved through two sets of policies:

- i) **a trans-European social security provision (universal and unconditional welfare)** would make essential social safety independent from an employment contract (thus not directly predicated on participation in the labour market). This can be achieved via a combination of free education and healthcare, affordable housing provision, denizenship-based unemployment benefits, and a minimum income. (Denizenship: from 'denizen', a person who resides in a given country but without the formal status of being its citizen.)

As a start, the temporary employment reinsurance scheme (SURE), which the European Commission adopted during the pandemic, should be made permanent and expanded to include all forms of precarity and self-employment. Funding for such a trans-European social security provision could be secured by granting EU bodies the power to tax a 'single market levy', or by creating a trans-European public sector – for example, building and operating infrastructure as a source of revenue, owned and managed centrally by the EU.

- ii) **a 'universal basic employment' formula in which the creation of jobs that are not directly committed to the profit motive (for example via community employment) should be combined with job sharing (which will necessitate a mandatory limitation of working hours).**

The European Union already has some experience with social enterprises, and this needs to be expanded and properly institutionalised.

The combination of these two measures will incentivise the labour-market insiders to leave paid employment earlier and more often, which will open the possibility for labour-market outsiders to enter the labour market at will.

### 2) Fighting societal precarity: a robust public sector

The Covid-19 pandemic has brought to light the significance of social infrastructure – in terms of public investment in science, and the availability of a well-funded public health service accessible to all. Countries where public spending had been severely cut as part of austerity policy over the past decade (for example Italy and the UK) have been worst affected by the health crisis. **Developing a robust public sector (both in terms of expanding public services and building public enterprises, as discussed above) is thus essential for eliminating precarity.**

Usually, the robustness of public provision is gauged as a ratio of state expenditure to gross domestic product. However, an increase in public expenditure is a necessary but insufficient condition. It will be crucially important to eliminate considerations of profitability (but not of economic efficiency) in decisions regarding essential public services such as healthcare, science and education. This will require a thorough overhaul of the decision-making structures at local, national, and EU-level, so that decisions regarding

productive inputs and social surplus can be made with a view to social needs rather than the pursuit of profit.

### 3) The overarching policy priority: altering globalisation

Enacting the above reforms would not have a significant impact unless our societies are insulated from the competitive pressures of the global market. The global economy is no longer an agglomeration of national economies mutually connected via trade agreements, but societies integrated via production networks that span the globe. That is why it is futile to undertake economic reforms first within the bounds of nation states and then to seek to negotiate trade agreements. We must alter the nature of production in these global production networks. **As a matter of urgency, therefore, the rules of globalisation need to be rewritten by inserting stringent labour and environmental standards in trade agreements regarding domestic production processes.** The recent change of administration in the US provides a last chance for the EU and America to unite their powerful economies through such a trade agreement. The rest of the world will have to follow if it wishes to gain access to this vast economic space.

**Together, these three sets of policy reforms would engender what I call a 'political economy of trust' which, by placing people before profits, would gradually bring about societies marked by both freedom and solidarity.**

Albena Azmanova,  
Associate Professor  
in Political and Social  
Theory, Brussels School  
of International Studies,  
University of Kent



# Reforming the financial structure of 'small-buffers' capitalism

by Dirk J Bezemer

We live in an advanced form of what, 25 years ago, the US economist Hyman Minsky had termed 'money manager capitalism'. Today, the dominant role played by the captains of industry in the area of industrial capitalism falls to the money managers in charge of hedge funds and pension funds. By identifying this new incarnation of capitalism, Minsky drew attention to the concentration of financial power in the hands of institutional investors and to the dysfunctions this engenders.

## TODAY'S ECONOMIC SYSTEM: 'SMALL-BUFFERS' CAPITALISM

In the past quarter of a century, however, capitalism has evolved further into a system that drains money away from productive uses and prudent buffers. Funds are funnelled towards the accumulation of financial and real estate assets, controlled by money managers via layers of ownership titles. This ever more lopsided distribution of financial and real estate assets creates inequality – **income from capital, rather than from wages, is the main driver of rising income inequality** – and it breeds instability and fragility. It chokes off the financial flows that should support investment and innovations. And it weakens the incentives for work and for entrepreneurship, as Thomas Piketty had warned in *Capital in the Twenty-First Century*.

The flip side of the concentration of money and power with institutional investors is the exhaustion of disposable money resources in many households, in the face of wage stagnation and failing social security systems. Cash buffers are also small in many firms, where, despite healthy profits (thanks in part to those low wages and falling employer contributions), the Covid-19 calamity found many unprepared. And productive investment is low: much profit had been squandered on dividends and stock buybacks, mergers and acquisitions, real estate speculation and other financial transactions. Furthermore, borrowing is also mostly for asset investment rather than the formation of productive capabilities. **I therefore refer to today's money manager capitalism as 'small-buffers', low-investment capitalism.**

► *Funds are funnelled towards the accumulation of financial and real estate assets, controlled by money managers via layers of ownership titles. This ever more lopsided distribution of financial and real estate assets creates inequality – income from capital, rather than from wages, is the main driver of rising income inequality – and it breeds instability and fragility.*



## | BUFFERS, CAPITAL, AND WEALTH

The rise of managed money and other forms of unproductive wealth is one symptom of what is wrong in this kind of capitalism. The lack of adequate buffers is another. And a third feature is under-investment in capital. Seen this way, **today's capitalism is about three alternative uses of money – for speculation and rent seeking; for buffers; and for investment.** Speculation has little if any societal value, and yet this is where most of the money goes that is circulating in today's financial and real estate markets.

We need to maintain buffers to cushion shocks, and we need to make productive investments for the long-term flourishing. 'Productive' investment should be taken in a broad, encompassing manner. Investment, for example, in:

- capital in the traditional (not the financial) sense: machines, robots, structures and infrastructure;
- societal capital (a healthy public sector, a vibrant community life);
- human capital (good and accessible education systems, the fostering of talent regardless of gender, age and ethnicity, labour market accessibility for all);
- natural capital (from public parks, green cities, pollution reduction and decarbonisation to sustainable water management, circular agriculture and protection of natural habitats).

