Autumn 2013 / Issue 2 / €5.90

Queries

THE EUROPEAN PROGRESSIVE MAGAZINE

MY EUROPE
by Michelle Bachelet

ONES TO WATCH
Emma Reynolds
Joseph Muscat

IN NUMBERS
2013 UNCTAD
Trade & Development Report

EUROPEAN
INDUSTRIAL STRATEGY
responsible, equitable, sustainable?

+ **ESSAY:** Mariana Mazzucato on the Entrepreneurial State
+ **COMMENT:** Anthony Giddens

FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES
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About Queries

Isaac Newton's famous book "Opticks" concludes with a set of "Queries." These "Queries" are not questions in the ordinary sense, but rather rhetorical questions intended to stimulate thinking. This was Newton's mode of explaining "by query."

Made with the financial support of the European Parliament

Queries

No 2 / Autumn 2013 / ISSN 2032-9113 – Queries is the scientific magazine of the Foundation for European Progressive Studies. The Foundation for European Progressive Studies (FEPS) is the first progressive political foundation established at the European level. Created in 2007 and co-financed by the European Parliament, it aims at establishing an intellectual crossroad between social democracy and the European project **Publisher:** FEPS – Foundation for European Progressive Studies. First published in Belgium 2012/2013 **Magazine Editor of Queries:** Dr. Ernst Stetter (Secretary General – FEPS) **Editor-in-Chief:** Alain Bloëdt **Associate Editor-in-Chief:** Olivier Breton **Editorial Consultant:** Giovanni Cozzi – **Journalists:** Lorenzo Consoli, Yves de Saint Jacob, Jacques Docquiert, Karl Falcon, Nicolas Gros-Verheyde, Trevor Huggins, Kim Rahir. **Cover Illustration:** Antoine Corbineau – **Design & Production:** All Contents, France **Photo Credits (Pages 6-7):** T. Sorrentino, Michelle Bachelet – Headquarters, Horst Wagner, Derek George Photography, N. Pires, FEPS, Tod's, University of Warwick, University of Campinas, European Union 2013, Finance Watch, Florian Schäfer, Mariana Mazzucato, Creamer Media, Department of Information – Malta, Sportissimo/Pillaud, Zaman/Kursat Bayhan, Lars Hagberg, Paul Hu/Assignment Asia/CLSA Investors' Forum, DR


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TIME FOR EUROPEAN *reindustrialisation*

Antonio Tajani, the conservative European Commissioner for Industry and Entrepreneurship, asserts that "austerity may actually shut down the first outbreaks of recovery" (page 55). This is a welcome step away from the austerity-only solutions advocated by mainstream policymakers, however many policy proposals still do not take into account the prominent role that the state should play in promoting technological and industrial development.

It is only through a significant increase in public and private investment towards innovative and cutting-edge technologies that Europe will succeed in creating more jobs and stimulating growth. Indeed, as highlighted by several international political economists in the Beyond Europe section (page 84), the state, both in advanced economies and emerging markets, has always been a key economic actor in promoting economic development and innovation.

The theme of this year's Call to Europe conference – the annual signature event of the Foundation for European Progressive Studies – was Beyond Austerity: Building European Solidarity. Experts at this event emphasised that future growth will require Europe to become more innovative. Therefore, government has a central role to play that goes well beyond cutting red tape hindering the innovation process. Instead, we need public investment in areas where the private sector cannot or is not willing to be active (page 113).

A very good example is illustrated by Marianna Mazzucato, who reminds us (page 47) that the US has spent the last few decades using active interventionist policies to drive private sector innovation in the pursuit of broad public policy goals, e.g. the algorithm at the heart of the Google search engine!

Anthony Giddens (page 59) also highlights the need to actively support research and development (R&D) and claims that "Europe clearly needs to turn a corner in economic terms or R&D expenditure will continue to decline." This clearly requires both state and private sector to invest and support long-term industrial strategies.

To this end, Louis Lemkow stresses that "the state has to be more present, more aggressive and more visible – and that's where the progressive parties have a major role to play". Consequently, the pressure is on and the opportunity has arisen for a responsible, equitable and sustainable industrial strategy. The question remains: do we have the necessary instruments and the political will to embark on a new economic path?

Massimo D'Alema,
FEPS President, former Prime Minister of Italy

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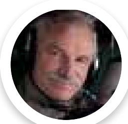

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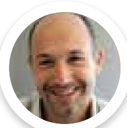

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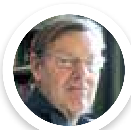

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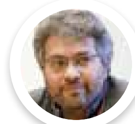

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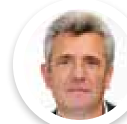

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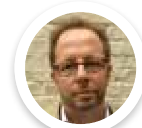

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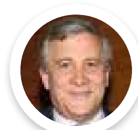

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INPUT

EUROPE
A team with 28 players

© Mamédy Doucara

The time has come to start thinking of Europe as a close-knit team determined to live together in harmony, rather than a fragmented group of individual players.

by Claude Onesta

MY VIEW

That's it! I promise not to mention sport this time, or at least not too much. You will not find any startling revelations from the world of handball – I am writing not as a coach but as a committed European. "Why?" you might ask. Because the European Union is a fundamental issue that affects millions of people. Let's be honest, Europe is everywhere we look, both in the media and our daily lives. As the son of a family of communists who left Italy for Brazil in the 1930s and came back to the continent three years later, I witnessed first-hand the formation of Europe as we know it. Back then it didn't exist. Too often we forget that the goal of European construction was to bring peace to a continent of countries with the nasty habit of tearing each other to shreds every 50 years or so. When you grow up with parents and grandparents who lived through one or both world wars, the significance and essential good of this peace are never lost on you. While the EEC, ECSC and EURATOM certainly laid the foundation for an economic community, my interest lies in the people's Europe. I've always found human interaction more inspiring than foreign trade. So the economic and monetary union is not really my forte, but I find solace in the people's Europe and the peace it has forged.

> "OPPONENTS REPRESENT AN OPPORTUNITY FOR OUR TEAM TO CONTINUE TO HONE THEIR SKILLS. **WHY DON'T EUROPEAN COUNTRIES TAKE THE SAME APPROACH?"**

BUILDING THE PEOPLE'S EUROPE

I recently came across a report on the two Spanish enclaves, Ceuta and Melilla. I saw Africans attempting to cross the border illegally – one, ten, fifteen times – only to be tirelessly turned back by border guards. What does Europe do for them? Does cordoning off our problems actually solve anything? I highly doubt it. Europe's economic and technological cooperation paved the way for the emergence of "Social Europe". Slowly but surely, we are continuing this process and one day it could spread across the world, so long as we continue to share and communicate with each other. The challenge is worthy of the hopes it inspires, but we have to want to rise to it. There naturally was an outpouring of emotion following the Lampedusa tragedy, yet the revolting row over the Roma continues. The people's Europe will only make lasting progress and spread its message of unity and peace once member states stop looking out solely for their own interests and treating other countries as potential adversaries. I take the same approach with my team. I remember playing in international matches where we had an overly patriotic mindset. Opponents were considered invaders. We would belittle them and it was severely frowned upon to fraternise with them after the match.

There is no time or place for this sort of attitude in today's world. The players who face each other at the World Championship, for example, are well acquainted from their German, English and French clubs. Their wives know each other and their children attend the same schools. This familiarity with one another means that you can no longer demonise opponents as was done in the past. The era of belligerence has come and gone. Sport is now at the forefront of the people's Europe.

PLAYING AS A TEAM

Our ability to live together peacefully has opened up new paths and journeys that were unimaginable thirty or forty years ago. Today I tell my players that opponents represent an opportunity for our team to continue to hone their skills. Why don't European countries take the same approach to politics? True team successes are few and far between in the European Union. As things stand, each member state is running in its own lane, with its heart set on beating its neighbour. In my team, we don't compete with our own team members. We win by working together to improve as a whole. My players don't take holidays as a group, but they do have a strong collective sense of purpose when they are together. They are well aware of the stakes and know that they can only win by pooling their strengths. The European Union is a team with 28 players. It can only win in the long term if all its members communicate and regard each other not as opponents, but as valuable partners in a close-knit, peaceful community. This vision may sound idealistic, and it should – changing the world has always required a good dose of idealism.

Claude Onesta
has been head coach of the French men's national handball team since 2001.