What we see nowadays is a 'small-buffers' capitalism system that, in a myriad of ways, leads financial flows away from tangible, human, societal and natural capital, away from prudent financial buffers in households and firms, and towards financial and real estate markets. This is not just a trend in the private sector. Unfortunately, it is equally present in the public sector. Here are just some examples of those myriad of ways:

- **A 'debt shift' in the allocation of credit and other lending and of investment, away from supporting productive resource and**

**towards asset markets, above all real estate asset markets.** Much of our financial resources are locked up in real estate, bond, and stock markets, driving up prices of housing and securities. Rising debt with rising asset prices is a financial loss to the real sector – not just as interest, but as fees and repayment. And the costs are not just financial. This leads to income growth slowdown and polarisation as well as higher costs of crises. This 'debt shift' is increasing the cost of business, blocking access to affordable housing to the young and creating windfall gains and rents for the already wealthy as well as for the real estate-financial services complex that lives off the loans and the transaction fees.

- **A shareholder-oriented mindset in corporate business, government and academia has fostered short-termism and underinvestment.** Profit is given away, via dividends and share buybacks, to shareholders. Being investors, they typically use it not for investment or consumption, but for other financial and real estate investments. Productive investment out of profit suffers, aggregate demand falls, and income inequality widens as a result.
- **Widespread labour market flexibility has pushed down wage growth, increasing profit and shareholder value.** As much as through falling unionisation, the hollowing out of job security occurred through the spread of zero-hours contracts and the use of spurious 'one-person businesses' – workers who are entrepreneurs in name only, and who bear all the risks that their employers used to shoulder, without proper insurance. The social costs of businesses shedding this immense 'flexible skin' of disposable workers during the Covid-19 crisis will demonstrate the precariousness of this way of organising labour markets. Again, this is the logic of small-buffers capitalism: efficiency, hence profit and hence shareholder value, has been increased at the cost of workers' financial buffers.

- **Central banks' policy during (and before) the Covid crisis has simply mimicked and supported shareholders and rentiers,** supporting investment in real estate and financial assets, by buying up those assets and accepting them as collateral in repurchase transactions. The result was a boom in stock and bond markets in 2020, even as the real economy went into the strongest contraction in living memory. This has been true for each of the major central banks in the world (the US Fed, the European Central Bank, the Bank of England, and the Bank of Japan).

► *On average, a larger financial sector creates less, not more economic development.*

- **Fiscal policies and public financial architectures have served to increase governments' wealth (low sovereign debt) at the expense of societal capital, but benefitting bondholders.** Constraints on net government spending and investment – such as those defined by the European Stability and Growth Pact (SGP) and the Fiscal Compact – have come at the cost of well-functioning public sectors, public-sector wage growth, municipal finances, and public initiatives and the coordination of much-needed innovations in sustainability. Instead of acting as "entrepreneurial states", as Mariana Mazzucato calls them, states have often behaved as rentier states or even, as James K. Galbraith says, as "predator states". In the Netherlands, the government went far beyond the call of duty of the Stability and Growth Pact: the four pre-Covid years saw budget surpluses and therefore mounting shortages in the care system, in education, even in courts and in the police force. There were gaping holes in municipal finances, even before the Covid-crisis surge in social spending.

Clearly, these trends and practices are among the principal causes of the fact that we now have "too much finance" – the title of a famous research paper by Jean-Louis Arcand, Enrico Berkes and Ugo Panizza (2012) that showed that on average a larger financial sector, functioning in this way, creates less, not more economic development. The problem of asset-oriented behaviour (rather than production-oriented) goes beyond the financial sector. Labour markets and public finances have been shaped in conformity with this orientation. Joseph Schumpeter's vision of a financial sector and structure that would be a driver of innovation and entrepreneurship has been turned on its head.

#### FROM PROBLEMS TO SOLUTIONS: UPDATE RESEARCH, THEORIES AND ECONOMIC MODELS

Current research practice in macroeconomics tends to obfuscate the dominance of speculation and of money managers, as well as the precariousness of household finances, in several ways. **To begin with, in many macroeconomic models, there is no financial sector at all. The underlying assumption is that the financial sector only intermediates between savers and borrowers, which nets out.** Although this is true *ex-post* (and abstracting from capital gains), it ignores the reality of credit creation, which animates the financial process and whose dynamic cannot be reduced to real-sector decisions about saving and borrowing.

**And even if there is a financial sector, in many models there is no conceptual distinction between investment and speculation,** or between productive capital on the one hand and financial and real estate assets on the other. The underlying assumption is that all investment is productive, by definition, or it would not occur in a market economy. As a consequence, precisely those processes that need correcting are ruled out of the equation, and therefore made conceptually invisible.

Third, macroeconomic models typically do not feature asset values and capital gains. Any increase in wealth is thought to be the accumulation of savings. In reality, the larger part of it is capital gains. Market actors realise this, and they engage in speculative actions in pursuit of capital gains. These motivations and actions are simply ruled out in the typical macroeconomic model.

Fourth, wealth itself is thought to be irrelevant to income (perhaps apart from stock dividends and bond yields). All behaviour is construed as income-maximising. In reality, financial market actors pursue 'total returns' (returns plus capital gains) on their assets, with behavioural outcomes that are very different from the income-optimising model world of macroeconomics. Over 2000-19, the US household sector's net saving was \$14 trillion, while its net worth increased by \$75 trillion, as Steve Roth and Sabri Öncü report in *The Wealth of Corporations*.

A fifth and final obfuscation is that macroeconomic models typically do not make financial flows explicit. Some, such as interest, are treated as if they were transfers between real-sector agents, with zero macroeconomic impact. In reality, interest boosts profit and equity in the banking sector. Other flows, such as loan repayment, are treated as payment to oneself. In reality, with rising asset prices, loan repayment imposes a rising drain off real-sector income into banks. And in general, not tracing financial flows leads to inconsistencies – for instance, repayment is a drain on spending, but it is typically absent in macroeconomic models. All money comes from somewhere and goes somewhere, but this basic identity is often violated in macroeconomic models.

**To even begin to understand small-buffers capitalism, we need a change in research practice – away from real-sector equilibrium models, and towards stock-flow consistent models that specify both a financial sector and a real sector, and where all changes in stocks and financial flows are traced.** Such models can be formalised as in the tradition

advocated by Wynne Godley and Marc Lavoie in *Monetary Economics*. But formalisation is not the key. It is a way of thinking more than a technique. Stock-flow consistent thinking, recognising the impact of financial and real estate wealth, and the real-world effects of financial flows, is what we need.

#### FROM PROBLEMS TO SOLUTIONS: THREE POLICY SUGGESTIONS

Capitalism *is* financial capitalism, as Minsky (following Keynes) recognised. And to reform small-buffers capitalism, we must reform its financial structure. This is because money is a claim on resources, and small-buffers capitalism entails a misallocation of money so that resources are misdirected – at the cost of household financial security and detracting from innovations and investment, including investment for a sustainable society.

Governments must intervene at the points where money-flows in the system are directed away from productive uses and into speculation and rent seeking. The four places in the 'circular flow' of the economic system where this happens are:

- 1) at the point of income formation (flows are directed towards profit and rents, away from wages);
- 2) at the point of income use (flows are directed towards assets, away from investment and consumption);
- 3) at the point of credit creation (*idem*);
- 4) at the point of savings allocation.

This analysis gives us a handle on which actionable policy initiatives are needed. Fortunately, there is no need to develop these from scratch. There are detailed, well thought-through policy proposals on the shelf. It is 'just' a question of political will. As an illustration, three areas for my country, the Netherlands:

► *A reform of labour markets is necessary so that basic worker labour rights are reinstated everywhere (including for migrant workers), spurious 'one-person business' contracts are outlawed, minimum wages are increased, and the use of zero-hour and other flexible contracts is more tightly regulated.*

### Labour market regulation and wage growth

**A reform of labour markets is necessary so that basic worker labour rights are reinstated everywhere (including for migrant workers), spurious 'one-person business' contracts are outlawed, minimum wages are increased, and the use of zero-hour and other flexible contracts is more tightly regulated.** Pay in the public sector needs to be increased, and Covid-support programmes need to come with conditions attached so that the private sector follows suit. The resulting increase in employment, wages and job security will put a floor under aggregate demand, and so speed up the recovery. It will also give employees a stronger basis to negotiate. An actionable proposal for higher wages is the *voor14.nl* initiative, aiming to increase the Dutch minimum wage from €10 to €14 per hour. In November 2019, a majority in the Dutch Parliament voted for higher minimum wages. The German experience with minimum wages confirms that there is no negative correlation with employment levels.

### Credit guidance

Private credit allocation, and, more generally, liberalised financial markets, suffer from a bias towards riskier, more leveraged projects (as Minsky has argued), and they lack the

necessary coordination mechanisms to bring about public-good types of innovation and investment. Four decades of financial market liberalisation have made this abundantly clear. **There is a strong case for public involvement in the allocation of financial resources, both directly – for instance through development banks – and indirectly, by regulating the private credit supply towards socially desirable and democratically endorsed ends.** The ECB now recognises, for instance, that Quantitative Easing (QE) is not neutral if 'the market' does not account for climate costs and misses the benefits of climate cost mitigation and carbon emissions reduction (a 'market failure'). Credit guidance is central bank regulation with respect to capital weights and costs of liquidity. The design of collateral and asset purchase programmes can harness a society's financial power towards these and other goals. It can counteract the destabilising and polarising tendencies of private credit allocation towards asset markets. Credit guidance was normal practice before the decades of liberalisation from the 1980s onwards. We need contemporary forms of credit guidance to address today's policy challenges.

### Taxation

Revenues from consumption taxes in the EU amounted to 11.2 per cent of GDP in 2018 – significantly above the 2009 level. The level of wage taxation revenues was 20.8 per cent of GDP and capital taxation revenues were 8.2 per cent of GDP, both roughly stable since 2009 (taxation of wage incomes in the European Union has been constant since 2010 at an average of 45 per cent 'real tax rate' for typical workers, while VAT has risen in 20 of the formerly 28 member states). Debt is subsidised almost everywhere, and capital gains taxes are typically low or absent (in the Netherlands, but also in most other countries). **Numerous tax loopholes exist for capital income – above all, international capital income – but almost none for wage income.** This has created a gap between the growth of rentier incomes

and profit on one hand and wage growth and household disposable incomes on the other hand, with the largest burden falling on the lower middle incomes. The result is rising inequality, rising fragility of household finances, and a system of incentives away from work and entrepreneurship and towards accumulation of financial wealth.

**Conceptually, the solution is straightforward: scale down, then stop debt subsidisation; close (international) tax loopholes and stop the (many) tax exemptions that multinationals and wealthy individuals enjoy; and introduce higher taxation of capital gains and income from capital, which can finance a large decrease in wage taxation and VAT.** In particular, a ground rent tax on real estate (the land, not the structures) has already been advocated by Richard Arnott and Joseph E. Stiglitz in 1979 (in 'Aggregate Land Rents, Expenditure on Public Goods, and Optimal City Size') as an efficient, effective and progressive tax, and a solution to housing market instability and rising housing rents. Another option could be to move towards a common European withholding tax on dividend, interest and royalties, as Arjan Lejour and Maarten van 't Riet have recommended in a recent FEPS policy brief, in order to minimise profit shifting within the European Union.

There is always more that can be done. But if we implement these few changes, small-buffers capitalism will be on its way out. Mixed-economy capitalisms, with a large role for government involvement in the economy and a strong public sector, have historically the best track record in delivering growth with equality. We can already begin to build back better during the Covid-19 pandemic!

Dirk J Bezemer,  
full Professor of  
Economics of International  
Financial Development,  
University of Groningen



# Debunking the long-held myths that keep austerity alive

by Suzanne Konzelmann



John Weeks

*The Debt Delusion: Living Within Our Means and Other Fallacies*

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Palgrave Macmillan, 2020

John Weeks's *The Debt Delusion: Living Within our Means and Other Fallacies* is a thought-provoking book for a variety of reasons, not least of which is the sheer impossibility of separating economics from the social and political context that shapes the policies we all have to live with. This not only undermines the idea that economics could ever be considered a natural science (no matter how much many economists would like it to be). It also brings to light the myths that have been popularised to justify the form of liberal capitalism that has dominated much of the world's economy since the days of Margaret Thatcher and Ronald Reagan.

These myths – or as the book's subtitle puts it, "fallacies" – are of course, in reality, something entirely different: they are advertising copy lines which together form a compelling sales pitch. To the many who take them at face value, these myths feel like they should be true. For example, **an apparently powerful justification for economic austerity**

– cutting public spending to "balance the government's budget and pay down the national debt" – is the idea that a government's budget can be likened to that of a household or business. But even a quick look at the increase in non-mortgage debt in the UK, during the two years before 2019, would soon undermine the argument that public debt is comparable to household or business debt.

However, when it comes to economics, not many citizens take the time to dig beneath the surface and decide for themselves how the ideas on offer actually stack up. That is fairly surprising, given the regular financial crises, and rising levels of poverty and inequality that many nations are saddled with. Those familiar exhortations, "We must live within our means", "We should tighten our belts", "Taxes are a burden" and "Austerity – there is no alternative", are therefore rarely questioned.