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EMMA REYNOLDS, WORKING FOR A MORE EQUAL SOCIETY

ONES TO WATCH

For many, Britain is a particularly divided country, split between the haves and the have-nots. Labour MP Emma Reynolds is working to try and narrow that divide, and to also ensure that her country plays a full part in the European Union. A committed progressive, she believes that more should be done to get Europe's struggling economies back on track.

by Trevor Huggins

As someone who has achieved success at the highest level of British education, the phrase 'teacher knows best' is one Emma Reynolds would doubtlessly agree with.

But only up to a point: as a teenager at school in Wolverhampton, Reynolds' disagreements with her economics teacher sowed the seeds of a political commitment that has today made her a Labour Party MP in her home city and a member of the opposition 'shadow' cabinet. "The schools of thought championed by Margaret Thatcher seemed discredited to me, but my economics teacher – who definitely wasn't on the Left – bought into them a bit more," Reynolds recalled. "The idea that we'd let people perish in unemployment for years, just to have a certain inflation rate, seemed totally unjust to me. And it inspired me to argue with him."

It was a case of 'creative conflict' as Reynolds' excellent results in the subject at 18 prompted her to shelve plans to study languages in Scotland in order to follow in her mother's footsteps as an interpreter. Instead, she took a year out and won a place at Oxford University to study Politics, Philosophy and Economics – a course that has produced several British prime ministers and scores of MPs since the 1930s. "I knew I could really succeed in languages – and they do give you a real sense of achievement. But the intellectual buzz from arguing about politics was more attractive than being proficient in French or Spanish." That said, Reynolds neglected neither language, spending five months of her gap year in France and six in Argentina.

A POLITICAL AMBITION

Those skills proved useful on graduating in 2000, when she started her working life with a brief spell at an information centre for EU enlargement in Brussels, followed by a position in public affairs, lobbying MEPs on behalf of small UK businesses. Her move to full-time progressive politics came in January 2004, when she joined the Party of European Socialists as a policy adviser, working initially on the manifesto for that year's European elections. However, the real turning point in her political life came the following year, with the desire to become an MP. "Britain's general election campaign sealed it for me," she conceded. "I took a two-week leave, did a lot of door-knocking to help Labour candidate Rob

Key Points

◆ She was drawn to politics by a desire for fairness, in opposition to Thatcherism.
◆ For Britain, her ambition is a more equal society, starting with educational opportunities and standards.
◆ In Europe, the EU needs to help tackle debt and unemployment in the short term and toughen rules in the longer term.

Marris in Wolverhampton and I really got the bug. Being part of the team, the election night and beating the Conservatives in a marginal seat made it all very exciting. I just felt 'I want to do this'." She returned to the UK in 2006 as a special adviser to Geoff Hoon, then Europe Minister, who valued the contacts Reynolds had acquired after two years with the PES and her technical knowledge of EU affairs. Having followed Hoon when he became Chief Whip, she seized her opportunity in 2008 at a party selection contest for a safe seat in Wolverhampton. The only woman among eight candidates, Reynolds was chosen – and duly followed up by taking the seat in the 2010 elections.

Though some local employers are doing well, Wolverhampton is home to areas of post-industrial deprivation and educational underachievement, and offers a pointedly sharp contrast with the prosperous southeast. It has also inspired Reynolds' political commitment. "I would like to live in a more equal society," she declared. "I think we live in a deeply unequal society - not only in terms of income, but also in health, education and everything else. I'm very committed to Ed Miliband's vision of a living wage and not just a minimum wage, and I'm very exercised about zero-hour employment contracts (offering no guarantee of paid work) – which are one of the worst forms of exploitation." Highlighting what she called the "fantastic" schools in Denmark and Finland, Reynolds added: "Better education is the key. All kids, whatever their background, should have similar opportunities; and in this country I don't think they do."

KEEPING THE UK IN EUROPE

Such comparisons are inevitable given her commitment to Europe. Reynolds held the post of shadow Europe minister until October this year, when she was appointed housing minister by Ed Miliband as part of a reshuffle that promoted her into the shadow cabinet. Europe is clearly a sensitive subject in a country where the Conservative-led coalition plans a referendum on European Union membership. "The reason I wanted this job is to keep the UK in the EU and make sure it plays an important role there," Reynolds affirmed. "Given the euro zone crisis, I don't blame people for being more skeptical than before. But we've got to start putting the argument more powerfully that it would be disastrous if we left and highlight the good things we get from our EU membership. It's going to be a constant theme for the next few years and it's one I feel passionate about."

Clearly, the EU does need to address its problems, and particularly the way it deals with its troubled economies. With next year's European elections in mind, Reynolds argues that "the centre-Left has got to show that it has a different plan for the way forward, a credible alternative" to Angela Merkel's rhetoric of punitive austerity. For Reynolds, the battered economies of southern Europe need a combination of short-term help and medium to long-term rigour. "We need the project bonds that François Hollande has talked about, the European Investment Bank, a well-funded youth employment scheme and as much leverage as we can provide to get these countries back on track – before we get tough about rules. We need to say that the EU can be a solution to problems, that it can tackle high levels of unemployment and help economies get through the crisis." This belief in Europe's potential as a force for good and for future economic progress is a genuine conviction for Reynolds, who has little time for the pessimists. "We shouldn't buy into this notion – which I find really irritating – that Europe is in an inevitable decline," she declared. "The EU is an important part of the world, we need to harness these opportunities in emerging economies and not be afraid of them."

"THE IDEA THAT WE'D LET PEOPLE PERISH IN UNEMPLOYMENT FOR YEARS, **JUST TO HAVE A CERTAIN INFLATION RATE,** SEEMED TOTALLY UNJUST TO ME."

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"WE NEED TO SAY THAT **THE EUROPEAN UNION CAN BE A SOLUTION TO PROBLEMS,** THAT IT CAN TACKLE HIGH LEVELS OF UNEMPLOYMENT AND HELP ECONOMIES GET THROUGH THE CRISIS."

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ABOUT

Born in November 1977, ***Emma Reynolds*** *is from Wolverhampton, central England. She graduated from Oxford University in Politics, Philosophy and Economics in 2000, and moved to Brussels. She joined the Party of European Socialists as a policy adviser in 2004, before moving to London in 2006 as a special advisor to Geoff Hoon, Labour's Europe minister. She became an MP in 2010, was later appointed shadow Europe minister, and joined the shadow cabinet as housing minister in October 2013.*

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JOSEPH MUSCAT A FRESH START FOR MALTA

Malta's 39-year-old Prime Minister, Dr. Joseph Muscat, led the Labour Party to a landslide victory in March, securing only its second spell in office in 26 years. Today, the challenges are numerous — from economic and social policy to EU-wide issues such as immigration. In all of these areas, he sees an opportunity for a progressive agenda to flourish.

by Trevor Huggins

A desire to help others is the guiding ambition of all progressives when they become full-time politicians.

Dr. Joseph Muscat didn't wait that long. "I became involved in civil society from a young age, but politics didn't have much appeal at first," Malta's premier told *Queries*. "It was volunteer organisations and social work that got my attention. They were making an impact on society and were places where you could make change happen." When it came, Dr. Muscat's involvement in politics coincided with his interest in journalism during his student years. He began working for the Labour Party's radio station and helped the party develop a TV station, website and newspaper. "It was all very exciting," he recalled. "But I realised that I would have to reach out beyond the media if I wanted to contribute more to public life." He joined the party's national executive at the age of 21 and went on to combine journalism, his studies and a series of roles in the Labour administration from 1996-98, along with a professional capacity as an economist. "It was a challenge," he admits. "But I think determination and good time management will get you some way in life."

LEARNING FROM EUROPE

A university education at both undergraduate and post-graduate level has inevitably helped to shape Dr. Muscat's ideas. However, it hasn't been the only learning experience. Though he had previously opposed Malta joining the EU, the country's future premier served a four-year term as an MEP from 2004-08 – a period which made him realise that politics doesn't need to be an exercise in conflict management. "Having come from a country where politics is highly polarised, I was impressed by the way others in Europe sought compromise," he said. "Politicians elsewhere were not afraid to recognise the achievements of their opponents. There didn't have to be conflict over every issue. This influence led to me reaching out back home. I began to reshape the party after I became leader in 2008, and over time we built the Movement of Progressives and Moderates… a place where new ideas and new approaches could be explored."

HELP FOR FAMILIES

Labour's victory during the elections in March followed a campaign that included commitments to tackle corruption – something Dr. Muscat

Key Points

- *Dr. Muscat's political values are based on fairness and social justice.*
- *Social reform, fighting corruption and reducing energy bills have been key manifesto policies for his party.*
- *Tackling illegal immigration is a pressing domestic issue that demands action by the EU.*

describes as "a scar on society for far too long" - and to extend civil rights. Since the government took office, a Whistleblowers' Act has been produced to offer protection to those who reveal wrongdoing, while the statute of limitations on past misdemeanours has been lifted, enabling police to investigate 'cold cases'. Meanwhile, civil unions for gay couples are to be introduced in the near future. Two other election commitments that resonated with voters were a promise to cut electricity bills by 25%, as a result of switching electricity production from oil to gas, and introducing free childcare for all couples working full time. The former should particularly help the poorest in society and the environment, while the latter should help businesses to hold on to talented female staff. "We talk about social democracy and social justice," Dr. Muscat affirmed. "There are intellectual debates about what these terms mean, but I think we all know what progressive politics is about. We believe in looking out for the less fortunate in society, giving people a better living and allowing everyone the same chances in life."

IMMIGRATION ISSUES

It's this kind of solidarity that Malta is itself hoping to receive from the European Union over the question of immigration. Malta has called for EU action to tackle the often hazardous clandestine traffic from across the Mediterranean – an issue that is also raised in mainland Italy, Sicily and Greece. As an island with a population of only 450,000, making it the smallest member of the EU, Malta will inevitably struggle to cope with uncontrolled immigration. "When Greece and other nations faced a financial crisis we all came to their aid," Muscat recalled. "Now Malta and other Mediterranean countries have an immigration crisis and we are asking for a similar response." So far, that response has not been forthcoming. "If you asked me 'does Malta feel it is getting the support it needs?' I would have to answer in the negative," he added. A burning issue in Malta, it is clearly also a controversial one. In July, the European Court of Human Rights forced Malta to cancel two flights destined to return migrants to Libya, a country seen as a launchpad for migrants from across Africa. Indeed, Dr. Muscat readily acknowledges that although EU support will be decisive in tackling the issue of immigration, Libya has to be part of the solution too.

"PROGRESSIVE POLITICS IS ABOUT LOOKING OUT FOR THE LESS FORTUNATE IN SOCIETY, GIVING PEOPLE A BETTER LIVING AND **ALLOWING EVERYONE THE SAME CHANCES IN LIFE."**

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PROGRESSIVE AMBITIONS

The year ahead will be an important one for the progressive community in Europe, particularly with the European Parliament elections. Malta currently has six MEPs, four of whom are from the Labour Party and two from the conservative Nationalist Party. Dr. Muscat is in the rare position of having been involved in the inner workings of the EU from very different positions – first as a deputy in the European Parliament and now as a member of the Council of Europe – and is well aware of its public perception. Often seen as slow-moving and removed from the lives of ordinary people, he sees a key challenge ahead in making it more relevant. To succeed in that, Dr. Muscat argues that progressives everywhere need to make a statement of intent at the polls next May. "We need to be clear about our ambitions – social justice, fair play, an economy that delivers jobs and prosperity – and always guard against those conservative values that cause societies to stagnate," he affirmed. "The future is ours to seize."

"WE NEED TO BE CLEAR ABOUT OUR AMBITIONS: SOCIAL JUSTICE, FAIR PLAY AND AN ECONOMY THAT DELIVERS JOBS AND PROSPERITY."

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ABOUT

Born in January 1974, ***Dr. Joseph Muscat*** *graduated in Public Policy from the University of Malta, followed by a Masters in European Studies. He earned a PhD in management research from Bristol University in 2007. A radio journalist and an economist, he was elected to the Labour Party's national executive in 1995, becoming an MEP in 2004 and party leader in 2008. He took office as prime minister in 2013.*

SHARING OUR SOVEREIGNTY

Europe has not (yet) achieved its stated goal of speaking with one voice on the international stage. The case of Syria is ample proof of that. It is vital that we rethink our diplomacy as well as our way of acting and thinking. We must share our sovereignty to strengthen our position.

by Eneko Landaburu

Let us be clear: faced with the conflict in Syria, the European Union as such has been a complete nonentity, failing to shape matters in any way. These shortcomings were blatantly obvious in the manifest differences between heads of state and European governments at the G20 in Moscow. The only positive point of note came from the meeting of foreign ministers in Vilnius on September 7th, also attended by US Secretary of State John Kerry, which saw EU countries on relatively clear common ground in calling for a "strong" response to the chemical attacks. Encouraging; but it had taken Europe 17 days to speak as one in condemning the massacre!

This complete dislocation from the conflict in Syria is indicative of two key problems. The first stems from the deep divisions between member states over recourse to military intervention. The second involves the EU's lack of any well-defined political doctrine on such matters. Our inability to present a united front on strategic issues is compounded by the lack of impetus among member states in addressing the problem, which leads to deadlock.

SPEAKING WITH ONE VOICE

This raises questions as to whether the European Union is even able to speak with a single voice. We may well expect a group of countries facing the same geographical reality to achieve such a goal in an ideal world. Such an outcome is clearly within reach. Yet the reality of today's world is entirely different; not only because member states remain at odds in defining fundamental interests and priority issues, but also because EU countries have yet to come up with a joint policy on external affairs. France and Germany, for instance, have conflicting ideas over the part Europe should play on the international stage. On Syria, the EU was split between these same two camps: Angela Merkel has been reluctant to see France become actively involved in Syria (as in Mali and Libya), believing that European influence should be primarily based on economic measures; François Hollande, reflecting a typically French outlook, has held firmly to his sense of responsibility as a key player in world affairs. These differences and the lack of political resolve are tantamount to a roadblock.

To restore its credibility and influence, Europe must focus on three key areas. **The first is the urgent need to review EU strategy on security,** based on the European Security Strategy (ESS) drafted by Javier Solana and released in December 2003; the ESS provides a definition of key threats faced by Europe—including terrorism, weapons of mass destruction and organised crime—along with ways of tackling such threats. **The second is the need to use available resources and give the High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission the means to exercise the full range of powers set out in the Treaty of Lisbon.** These powers are not insignificant. Along with the European External Action Service (EEAS), the incumbent should be active in shaping strategy and coordinating policy for the European Commission in areas such as energy, transport and commerce, in conjunction with the member states.

Europe also faces a stark choice: **either we continue to remain rooted in the Westphalian system and see our influence slip away or we take into account the upheaval in international affairs and begin the process of sharing our sovereignty to better protect our interests while upholding our principles and values.**

EUROPE HAS A PART TO PLAY

Despite the shifting international landscape, Europe still has a part to play in world affairs. There is no doubt in my mind. Yet to do so, it must exist as an entity. Europe must find the impetus to build on its potential as a political power—a status it has yet to achieve. To this end, **it must start by accepting to share sovereignty, use available resources effectively and agree on a clear strategy.**

It is not enough for foreign ministers to simply meet every four weeks to comment on events. Their work should be organised under the aegis of the High Representative for the duration of his or her term in office (five years). Ministers should come together in an attempt to find common ground on key issues such as relations with China, Russia and the United States, and defence. There must also be an attempt, as proposed by Hubert Védrine, to encourage the most antagonistic member states to better align their respective positions. Lastly, when the time comes, the European Council must approve progress made in drawing up a European doctrine on external policy, which would ensure optimal visibility.

Naturally, differences will remain over the most controversial issues such as the Israeli-Palestinian conflict and military interventionism. Yet there is sufficient agreement among the 28 EU countries on the need to uphold our principles and values to provide a basis for consensus, which would in turn provide the world with a clear idea of the European position. It will be a gradual process.

Jacques Delors said that it would take a long political and intellectual maturation to produce a European foreign policy. We need to begin that process and we will see that, faced with the challenges that Europe must overcome, there is much to bring us together and little to keep us apart.

"FACED WITH THE CONFLICT IN SYRIA, **THE EUROPEAN UNION AS SUCH HAS BEEN A COMPLETE NONENTITY.**"

ABOUT

***Eneko Landaburu** was born in Paris in 1948 and holds Spanish nationality. He was Director General for Regional Policy and Cohesion from 1986 to 1999, Director General for Enlargement from 2000 to 2003, Director General for External Relations from 2003 to 2009, and EU ambassador to Morocco from 2009 to 2013. He is the Special Advisor to the President and a member of the Board of Directors of the Notre Europe – Jacques Delors Institute, as well as a member of the FEPS Scientific Council.*

THE CHALLENGE OF THE MINIMUM WAGE

by Susanna Camusso

A few months ago, Jean-Claude Juncker, one of Europe's most experienced and expert decision makers, surprised everyone when he announced in a speech that he was stepping down as head of the Eurogroup. In his speech, there was more than an underlying hint of self-criticism for having contributed to the adoption of the austerity-laden economic and social policies that, on a European scale, have led to unemployment and job insecurity among young people, growing disparities, economic crisis, wage compression and lower wages for new hires.