When you look at the size and complexity of John Maynard Keynes's *General Theory of*

*Employment, Interest and Money*, it is perhaps not hard to see why. Most ads on TV talk about the many wonders that will inevitably follow if you buy, for example, the latest anti-ageing cream. But they do not go into the complexities of how it is made, where it was "clinically tested", or indeed, exactly what the "X number of signs of ageing" it will "fight" actually are. The ad is not intended to inform or analyse; it is intended to produce an emotional response – as are the tired old austerity slogans.

It is not as though there are no alternative ways of looking at the economy; and Weeks's book certainly sets out a compelling view on how at least some of these might significantly improve our lot. After all, separating economics from society is at least as problematic as filtering out the politics. Thus, an important theme in *The Debt Delusion* is the inter-relationship between the economy and society, and the government's responsibility – and political mandate – to further the interests of its citizens.

In his book, Weeks sets out to debunk six powerful myths that have been used to justify austerity:

- 1) we must live within our means;
- 2) governments must balance their books;
- 3) we must tighten our belts;
- 4) never go into debt;
- 5) taxes are a burden;
- 6) austerity: there is no alternative.

But he is not dogmatic in his perspective. Rather than austerity – or deficit spending, for that matter – being "good" or "bad", he sees both as useful economic tools that need to be wisely applied; and he shows how taxes can actually provide value.

In his discussion of debt, Weeks distinguishes "productive" debt – whether public or private – from other uses of debt that can lead to ruin. When a government accumulates debt by purchasing assets or investing in infrastructure, for example – some of which generate income (like social housing) or serve important social functions (like hospitals, schools and public transport) – the resulting asset or investment has the potential to effectively pay for itself. Governments also borrow short-term to manage economic emergencies, such as to combat unemployment or social hardship during a recession, which is repaid during the recovery, when unemployment-related social costs naturally fall at the same time as tax revenues increase.

Weeks goes on to show how the dynamics of private debt – which since the 1980s has been driven by the sustained attack on workers' wages and incomes – are entirely different. In explaining this, **he differentiates "secured" debt (such as a mortgage), which is backed by an asset, from "unsecured" debt, such as a payday loan;** and he makes the important point that while the wealthy take on debt to buy an asset, which increases their wealth, the poor borrow to survive.

Having laid this out, Weeks contends that if a society is well managed, in terms of its health, education, infrastructure, environment and other public goods – and prioritises the welfare of its people, "the benign circle in which all benefit" – it will also be able to manage its debt. He concludes by challenging the idea – popularised by Thatcher – that "there is no alternative" (TINA) to austerity or, by extension, neoliberal economics.

*The Debt Delusion* shows that there is more than one kind of economics. It also demonstrates that the alternative approaches need a far better sales pitch, especially when it comes to national elections. Effectively communicating new ideas will take some significant thought, especially as it will involve debunking many long-held myths. Opposition to the idea of national debt goes back at least as far as the establishment of the Bank of England in the late 17th century. Those early opponents of

borrowing could at least be forgiven for being wary. After all, they, unlike modern politicians, did not have a couple of centuries or so of experience to draw upon. They could even be forgiven for comparing national debt to household debt, since automatic stabilisers only started to appear during the first decades of the 20th century.

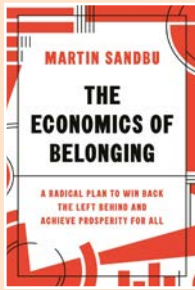
How some economists and politicians can still ignore this is something of a mystery. But it does show the scale of the task confronting those who are trying to garner votes for a new kind of economics. In the meantime, for those wanting a clear, engaging, and above all, accessible grounding in how economics actually works – as well as how it could make life considerably better for most of us – *The Debt Delusion* is a good place to start.

*Suzanne Konzelmann,  
Reader in Management  
at Birkbeck, University of  
London and Co-Executive  
Editor of the Cambridge  
Journal of Economics*



# 'Just do it': the economics of belonging and the temptation of Nike Politics

by Max Krahé



**Martin Sandbu**

*The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All*

Princeton University Press, 2020

Corbyn! Trump! Brexit! Thus went the words of Talking Politics, an influential British podcast, when launched in 2016. Since then, much talk about politics has been talk about populism, in Cambridge common rooms and elsewhere. What are its causes and consequences, how can it be dispelled or harnessed, does it harbour progressive, reactionary, or just destructive potential?

This is the conversation into which Martin Sandbu's *The Economics of Belonging* enters. The book speaks to two of the central axes of this debate: what are the drivers of populism? Are they primarily economic – inequality and insecurity – or primarily cultural – racism and xenophobia? And how should politics react? Should populism be accommodated, via an anti-globalist turn? Should it be 'educated away', in a doubling down on 1990s-style liberalism? Should it be ignored, transformed, or can it maybe

be harnessed in some way, for projects of the left, or of the right?

Sandbu offers decisive, clear answers on both counts: the drivers, in his view, are economic inequality and insecurity, which create a context in which (right-wing) populists can trigger otherwise latent identity conflicts (chapter 3). It is the economy first, though not alone, that causes the political disruptions of our moment.

The best reaction, he then argues, is to undo "half a century of policy mistakes" (chapter 4), crafting a fairer form of globalisation – a renewed economy of belonging – through pulling domestic levers such as minimum wages, education spending, public investment, or credit controls. This, and not a withdrawal behind tariff- and other walls, or pious hopes of renewed international cooperation alone, can remove the fuel that fires the popular, anti-liberal insurgency of today.

The bulk of the book develops and fleshes out these answers. Part I explains the diagnosis – "What went wrong?" – , part II lays out "What is to be done?" Together they account for more than 200 of its 240 pages.

Elements of Sandbu's analysis and proposals could be contested: concerning the analysis, it is not obvious that a clean distinction can be drawn between domestic policy and globalisation. As the work of Katharina Pistor suggests, financial globalisation in particular depends on widespread recognition by other states, in their own courts, on the domestic laws of England and New York State (Code of Capital, chapter 6). Is this domestic policy or globalisation? How much globalisation would be left once domestic policy 'mistakes' are 'corrected'? Or, in foregrounding technological change and domestic policy as key causes, what about one of the most important phenomena of the second half of the 20th century, decolonisation?