Among the measures that Juncker proposed to raise expectations and give new hope for the future to young Europeans (the primary victims of these misguided policies), he suggested the prospect of "a common eurozone minimum wage". Regardless of their inherent worth, these remarks confirm the existence of an alarming wage problem in Europe, especially for youth and women. But is a European minimum wage really the best instrument for solving this problem? Two factors leave significant room for doubt.

The first involves considering the minimum wage model as it exists today. In the experience of several EU member states where this model is applied, the minimum wage fulfils various functions. In the clearly beneficial cases, as for example in Junker's own Luxembourg and in the Benelux countries in general, it represents a reasonable fixed minimum level of pay for services rendered. This represents a useful reference point for arbitrating between work performance and wages. In less praiseworthy cases (i.e. in countries where there is more pressure on the cost of living and economic conditions are less favourable), the minimum wage is often a barrier to free collective bargaining and leads to a "race to the bottom" for job contracts in certain professions and sectors. It therefore acts as an instrument for dumping or unfair competition towards neighbouring or competing economic areas. Which model should therefore be chosen as the benchmark when it comes to the proposed European minimum wage, bearing in mind the major policy orientations of the European Commission and the continuing influence of neoliberal economic ideas?

> **"WHAT LIES BEHIND THE EUROPEAN MINIMUM WAGE** IN TERMS OF VALUE ATTRIBUTED TO WORK?"

A second reason for doubt concerns the role of management and labour organisations (starting with trade unions) in setting a minimum wage. Once again, there are varied and contrasting political and cultural trends in Europe. In some situations the value of the national minimum wage is established exclusively through negotiations between trade unions and employers. In others, an agreement is reached between managers, labour organisations and the government, which the latter then buttresses with some form of legislative provision. In yet other cases, governments make the decision without requiring any prior negotiations. And finally, there are member states where the minimum wage can be set by labour courts or arbitration boards. Not surprisingly, ideas differ as to the function, role and involvement of trade unions at work in each of these situations. What lies behind the European minimum wage in terms of wage and redistribution policy, the contractual and representational model, and the value attributed to work?

These are the main issues to be resolved within a framework that is still marked, as mentioned above, by orientations that are not currently shared by the European Commission. If, however, industrial job creation were to gain momentum, if labour rights were given their just due, and if the EU shifted its policy, then we would have a framework in which to work toward shared solutions on a national and European level.

Susanna Camusso *is an Italian trade unionist and General Secretary of the Italian General Confederation of Labour (CGIL)*

LABOUR MARKET FLEXIBILITY, *a step too far?*

While the term is being used extensively in the news, "labour flexibility" has many interpretations, and most of them are not positive. Indeed, the trend towards part-time work with little or no stability of income or working hours has continued largely unchecked, and is putting pressure on full-time employees, and especially women. The progressive movement has a role to play in challenging this.

by Elaine McCrate

To some extent, firms have always wanted the flexibility to respond to fluctuations in demand. However, since the 1980s onward, a number of factors have coincided to make that desire a far more pressing one. One of these was the spread of Just In Time inventory control from Japan to the rest of the world. Previously, if an auto part supplier suddenly needed more engine blocks, they would simply be taken from the warehouse. With JIT, firms became reluctant to carry such inventory and looked instead for flexibility in the labour force – i.e. getting people to work more – to cope with surges in demand. Meanwhile, as JIT was taking hold in the manufacturing sector, we witnessed the start of sustained growth in an area of the economy where no inventory is held: the service sector, and notably in retail and healthcare. Combined with these global shifts, there were also specific developments in Europe, where trade unions began demanding shorter working days. The response of employers' confederations was to come to the negotiating table, but to seek greater flexibility in return. A more recent factor in the expansion of flexibility is the advent of software enabling employers to carry out regression analysis of sales in a particular week or other point in time. Drawing on that analysis, employers can more precisely extrapolate the number of staff needed for the coming period.

Each of these individual factors has made a significant impact on the labour market. However, as they have come together, they have also created feedback loops, or knock-on effects. Even in an idealised world of working 9 to 5, if people are to go shopping or take their child to a doctor, some of them will obviously have to stop working 9 to 5. And as soon as one person's schedule becomes more unstable and unpredictable, it spills into other jobs.

Women are more likely to be working in part-time jobs.

Key Points

- *Demand for flexibility began in the 1980s, led by new industrial methods and the rise of retail.*
- *Part-time work can reinforce gender inequality.*
- *Labour needs to be a more stable element of the business equation.*

DIFFERENT TYPES OF FLEXIBILLITY

However, the search for flexibility is not only coming from employers. Although most workers prefer a routine schedule that differentiates between work and personal time, they also want flexibility to deal with changes in their own lives.

Many want the option to work part-time for four or five years when they have a child, or to be home in time for the end of the school day. It's a very different type of flexibility to that encountered in retail and service jobs, where employers give people a completely different work schedule every week, and may still call them in at the last minute. For these people, flexibility means something very different. A study carried out in the Chicago area by Susan Lambert and Julia Henly of the University of Chicago found that some people on the call-in list for work at retail companies were not on the payroll or listed as regular employees. This is the extreme manifestation of labour flexibility – where some workers receive a pay cheque but no wage slip, which is a breach of labour law. It's reminiscent of the informal sector of a developing country, a type of unstable employment that North America and Europe had consigned to history by the start of World War II. But now, the evidence indicates that it's growing again.

The point about this company-oriented instability is that it blurs the difference between work and free time. Workers never really know when they will have time for themselves, it's impossible to make plans and to coordinate time with other people. Put simply, you can't have a life outside work if you are constantly at the beck and call of your employer. Not only does it cause insecurity and stress, but for hourly-paid workers and especially for those in part-time employment it also means their incomes become unstable. Yet this is only part of the picture for part-time staff. Another effect is that since employers have eliminated the periods of working at a lower-intensity because of lower customer demand – by definition, part-timers only work when the environment is extremely intense and stressful. Not surprisingly, when these people are interviewed for academic research they are open about this stress and insecurity, which inevitably affects their families. In the US, a study showed that children whose mothers had left welfare and gone into work with unstable schedules had more behavioural problems at school.

There is no doubt that gender differences play into the nature of labour market flexibility. Women are more likely to be working in part-time jobs, where there is little or no compensation for flexibility. Full-time staff may be asked to stay late for an hour or two, while the former may be told 'Don't come into work today.' There is also a much greater variation in start and finish times. For men, the question is more about overtime and being paid premiums, which employers are increasingly trying to avoid. In the UK, premiums have all but disappeared, while manufacturing firms in Germany are switching to 'working time accounts' where overtime is paid at the standard rate. Meanwhile, the kind of men who do find themselves in part-time work tend be the more marginalized in society, such as immigrants and, in the US, African Americans.

"GENDER DIFFERENCE IS A FACTOR IN LABOUR FLEXIBILITY. WOMEN ARE MORE LIKELY TO BE IN PART-TIME **JOBS WHERE THERE IS LITTLE OR NO COMPENSATION FOR FLEXIBILITY."**

JOBS AND GENDER MODELS

This link between gender and the type of contract is particularly noticeable in the so-called 'mini-jobs' in Germany, where people can earn up to €450 a month without paying taxes and there are no payroll taxes for the employer. However, because the tax kicks in above that threshold, there is no real incentive to turn that into anything other than a secondary job. Typically, men will not take them because they are looking for more than 10-15 hours a week, whereas women will accept such work, albeit reluctantly. The result is that many women in Germany are now concerned that mini-jobs are reinforcing the traditional breadwinner/homemaker model of men and women – a model they'd hoped was being left behind. In France, those in part-time jobs are often not covered by collective agreements, and if they are, those agreements are difficult to enforce. And since we are discussing part-time work, we are inevitably talking about women – so there is a gender equality issue there too.

What we find therefore is that 'flexibility' really rigidifies women's role in secondary employment and tends to reinforce inequality, especially if full-time jobs are accompanied by benefits that are not applied to part-time contracts. That said, it is important to recognise that certain types of work schedule instability, such as the unpredictability and variability in starting and stopping times, is seen as something that men have to deal with more than women. At least in the United States, it appears to be more of a male phenomenon; and that men will have a much harder time coordinating work with family activities, such as getting home in time for dinner, or seeing their children playing sports. Men have also been socialised to see their role as the primary breadwinner and being available for their employers. So overtime at the last minute for a lot of men – particularly in manufacturing - is a fact of life, and one that means they will often be upsetting family plans. Overall, men are generally working very long hours and in most professional salaried jobs the situation is completely out of control. Staying late at the office if there's a sudden brush fire or working over the weekend to meet a deadline has become commonplace. It's a similar story in retail, which has a major problem with absenteeism because people cannot live with the work schedules. So if a supervisor – usually male – is unable to find a replacement for an absentee, he has to do the work instead. This has become a constant rather than an occasional feature of their work.

A FAIR PRICE FOR FLEXIBILITY

Inevitably, these trends raise a fundamental question: how could the situation be improved? Especially when related to gender, I would emphasize that there is such a thing in principle as a good part-time job – just as there can be bad ones. The trade union reaction has often been to try and convert everything to full time; but that doesn't work for people with primary responsibility for young children. The point is that part-time jobs do not have to be structured so that they are unstable, or so that people's incomes are insecure – which of course is more likely to affect women more than men.

From a business perspective, there clearly has to be a degree of coordination between customer demand on one side and employees' working hours on the other.

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"THERE IS SUCH A THING IN PRINCIPLE AS A GOOD PART-TIME JOB... IT DOESN'T HAVE TO BE STRUCTURED SO THAT IT'S UNSTABLE, **OR THAT THE INCOME IS INSECURE."**

Speaking as an economist, one possible solution is to put a price on that coordination. In the past, overtime premiums meant employers had to weigh up whether it was worth asking workers to stay late. I believe that something similar to that needs to happen today. We need to limit the extent to which firms shift the risks due to instability from themselves to their workers. For part-time workers, the emergence in North America of 'show-up pay' is a step in the right direction. If someone arrives for work, but is sent home after an hour – or even immediately – they get a minimum payment, of perhaps two or three hours.

The important thing in all this is for workers to have trade union protection, which is why such issues rarely arise in Scandinavia, for example, where there is a very high level of union membership. Contracts in Norway's manufacturing sector, for example, limit the number of overtime hours an employee can work, which means that firms need to think carefully about when they ask for it and cannot make those requests routinely. I believe that, in economic terminology, we need to make labour a little more of a fixed input and less of a flexible one, and to make employment a little more stable. In his book "Beyond Employment", French academic Alain Supiot argues that we need a broader discussion of employment, one that places work in a social context and provides workers with a new set of rights – to training, appropriate working hours and a family life. I believe that the progressive movement has to help deliver these improvements, and to promote good part-time jobs. In the US, retail workers groups have been working on this issue for about five years but have made little headway. So really, the work is only just beginning.


© DR

ABOUT

Elaine McCrate *is an Associate Professor of Economic and Women's and Gender Studies at the University of Vermont. She is a labour economist specialising in the political economy of low-wage labour markets, labour-management relations, gender and the economy, African Americans in the U.S. economy, and econometrics.*

MY EUROPE

WHAT DOES EUROPE MEAN TO Michelle Bachelet?

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"WHEREVER MARKET LOGIC AND NEO-LIBERALISM TOOK ROOT, THEY BROUGHT WITH THEM **A SEVERE DETERIORATION IN BOTH EQUITY AND WELFARE."**

I believe that Europe today is a mixture of past achievements and future challenges. However, what remains to be seen is whether the progressive spirit that helped to deliver the former, will now be equal to meet the latter. The achievements reflect the core values expressed in the founding Treaty of Rome; namely to build a new Europe together and to live in peace. There is no doubting the successful impact of either of these inspirational values. With only 7% of the world's population, the European Union accounts for 25% of global GDP and remains the biggest trading power. At the same time, a sense of solidarity means that it shoulders nearly 50% of the cost of development aid. The growth process has meanwhile led to some significant milestones in terms of integration, resulting in a conglomeration of 28 nations with diverse cultures but one single purpose: to be European and to draw different nationalities together under a common banner. Although the economic crisis has had a severe impact on the European project, the euro has so far weathered the storm. It remains a strong currency on international markets and no country using it has so far withdrawn from the eurozone, despite widespread speculation to the contrary.

PEACE AND DEMOCRACY

Peace, the single most important part of the European project, has also been secured over the past 50 years – albeit with the notable exception of the Yugoslavian crisis. This is no small feat when you look at the history of Europe, which had been constantly beset by wars and conflicts since the fall of the Roman Empire. In peacetime, the European Union has strengthened democratic practices and built a culture of peaceful coexistence that has transcended individual tensions and differences. That makes the EU not only an accomplishment for European citizens, but also one that is duly recognised for its achievements by the rest of the world, including Latin America.

However, it's equally true that none of this has been achieved easily and that Europe is facing its share of problems. In the last few years, the structure has faltered in many ways and tensions have run high during institutional and political talks. At one level, this is a question of contemporary economics and sovereign debt. Yet at a more profound level, it's also about the effects of past events. History is never static in any region of the world: it exerts a powerful influence on modern political thought and frames much of the debate about people's aspirations for their society. In Europe, the period of history with particular resonance today is the Cold War and its aftermath.

THE CONSEQUENCES OF NEO-LIBERALISM

For five decades, two worlds - two visions of society and politics - were established on European soil. The fall of the Berlin Wall in 1989 and the end of so-called 'real' socialism created in their wake a need to reconcile two essential but opposing concepts from either side of the Iron Curtain: freedom and equality. The main challenge facing the newly-created European Union was therefore to work toward greater social cohesion and egalitarianism across the whole of Europe. Unfortunately, we now know that reconciling these two concepts is no easy task and has proved, in some cases, to be beyond Europe's politicians. Wherever market logic and neo-liberalism took root, they brought with them a severe deterioration in both equity and welfare. It was as if Europe had swapped an Iron Curtain for a wall of indifference.

Today, it has left the European Union needing to address a series of issues that threaten to undermine the European project. For a start, its various organisations - especially the European Parliament, the Commission and the Central Bank - require better

IF PROGRESSIVES WERE ABLE TO POSITION THEMSELVES, **THE CRISIS COULD BE A NEW OPPORTUNITY FOR THEM.**

coordination and a common vision for decision-making. However, these are merely tools for dealing with the challenges that have arisen with the economic crisis. The real issue is for Europe to develop genuinely common policies. When you look at it from the outside, you see how complicated it is to design and drive such policies—something that has become even more difficult with the successive expansions, which have broadened the range of interests at play. And herein lie the weaknesses. There is now a sense of urgency sweeping across Europe: the population is ageing, migration is changing societies, and unemployment is having a devastating effect on the younger generations. Yet this is a reality that governments and progressive parties do not always know how to deal with. The new millennium brought a wave of opportunity for Europe to make the most of its strengths. But we have to recognise that it was guilty of short-sightedness with regard to the new dangers posed by globalisation and a global financial system without clear rules and appropriate controls.

GROWTH: A BIGGER QUESTION

Faced with so many serious challenges, what should be the response of Europe's progressive parties? I believe that they have to be clear and unequivocal: their task is to openly confront the growth and development models that sustain inequality. It is not just a matter of determining whether or not economic growth is occurring; it is about governing how growth is generated, where it is headed and what effect it has on women, men and families, and on the environment. In short, it is about introducing policies focused on protecting the welfare of current and future generations. In Europe the debate is between those who advocate austerity and financial stability on one side, and those who put solidarity at the top of the agenda on the other. Progressives must learn how to be on the side of solidarity while at the same time calmly and responsibly pursuing a return to financial stability. If progressives were able to position themselves correctly and strike the right policy balance - particularly ahead of next year's European elections - the crisis could be a new opportunity for them.

A MUTUAL INTEREST

As a Chilean, a number of crossovers between my country and Europe are unavoidable. In terms of its cultural and ethnic origins, Chile, in many respects, has strong connections with Europe. We too have achieved important milestones, such as the Association Agreement with the European Union, the most comprehensive, far-reaching and forward-looking bilateral agreement ever signed by Chile. Why? Because it is based on reciprocity, mutual interest and a strengthening of relations between Chile and the EU in all areas, with three key pillars: political, economic and cooperative. So when one talks about market access conditions and investment, one also has to stress that the main objective is to promote, disseminate and defend democratic values, especially respect for human rights, freedom of the people and the principles of the rule of law. This is the foundation on which we now want to build a more democratic, equal society.

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Michelle Bachelet *is a former President of Chile and is currently running for a second presidential term.*

FOCUS

EUROPEAN INDUSTRIAL STRATEGY

Responsible, equitable, sustainable?