Researchers like Vanessa Ogle and Quinn Slobodian have identified the "end of empire" as a crucial driver for financial intransparency, the spread of neoliberalism, and hence arguably the erosion of economic belonging; but they receive little coverage in *The Economics of Belonging*.

Concerning Sandbu's proposals, the arguments for or against a universal basic income (chapter 7) are controversial. Nor is it obvious that domestic credit controls without international capital controls (chapter 9) would be effective in preventing Minsky-style credit cycles of boom and bust: domestic borrowers, particularly multinational corporations, could use foreign collateral to borrow on foreign markets and then repatriate funds, thereby circumventing domestic credit controls. Geographic inequality is an admirably central preoccupation, yet the extent to which Sandbu's proposals – or anyone's, for that matter – can redress it is uncertain.

But a focus on issues of this kind would be misplaced. **The book is bold and its lucid prose hides nothing in obscurity. It deserves to be judged on the big calls, not evaluated via scrutinising every detail. On this metric, both the book's analysis and the proposals stack up well.** In identifying insecurity and inequality as the drivers of the anti-liberal backlash, and in highlighting states' own policy choices as the causes of this insecurity and inequality, Sandbu's analysis gets considerably more

right than wrong. In stressing the endogeneity of the supply side – or 'trend' – growth to the wage distribution and to aggregate demand, the book breaks with both neoliberalism and neoclassical economics, opening the door to multiple-equilibria thinking, to taking inequality and uncertainty seriously, and so towards a primacy of the political.

Nor does part II, the alternative vision, suffer from a lack of ambition: a push for high minimum wages, strong public investment in infrastructure, education and active labour market policies, full employment macroeconomic management (aka 'a high pressure economy'), a universal basic income, the administrative extension of collective bargaining outcomes, the reintroduction of net wealth taxes (to the tune of multiple percentage points of GDP, no less) and credit controls, even a flirt with narrow banking (via directly accessible central bank digital currency). With these proposals and others, Sandbu offers precisely what the book's subtitle promises: "A radical plan to win back the left behind and achieve prosperity for all".

#### | A FAULTY THEORY OF ERROR

**Yet all of this raises the following question: How are these policies not already implemented? Higher productivity and more equality: which electorate could possibly reject this offer?**

Of course, Sandbu is too sharp a thinker to miss this: "If my diagnosis is right, how did the liberal centre let it come to this in the first place?" (p. 229). What explains the half-century of policy mistakes? Who made those choices, and why? Rarely does a reader ask for a longer book, but in my eyes *The Economics of Belonging* would have gained from dedicating four chapters rather than four pages (pp. 230-33) to developing this theory of error.

As it stands, the book's theory of error revolves around the chaos of the 1970s, the fall of communism in 1989-91, and then, in the 1990s and beyond, the invisibility of left-behind people and places (due to "psychological and intellectual blind spots", p. 233) and the fragmentation of traditional electoral alliances. What this misses – and what, in fairness, would have required much additional text – is a closer analysis of moments of struggle and the workings of power: why did the chaos of the 1970s give rise to 'neoliberal modernisation', against presumably more popular 'embedded modernisation' or 'a modernisation of belonging'? Given the intense industrial struggles of the 1970s, 1980s, and even early 1990s, can it really be true that "the underlying dynamics of divergence and inequality [...] escaped serious attention" (p. 231)? Would it not be more accurate to say that resistance was intense, hence often highly visible, yet in the end defeated – as were opponents of third-way politics in their internal party struggles, whether Oscar Lafontaine in Germany, Jean-Pierre Chevènement in France, or Tony Benn in the UK?

In part because of this incomplete theory of error, the proposals of the book risk being political orphans. Who will fight for them? Given the sociological consequences of deindustrialisation, clearly identified by Sandbu, what is the political base for an economics of belonging? The erosion of trade unions, the rise of capital mobility, the growth of public and private financial leverage, persistent slack in labour markets, a fraying of formerly dense social fabrics, the dismantling of manpower-intensive armed forces and defence industries – as Sandbu would no doubt agree, these and other changes have weakened the bargaining power of the many.

► *A simple theory of error shines through: better policies were available, but past liberal centrists "simply did not try hard enough". Were this true, the way forward would be Nike Politics – 'just do it' –, a politics that is both oversimplified and unrealistic.*

And although the book portrays the economics of belonging as *ni gauche, ni droite*, when push comes to shove, this is a programme of downwards and anti-metropolitan redistribution, to counter the upwards, pro-metropolitan, and productivity-retarding redistribution of recent decades. Much needed, but not obviously appealing to those whose bargaining power has been boosted over recent decades. Just as significantly, the "conscious directing of resources" (p. 236) that is central to the book's

proposals is a direct challenge to the power of capitalists and investors. Whether they will accept such a loss of control, in addition to a loss of relative wealth and income, remains to be seen.

#### | NIKE POLITICS

In other words, just as an economics of belonging has become more urgent, the preconditions for a politics of belonging may have crumbled. Lacking a fully elaborated theory of error, the book moves between recognising this deep quandary, and taking refuge in voluntarism. Characteristic of the latter, at times a much simpler theory of error shines through: better policies were available, but past liberal centrists "simply did not try hard enough" (p. 90). There was a "lack of boldness" (p. 106), "too often they have not even tried" (p. 91).

**Were this true, the way forward would be Nike Politics – 'just do it' –, a politics that is both oversimplified and unrealistic. Unlike others in the populism genre, Sandbu ultimately resists the temptation of calling for Nike Politics. In its final chapters, the book instead outlines a Hegelian-Keynesian theory of change, in which interests are seen as malleable through better understanding and acts of persuasion: yes, an economics of belonging may harm the rich, from a narrowly financial point of view.** But in re-legitimising and restabilising a liberal social order, it would serve their enlightened self-interest, for worse outcomes are looming on the horizon. Readers of Geoff Mann's *In The Long Run We Are All Dead* will recognise these arguments as characteristic of committed liberals with a deep understanding of capitalism.

But just as the book comes close to calling for Nike Politics at times, it also contains the seeds of an alternative, more hard-nosed reading of

politics. In the discussion of financial globalisation (pp. 88-90), and in the attention paid to the sociological and political-coalitional consequences of structural economic changes, a recognition of the deeper quandary outlined above emerges. "The end of belonging is fundamentally a story about power" (p. 111) is the summative statement of this view. Were this perspective more central, the book might have ended with a chapter on political education, not in the 'teaching from on-high' sense, or as conventional civic education, but as the process through which a 'class in itself' – perhaps the precariat – could become a 'class for itself'. It is the economy, this perspective would reiterate, that drives a politics of anger. But once an economy of precarity has woken our inner demons, Hegelian-Keynesian persuasion may no longer suffice. A project of world-making, meaning-making, community-building, consciousness transformation, all in pursuit of resilient, long-term mobilisation would become necessary instead. Of course, how to combine class-making and mobilisation with the coalitional politics necessary to get to 51 per cent, this is the great task for any political project seeking a renewed economics of belonging.