Thirteen years and a crisis after the Lisbon Strategy, the Union is still trying to speak with a single voice. Attractive were its promises, ambitious were its expectations, but worrying are its outcomes: Europe is mourning the loss of its historic industries while struggling to foster its most innovative ones. The Euro crisis most definitely hurt it, but the issue of the European industry is a much more structural one. It is the legacy of decades of laissez-faire, and it is now the utmost priority to let the state back in the game. There is hope, and Queries chose to investigate where to take action.

INDUSTRIAL STRATEGY
Is the state a bureaucratic monster?

by Charlotte Billingham & Giovanni Cozzi

Industrial policies are back on the agenda. The European Commission's Horizon 2020 strategy has recently proposed to strengthen the EU position in science with a dedicated budget of €24.3 billion, to invest 17 billion in industrial leadership, and 30 billion to address climate change, develop transport mobility and make renewable energy more affordable.
However, in Europe a real paradox exists: what is given with one hand is taken away with the other. The Fiscal Compact and its requirement for national budgets to be in balance have significantly undermined the ability of the state to become a strong economic actor and have deprived it from any meaningful possibility to use deficit financing to promote growth, innovation and re-industrialisation.
Additional pressure has also been imposed to those weaker European economies whose debt-to-GDP ratio exceeds 60% of GDP (e.g. Italy, Spain, and Greece). These countries have had to implement "market-friendly" structural reforms and reduce government spending in order to curb their debt-to-GDP ratios. This has led to a significant reduction in spending in areas such as education and research and has further impaired governments' possibility to support innovation and re-industrialisation, and the ability to stimulate growth and employment. Europe has become a region where monetary objectives (for example low inflation) have priority over goals such as full employment, and equitable and environmentally-friendly growth, where fiscal policies have become a mere tool for balancing budgets, and where state intervention in the economy is limited to identifiable circumstances of market failures and imperfections.
In the past thirty years of neoliberalism we have been told that the state should not be a strong economic agent as it does not have the technical competence and expertise to actively support and engage in the industrialisation process. In addition, we have also been told that too much state involvement in the economy leads to the creation of monopoly rents, and increases cronyism and corruption.
However, in many parts of the world the state has been a leading and successful economic actor. In many countries the state has 'picked winners', in other words, the state nurtured, protected, controlled and selected, either directly or indirectly, companies operating in those sectors of the economy that were considered of key importance for industrialising and innovating a country.

ASIAN SUCCESS STORIES

Political economists often highlight the case of industrial development in countries such as South Korea, Taiwan and other East Asian countries in the second part of the 20th century. In these countries, states were able to support (also as a result of the internal power balances and of the geopolitical situation of the time) large holding companies (e.g. Samsung and LG in South Korea) or small industries (e.g. in Taiwan) and successfully promoted technological development.
State policies such as subsidies for selected companies, tariff-protections, and technology licensing, together with disincentives, such as the threat to cut off loans or subsidies to underperforming companies, pushed East Asian public and private entities into sectors where they would have never ventured on their own due to the high-level of risk that innovation processes entail.

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"IN EAST ASIAN COUNTRIES, STATES WERE ABLE TO SUPPORT LARGE HOLDING COMPANIES OR SMALL INDUSTRIES **AND SUCCESSFULLY PROMOTED TECHNOLOGICAL DEVELOPMENT."**

During the second half of the 20th century, also in Europe, in countries such as France, Finland and Norway among others, the state directly supported innovation and technological processes by providing subsidies, protecting certain industries and directly engaged in economic activities by investing and supporting state owned enterprises (SOEs).
In the United States, the state has also been very successfully in nurturing its own industry through active and selective industrial policies as well as direct financing. For instance, the development of technologies that make many Apple products such as the iPhone would have not been possible without direct financing support of the US government.
Despite the existence of success stories, we are still told that state intervention in the economy should be limited as the risk of failure and picking losers is too high. It is true that failure happens, but this is part of the risk associated with innovation.
It is also true that the state could, and has in the past picked losers (e.g. investment for the Concorde airplane in France). But arguing that the state cannot be a strong economic actor because it could pick losers is like throwing out the baby with the bathwater. The real question is how to equip the state with the right policies and tools to select, nourish, and support winners.

THE CURRENT SITUATION IS AN OPPORTUNITY

What are the implications for the European progressive policy makers? It is essential for progressives to recognise that it is not sufficient to propose some alternative policies (e.g. increase investment in education, training, R&D, infrastructure, and renewable energies among others) that should accompany the current fiscal and monetary framework.
Instead, it is essential to advocate for an alternative economic and institutional framework in Europe, which could bring us onto a new developmental trajectory where innovative, equitable and sustainable growth and employment are at the core. The present situation presents a pivotal opportunity and we have an ethical, economic and environmental obligation to instigate a genuine transition.
We need to abandon the excessive and almost exclusive focus on monetary criteria and balancing budgets. Instead, we need to make sure that fiscal and monetary policies embed objectives such as full employment, sustainable and equitable growth, and environmental protection, among others and that they are not considered as a 'luxury'. Further we need to make sure that goals and objectives of macroeconomic and structural (innovation and industrial) policies are more coherent with each other.
Consequently, there is a fundamental need to reframe the debate on the role of the state (national and supranational) in Europe. European progressives must convince citizens that an alternative economic model where the state takes a significant and much stronger stance in economic and industrial development is feasible and economically viable. European citizens should no longer see the state and the European Union as an inefficient bureaucratic apparatus.

***Charlotte Billingham** and **Giovanni Cozzi** are respectively executive and economic advisors at the Foundation for European Progressive Studies (FEPS).*

THE NUMBERS ARE IN

Employment, growth, labour income, public, and private debt...
Queries *presents the latest figures from 2013 Report of the* **United Nations Conference on Trade and Development** (UNCTAD).

1 / WORLD OUTPUT GROWTH

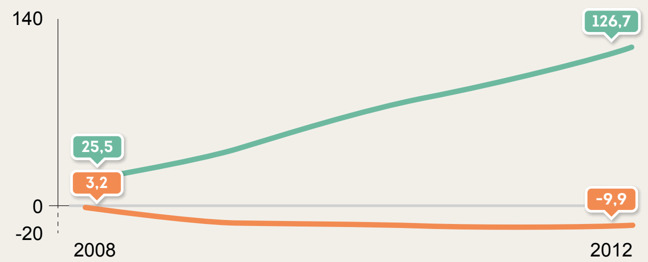
(Annual percentage change)

Region/Country	2005		2009		2013
World	**3.5**	↓	**-2.2**	↑	**2.1**
Developed countries	**2.4**	↓	**-3.8**	↑	**1.0**
Japan	1.3	↓	-5.5	↑	1.9
United States	3.1	↓	-3.1	↑	1.7
European Union (EU-27)	2.1	↓	-4.3	↑	-0.2
of which:					
Eurozone	1.7	↓	-4.4	↑	-0.7
France	1.8	↓	-3.1	↑	-0.2
Germany	0.7	↓	-5.1	↑	0.3
Italy	0.9	↓	-5.5	↑	-1.8
United Kingdom	2.8	↓	-4.0	↑	1.1
South-East Europe	**4.7**	↓	**-4.3**	↑	**0.3**
Albania	5.8	↓	3.3	↓	1.4
Bosnia & Herzegovina	3.9	↓	-2.8	↑	0.6
Croatia	4.3	↓	-6.9	↑	-1.0
Montenegro	4.2	↓	-5.7	↑	1.8
Serbia	5.4	↓	-3.5	↑	1.2
Macedonia	4.4	↓	-0.9	↑	1.5
Developing countries	**6.8**	↓	**2.4**	↑	**4.7**
Africa	5.8	↓	2.8	↑	4.0
Latin America & Carribean	4.5	↓	-1.9	↑	3.1
Asia	7.8	↓	3.9	↑	5.2
China	11.3	↓	9.2	↓	7.6
India	9.0	↓	5.0	↑	5.2
South-East Asia	5.8	↓	1.2	↑	4.7

Note: *Calculations for country aggregates are based on GDP at constant 2005 dollars.*

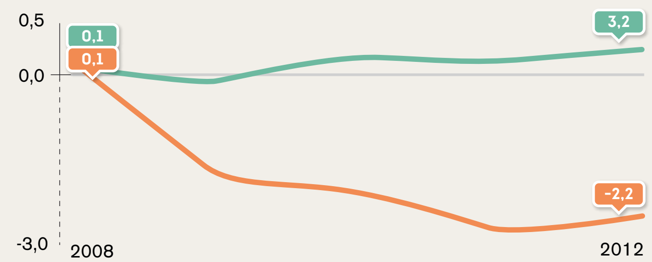
2 / CHANGES IN TOTAL EMPLOYMENT

(Millions of persons)