While not articulating this alternative vision, Sandbu's book gets to the edge of this project. Indeed, it provides a credible economic roadmap for it, with clear programmatic near-term demands. For this, it is to be welcomed by progressives everywhere.

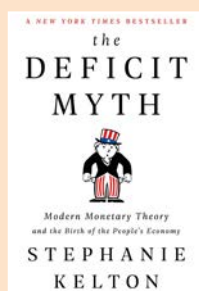
Max Krahé,  
Postdoc research  
associate at the Institut  
für Sozioökonomie  
at the University of  
Duisburg-Essen





# Modern Monetary Theory: what should the EMU make of it?

by Robin Huguenot-Noël



**Stephanie Kelton**

*The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*

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Yale University Press, 2020

Since the onset of the Covid-19 crisis in 2020, governments all over Europe and beyond have enacted unprecedented fiscal stimulus to keep their economies afloat amidst the pandemic. By the end of 2020, a country like France was expected to have engaged or guaranteed at least €300 billion that year, the equivalent of four years of income tax receipts. Institutions of the European Union have also rightly stepped up to the challenge. Most notably, the European Central Bank has launched several bond-purchasing programmes to absorb the rising public debt on its balance sheet.

Should the public debt sitting on central banks' balance sheets be considered a burden or an unfortunate bill that a country can get away with? This is in essence the question that Stephanie Kelton, one of the leading progressive voices in American academia, raises in her book *The Deficit Myth* (2020). Kelton's book, meant to serve as a

manifesto for the 'Modern Monetary Theory' (MMT), primarily considers the nexus between fiscal and monetary policy in the specific context of the United States. In the wake of the Covid-19 pandemic, however, Kelton's 'deficit myth' has gained traction in the EU too – notably with those policy-makers who see MMT as a way to 'cancel' public debt.

## A MISNOMER RIGHTLY DEBUNKING MISCONCEIVED VIEWS ON FISCAL POLICY

As Kelton herself acknowledges (2010), Modern Monetary Theory is a 'misnomer'. MMT is indeed not a theoretical but rather a descriptive approach, which largely builds on the work of economists such as Georg Friedrich Knapp, John Maynard Keynes, and Abba Patchya Lerner. MMT primarily focuses

on the role of fiscal policy in achieving macroeconomic objectives – such as full employment, low inflation, and lower inequalities – with monetary policy supporting these objectives in the background.

In *The Deficit Myth*, Kelton's argument relies on the following main claims:

### 1. There are neither financial nor monetary constraints for sovereign countries.

Kelton primarily focuses on the United States as a country issuing fiat money (government-issued currency that is not backed by a physical commodity such as gold) in a floating exchange rate regime where its currency is internationally accepted. In this context, governments can never default since central banks can always credit the accounts of banks holding public bonds. Accordingly, governments do not need taxes or borrowing to fund their expenditures.

## 2. Fiscal policy should help balance the economy, not the budget.

Kelton rejects the widespread view of the state's finances as equivalent to those of private households: borrowing, like taxes, is not there to fund public expenditures, but to attain targeted objectives in the economy, including achieving full employment, controlling inflation, or altering the distribution of income. Efficiency should be measured against the objective of bringing about policymakers' goals rather than against the ability of correcting market failures. In that spirit, Kelton proposes introducing a federal job guarantee scheme, which would create a market for jobs linked to building a care economy.

## 3. The real constraint is not deficit, but inflation.

Kelton clearly acknowledges that while deficit may not be a constraint on government expenditure, inflation is one that needs to be taken seriously. Rather, productive resources are the real constraint as inflation will kick in when aggregate demand is higher than productive capacity. This kind of 'demand-pull' inflation, Kelton argues, should be dealt with by raising taxes or cutting spending to reduce the available money in the hands of the taxpayer. A federal job scheme would also help reduce inflationary pressures by stopping companies from bidding up wages to attract workers.

Essentially, Kelton advocates the use of fiscal policy to address macroeconomic issues and to "shift away from the current reliance on central banks to deliver on the twin goals of full employment and price stability". This approach may be seen as a welcome call to move away from technical monetarism in the EMU. Yet one should also be careful not to throw the baby out with the bathwater, and consider how best to address the negative externalities created by monetary financing.

## MOVING AWAY FROM TECHNICAL MONETARISM

**Kelton's *The Deficit Myth* undeniably has the merit of bringing back the instrumental role that fiscal policy can play in achieving macroeconomic objectives that citizens actually care about.** In the same vein, another major contribution of MMT is the rejection of technical monetarism (Constâncio 2020), which basically sets the view that governments should keep the money largely steady and that price stability is some sort of a totem for which objectives as legitimate as full employment can be politically sacrificed.

A modern criticism of the neoclassical paradigm is particularly relevant in the light of the original EMU institutional design. From the years following the adoption of the Maastricht Treaty to those of the Great Recession, EMU rules and their interpretation undeniably reflected the dominant ideology at the time when the Treaties were signed, which coincided with the supply-side revolution in economics. The monetarist design of the European Central Bank (ECB) and its focus on keeping inflation (well-)below the 2 per cent target was often achieved at the price of high levels of unemployment. To that extent, pre-'whatever it takes' ECB monetary policy did represent a case example of Kelton's criticism of a theory that promotes precisely this approach – namely, the non-accelerating inflationary rate of unemployment (NAIRU).

The EU's response to the pandemic, however, constitutes a sea-change in economic and monetary governance, to the extent that it has been described as "Modern Monetary Theory in action" (Bofinger 2020). Of particular importance has been the response of the ECB, which launched several bond-purchasing programmes of a total value of €1.85 trillion

(the equivalent of the yearly economic production of a country like Italy). By buying bonds in exchange for so-called 'central bank money', the ECB notably allowed governments with higher debt servicing and refinancing costs to benefit from its own credibility as lender of last resort. A good example is Portugal's 10-year bond yield, which in November 2020 fell, for the first time, below zero.

In early 2021, a substantial and increasing amount of government debt is sitting on the ECB's balance sheet. In light of the global macroeconomic environment, scholars have highlighted the benefits of the ECB engaging in at least some kind of temporary monetary financing (Blanchard and Jean Pisani-Ferry 2020). Yet, like any short-term remedy, monetary financing also comes with some long-term side effects that will need to be mitigated.

## REMAINING CHALLENGES AHEAD: INFLATION, FINANCIAL STABILITY, AND INEQUALITY

Given the universal claims made by Kelton in some parts of her book and, above all, its reception in some countries like France and Italy as a kind of new 'general theory' in the making, it is surely fair to address some of the apparent limits standing in the way of MMT if it is to foster the kind of paradigmatic change it aspires to trigger.

**The first issue relates to inflation.** Today, the chances of inflation hitting EU economies for a sustained period are undoubtedly low. Yet this does not mean that they are non-existent. What if a 'demand-pull' inflation spiral was indeed unleashed as a result of the EU's bazooka, in more than a temporary rebound? What if 'cost-push inflation' was triggered by

other long-term trends, be they deglobalisation or demographic ageing (Goodhart and Pradhan, 2020)?

Kelton's argument largely relies on the assumption that inflation may be addressed more effectively from the fiscal than from the monetary side. This assumption, however, appears fairly naïve politically, economically, and socially: *politically*, 'internal devaluation' strategies, generally associated with spending cuts, lower wages and labour market flexibilisation, are usually more perceivable (and hence politically contested) than interest rate hikes. *Economically*, this strategy risks proving less effective in calming down inflationary expectations, potentially costing precious time for policymakers seeking ways to preserve the value of their currency. And *socially*, addressing inflation through tax hikes or spending cuts (especially) could have a particularly damaging distributive impact given that the most vulnerable generally rely the most on public assistance.

**The second issue is linked to the negative externalities that are associated with a situation of permanently low interest rates.**

While MMT surely helps to revive the role of fiscal policy in macroeconomic stabilisation, the role that monetary policy can play in this area seems overly downplayed. Low interest rates can disincentivise policymakers from making the kind of long-term reforms that help improve the productivity of their economy. As shocks hit, these trends can in turn expose countries to risks of capital flights and create immense socio-economic challenges, especially in those countries where years of neglect and underfunding have undermined the institutional capacity. Advocates of MMT are right to point out that central banks will have to integrate issues such as climate change or the rise of inequalities. Yet

overburdening monetary policy with issues of a more fiscal nature could largely constrain its capacity to help trigger the kind of change it aspires to propel.

Not only does cheap money keep zombie firms artificially alive, preventing the emergence of more sustainable business models, but the latest exercises of quantitative easing have also led to a major rise in the value of financial assets, far from reflecting developments in the real economy. There are risks that the status quo further exacerbates the gap between asset-rich and asset-poor individuals, as well as countries.

**MAKING COMMON FISCAL CAPACITY WORK**

**In *The Deficit Myth*, Stephanie Kelton's main insight is essentially that economic instruments should remain means to pursue political goals.** Recently, much debate has focused on the extent to which the MMT Kelton advocates for in the US should also be considered to change the course of the ECB's monetary policy. Such a use is questionable, however, in a context where governments effectively borrow at negative interest rates from financial markets with practically "no fiscal cost" (Blanchard 2020). As we have shown, several issues also remain to be cleared for the MMT's monetary policy prescriptions to be considered politically, economically, and socially desirable.

Today, there are in turn reasons to believe that the novelty of the latter argument should not blind us to what is certainly the most decisive reminder of the MMT approach: namely that fiscal policy should be used as a force for short-term stabilisation, long-term development,

resource allocation and distribution, and employment maximisation.

On 10 December 2020, EU member states adopted a €750 billion recovery fund, which includes both grants and loans funded by common borrowing – a historical breakthrough for the EU. The economic rationale of an EMU fiscal capacity has been stressed repeatedly (see for example Pasimeni 2015) and progressive voices have for years been calling for precisely this kind of common fiscal capacity to see the light of the day. The challenge will now be to demonstrate that sharing fiscal capacity not only has purpose, but also provides genuine added value to member states' expenditures, and that it is effectively spent too.

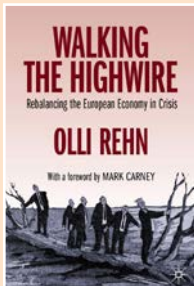
In short, the main policy implication of Kelton's Modern Monetary Theory should be to make this common fiscal capacity work. This approach will surely have more value than raising the flag of a distant, obscure, and possibly unnecessary government debt cancellation by the ECB.



Robin Huguenot-Noël,  
PhD researcher at the  
European University  
Institute (EUI), Florence

# An ode to muddling through

by László Andor



Olli Rehn

*Walking the Highwire. Rebalancing the European Economy in Crisis*

.....  
Palgrave Macmillan, 2020

Exactly ten years after we entered office as members of the Barroso II Commission, and were immediately confronted with the Greek debt crisis, my former colleague, the then-European Commissioner for Economic and Monetary Affairs Olli Rehn, comes forward with his memoir under the metaphoric title: *Walking the Highwire*. The existential crisis of the single currency, which he had to solve during his mandate, was and remains a subject of enormous academic and political interest. And Olli was not only an eyewitness of the process, but one of its drivers. As when he was in office, as an author too, Olli takes his critics with serenity. And he quotes many of them: Varoufakis, Fukuyama, Sandbu and others.

In an early chapter of the book, and also on many subsequent pages, we are reminded that the author is a Finnish economist and politician. Highlighting his home country helps embed the process of high economic governance in the real life of the policy-maker, who nevertheless remains primarily responsible for the affairs of the European Union. This is a significant background factor,

since Finland only joined the European Union in 1995, and remains a land of strong EU-sceptic tendencies.

## | WHO GOVERNS?

Given that this is an account of the eurozone crisis by one of the most central individuals in the story, **perhaps the greatest added value of the book is the micro perspective of policymaking**, which in this case simply means continuous crisis management. And because the text is written from a micro perspective, facts are not stylised, but very concrete.

Explaining how things actually happened requires mentioning a lot of names. In Olli's company, we meet a long list of finance ministers, central bankers, occasionally prime ministers and leaders of multilateral organisations. It is more than a gesture to former colleagues that Olli does not omit to mention his cabinet members and colleagues from the European Commission's directorate general for

economic and financial affairs (DG ECFIN), starting with Marco Buti but also many others, who otherwise would remain 'faceless bureaucrats': on these pages they receive their appropriate characterisation as masterminds, negotiators and enforcers. Obviously, they do not appear as torturers of Greece and other peripheral countries, but as engineers of European solidarity in exchange for reforms that eventually bring the clients to a brighter future.