3 / CHANGES IN EMPLOYMENT RATES

(Percent of the working age population)

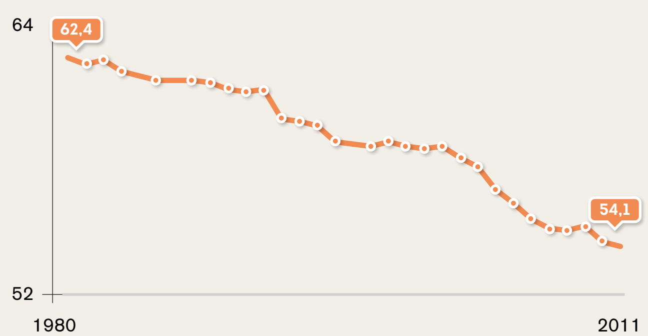


Developing countries, excl. China and India Developed countries

Note: *China and India are excluded because small variations in their estimates would significantly alter global outcomes.*

4 / SHARE OF LABOUR IN WORLD GDP

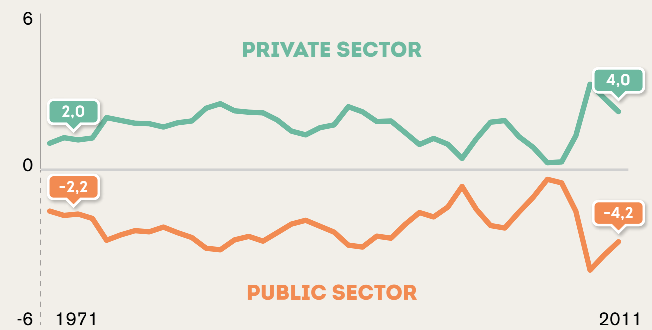
(Millions of persons)



Note: *Mixed income, typically from self-employment, is included in the labour share.*

5 / FINANCIAL POSITIONS OF PUBLIC & PRIVATE SECTORS

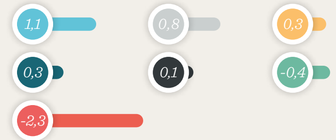
(Weighted averages, percent)

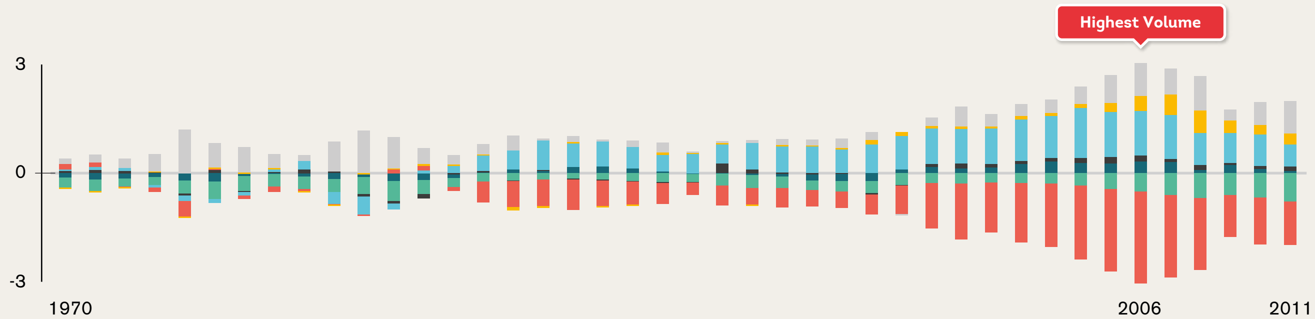


Note: *Figures above zero denote a surplus and below zero a deficit. Surpluses indicate additions to the net stock of financial wealth, and deficits indicate additions to the stock of debt. Except for small errors of measurement and aggregation of large numbers, the surpluses and deficits mirror each other.*

6 / CONTRIBUTIONS TO GLOBAL IMBALANCES

(Current account balance as a percentage of world gross product)





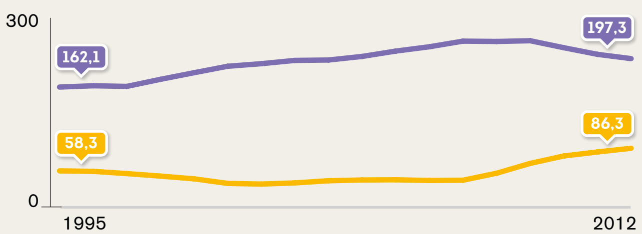
- CA surplus developing economies, excl. China
- CA surplus developing economies
- Oil-exporting economies
- CA deficit developing economies
- CA deficit developed economies
- CIS
- China

Note: *Deficit and surplus classification was based on the average current account (CA) position between 2004 and 2007. CIS includes Georgia.*

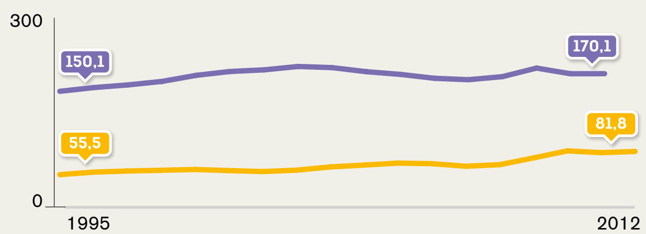
7 / PRIVATE & PUBLIC DEBT

(Per cent of GDP)

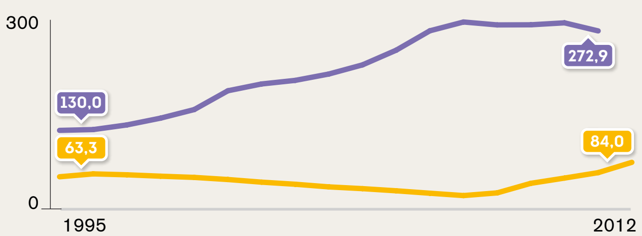
A. United States



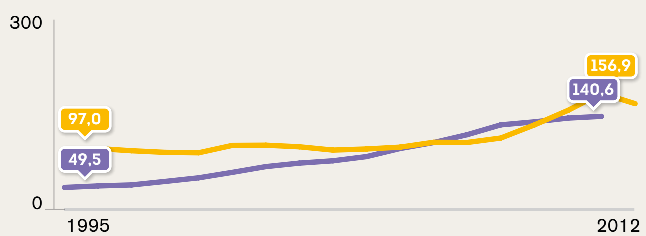
B. Germany



C. Spain



D. Greece



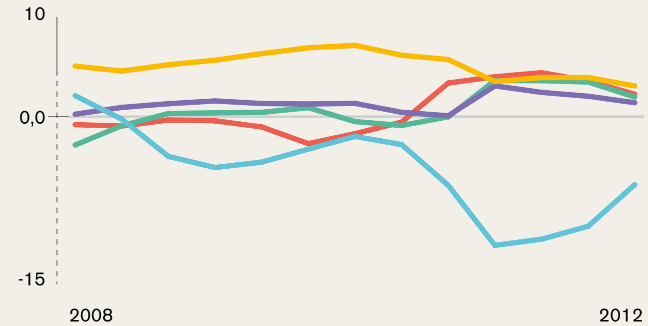
- Private sector debt
- Gross public debt

Note: *Data for the United States on «gross public debt» refer to "debt of central government». Data on «gross public debt" for 2012 are projections.*

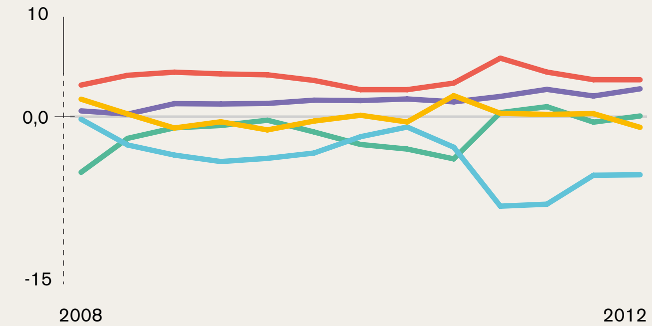
8 / LENDING & BORROWING BY SECTOR

(Current account balance as a percentage of world gross product)