**What is missing from this tableau is the European Commission as a body, or the college of commissioners as a decision-making organ.** Yours truly is one of Olli's few commissioner colleagues who is mentioned (once) in the book, but the majority are not, and there is very little sign of collective decision making and responsibility. Yet this is not an omission. It is how many of us felt at the time: DG ECFIN was an empire of its own, and Olli was the lone wolf occasionally briefing the college, after arriving late, and before leaving early. **Barroso, of course, is mentioned, and Olli describes him as "competent", which surely is a qualification that would require more subtlety.**

The importance of identifying players as opposed to dealing with issues is exposed by the Name Index and the Subject Index at the end of the book, and the imbalance between the two. While the first is rather detailed, the second is unusually rudimentary. Practically, the Subject Index is limited to certain countries and institutions.

#### | AUSTERITY AND STRUCTURAL REFORM

In the wide public debate, and much of the academic literature, this period of eurozone drama and DG ECFIN supremacy is associated with one central concept: austerity. If there is a general, or a kind of wholesale criticism about the handling of the euro area crisis, it is about this. Olli does not, however, advocate austerity in this memoir, as in his time as commissioner, the policymakers saw themselves pursuing front-loaded fiscal consolidation (especially in 2010-11), confidence-building measures, together with growth and competitiveness enhancing reforms.

The EU response to the euro area crisis, at least in the 2010-12 period, is characterised by the dual strategy of fiscal consolidation and structural reform. While many commentators simply call this a period of austerity, Olli works hard to prove that for him it was always structural reform that was more important. This simple formula was sometimes hard to explain to the rest of the world, including the media. The book refers to an episode when The Financial Times changed the title of an original article by Olli against his will, giving the impression that he was preaching

- ▶ *It was not only a misperception that austerity was the dominant doctrine, only pushed back after the summer of 2012. During the entire 2010-12 period, the OHIO (own house in order) dogma prevailed.*

austerity, while the article was, according to Olli, about the importance of structural reform.

However, on this very issue, **it was not only a misperception that austerity was the dominant doctrine, and only pushed back after the summer of 2012**, which Olli convincingly describes as a watershed. The fact that Olli was not a single-minded austerean (contrary to accusations by Krugman etc) should not hide the fact that in the 2010-12 period, the OHIO (own house in order) dogma prevailed.

Downplaying the importance of procyclical fiscal policy is an important feature of the book, so much so that even the troika (an ad hoc format for creditor rule vis à vis insolvent euro area countries, with the participation of the European Commission, the European Central Bank and the International Monetary Fund) appears as a tool of solidarity. When it comes to the Irish scene, and a hostile national politician mentions the ultra-low Irish corporate tax, Olli opines that we are not supposed to kick at the friend lying on the ground. One may wonder why the same morality was not applied to Greece.

#### | THE CENTRALITY OF REBALANCING

What Olli considers to be the most essential effort of his second mandate as a commissioner, and perhaps also the most important message of the book, is that the EU economy, or more precisely the euro area, had to be rebalanced at the time of the euro area crisis. That is why the word appears in the subtitle of his book.

Olli's main achievement could have been the tool to address imbalances in the EU. Named the Macroeconomic Imbalance Procedure (or MIP for short), it had already been invented in 2010, but the problem is that it did not function very well.

Olli reveals the weaknesses of the MIP, or at least the narrow focus of its application, when he refers to a chart used by Jean-Claude Trichet in 2011 and calls it his favourite. That chart pointed to unit labour cost as a central driver of imbalances and, if adjusted, the source of competitiveness. This is, indeed, a very narrowly focused interpretation of competitiveness, but it helps explain how we ended up with internal devaluation as a key component of the strategy of muddling through and ignoring what macroeconomists call the fallacy of composition.

**More important than North-South, the politically most pivotal imbalance is what one might detect between France and Germany.**

And despite the fact that it is Germany which holds back wages for ten years behind the rise of productivity, and maintains a vast current account surplus, it is still France that is referred to as a source of imbalance, and not Germany. Perhaps the most ironic episode in the book is therefore Olli's encounter with French finance minister Pierre Moscovici, who later became his successor. First, when Olli is the commissioner, Pierre has to ask for leniency, while Olli has to represent rigour. But a few years later, when Olli is a minister, he comes to Brussels to seek leniency, and who should be sitting in his former chair but Pierre.

The mission barely goes beyond survival, constrained by the Treaties, amid the institutional, geopolitical, and ideological fragmentation of Europe. In the period covered by the book, it is muddling through that was possible, and we should not expect much more in the future either. This is also why the past should not be seen too negatively, and the future should not be seen too pessimistically. And this is the idea reinforced by the motto of the book: **"Muddling through can prevent you from tumbling down"** (a proverb in Eastern Finland).

| FOOTBALL

Having missed out on IMF leadership (one of our former colleagues, Kristalina Georgieva, was elected), Olli was confirmed in August 2020 as Covid-19 steering committee chairman by FIFA (the world football federation). This should come as no surprise to those who have read the book, where football is one of the main background themes and sources of metaphor.

The Green rescue package in 2010 was not delivered at the 24th hour, but "in injury time". This was, incidentally, one of Olli's favourite metaphors. At the end of 2013 he indeed insisted that the Commission should remain focused on its tasks, since Manchester United also scores many of its winning goals in injury time. However, Olli did not wait until the end of the Barroso II Commission, but transferred to the European Parliament following the spring 2014 elections.

► *Downplaying the importance of procyclical policy is an important feature of the book, so much so that even the troika appears as a tool of solidarity.*

During his time in office as commissioner and when writing his memoir, Olli not only used the language of football, but also played the game itself. It thus transpires that it was in the break of a football match at Cinquantenaire Park in Brussels that he receives a call from Trichet on a November Sunday to discuss details of the troika's intervention in Ireland. Some of these diary-like details might well be too much for the ordinary reader. One important fact, however, is missing: the result of the match in May 2011 between the Andor cabinet and the Rehn cabinet.



László Andor,  
FEPS Secretary General

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[info@feps-europe.eu](mailto:info@feps-europe.eu)  
[www.feps-europe.eu](http://www.feps-europe.eu)

ISSN 2506-7362  
3.00 €