A. United States



B. Eurozone



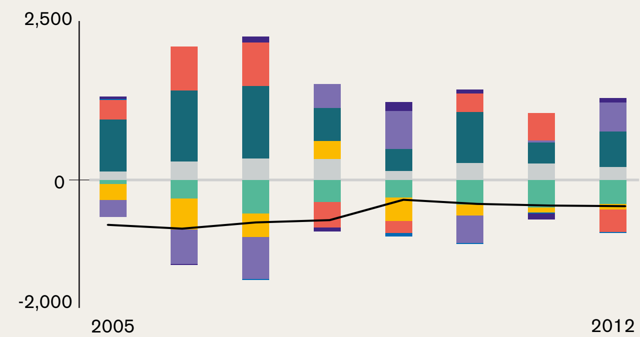
- Households and non-profit institutions serving households
- Financial business
- Rest of the world
- Non-financial business
- Government

Note: *Net lending positions are indicated by positive values, net borrowing by negative values.*

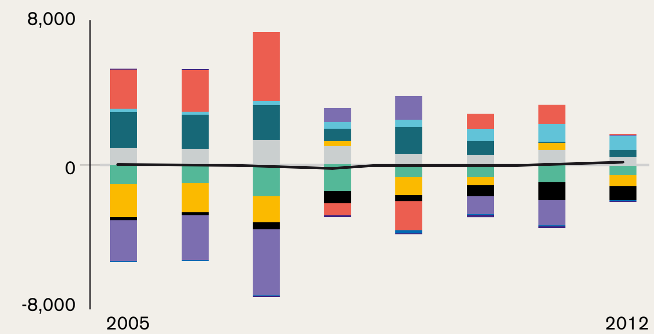
9 / NET CAPITAL FLOWS

(Billions of current dollars)

A. United States



B. Eurozone



- Other investment: incurrence of liabilities
- Other investment: acquisition of financial assets
- Portfolio: acquisition of financial assets
- FDI: acquisition of financial assets
- Financial derivatives: acquisition of financial assets
- Portfolio: incurrence of liabilities
- FDI: incurrence of liabilities
- Financial derivatives: incurrence of liabilities
- Net errors and omissions
- Change in reserve assets
- Current account balance

Note: *Data were available for only 67 developing countries (excluding LDCs) and for 28 LDCs.*

RECOVERY? WHAT RECOVERY?

Europe's crisis is structural. It won't go away without decisive steps towards a strong and co-ordinated industrial policy.

◇◇

by Stephanie Blankenburg

These previous figures show that the world economy is set to linger in dire straits for the foreseeable future, and that this is mainly due to the failure of high-productivity economies to orchestrate a sustained recovery from the deep economic recessions they suffered in the wake of the global financial crisis of 2007/08.

Output growth in the United States is positive, but slowing down again (chart 1 p.36). This largely reflects growing uncertainty about the effectiveness of expansionary monetary policies that are being undermined by fiscal restraint. While some progress has been made in reigning in its banking sector and reviving domestic demand and employment since 2009, political paralysis in the US is set to destabilize whatever timid recovery may have been underway.

Despite the recent upturn in German quarterly growth, the eurozone clearly remains the biggest drag on world economic growth. According to UNCTAD's estimate, growth in the eurozone is set to contract by another 0.7 percent in 2013 overall, despite a 0.3 percent expansion in the second quarter, and a possible further mild expansion in the third quarter of this year (chart 1 p.36). Therefore, any talk of a recovery from the euro crisis, not to mention a sustained and sustainable one, is highly premature.

ADVERSE CONDITIONS...

The figures also provide a strong hint as to why this is the case: The euro crisis did not take place in isolation but against the background of a highly fragile international economic environment. This was characterized by a steep fall in the share of labour income in world gross output (chart 4 p.37), the rolling-back of the economic role of public sectors and states throughout the 1990s (chart 5 p.37), and eventually growing international imbalances (chart 6 p.38). The strong distributional shift away from labour and towards profit incomes that was particularly marked in many high-productivity economies produced downward pressures on aggregate demand for goods and services. This underlying deflationary trend in leading world economies was not compensated by larger public sector investment to counteract the downward trend in private investment. Instead, in a policy environment that favoured private sector deregulation, large-scale privatizations and balanced public sector budgets, rising profit mark-ups were based on growing private sector indebtedness (chart 7 p.38) in the wake, in particular, of financial liberalisation. In other words, deflationary pressures on the real economy due to rising income inequalities were overshadowed by debt-fuelled consumption and asset price inflation. In the absence of a functioning international monetary system, this also entailed growing global imbalances (chart 6 p.38) between deficit economies (the US, most small developing economies, many CIS economies and Southern European periphery economies), on the one hand, and persistent surplus economies (Germany, Japan and China), on the other.

"THE AUSTERITY STRATEGY IN EUROPE HAS DEEPENED THE STRUCTURAL FLAWS THAT CHARACTERIZE THE WORLD ECONOMY."

...AGGRAVATED BY AUSTERITY

As the figures show, these trends had been at work for some time prior to the onset of the global financial crisis and the subsequent euro crisis. The liberalisation policies that favoured these trends are largely responsible for these (eminently predictable and predicted) crises. But, in particular, the euro crisis has been much worsened by a mistaken policy response: as charts 7 (p.38) and 8 (p.39) show, this crisis is a crisis of public indebtedness only insofar as the sudden slowdown of intra-regional credit movements (chart 9 p.39) in the wake of the global financial crisis led to the de-facto "Europeanization" of private debt. It is not, overall, a crisis of public profligacy. Fiscal consolidation is therefore not the answer to Europe's problems. If anything, the by now four-year old austerity strategy in Europe, in addition to from opening immense political rifts, has deepened the structural flaws that characterized the world economy, and within it the euro zone, over the past three decades.

Negative real wage growth in 2012 (except for France and Germany) further exacerbates income inequalities and downward pressures on domestic aggregate demand. As chart 2 shows (p.37), job creation in the world economy has been down to developing countries, with advanced economies (led by the European Union) responsible for a job deficit (i.e. fewer employed people than expected on the basis of pre-crisis trends) of no less than 17 million people.

Austerity also means a further minimization of the role of the state in responding to a crisis that has long-term structural roots, as explained above. There still is no sign of private investment turning the page and picking up again in Europe. To continue to rely on low-wage/low-cost competition to stimulate private sector investment demand that has been on a downward slope for the best part of three decades is tempting fate.

Instead, these figures make a very clear case for a strong state-led industrial policy in Europe that might help to correct some of the longer-term structural trends that led to the global financial and the euro crisis in the first place. The 2010 proposal by the European Commission in this regard, while noteworthy for its emphasis on the need to focus on the longer-term growth perspectives, is insufficient, because it espouses a narrow definition of industrial policy as "enterprise policy." If private investors could pull themselves up by the bootstraps, with just a little help from the state, they would have done so by now. If they haven't, it is because they remain uncertain in the face of the deeply structural nature of the current crisis. Therefore, what they need, as do workers around the world, is a state-led, cross-country industrial policy that takes account of – and turns round – the long-term effects of misdirected past policy agendas that have had a negative effect on (almost) everyone.

© Derek George Photography

ABOUT

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MAKING STATE *intervention glamorous*

The old adage that the state should "stick to basics" when it comes to industrial policy and innovation is wrong, says economist Mariana Mazzucato. The public sector must play a leading and directing role in bringing about innovation, she explains in her new book "The Entrepreneurial State." Europe should look to the US to learn how mission-oriented public funding created technological revolutions.

by Mariana Mazzucato & Kim Rahir

As many European countries struggle with debt, sluggish growth and feeble competitiveness, the idea that a progressive withdrawal of the state from the economy will facilitate private investments, innovation and growth is still going strong. The state is seen as inertial and bureaucratic while the private sector is by nature dynamic, competitive and ready to take on risks. The public sector should create the basic conditions for doing business - infrastructure, education, legal system - and let the lively forces of the private sector do the rest. This view of the state's role is based on a number of myths, says Mazzucato who holds the renowned R.M. Phillips Chair of Science and Technology at the University of Sussex. Debunking these myths and finding a deeper understanding of innovation and the particularities of its financing leave no doubt, Mazzucato explains, that the public sector has a crucial role to play in innovation-led growth.

THE NATURE OF INNOVATION

Innovation means producing better products at lower costs. The changes can be radical but just as well incremental: "There is lots of innovation that is less exciting than the Internet," Mazzucato notes with a smile. But the risk of true innovation, beyond "little gimmicks" is far too high for private capital to be interested, says the Italian-born American economist. "Innovation is extremely uncertain: most innovation attempts fail, hence you have to be willing to welcome failure. If you are a public sector institution trying to nurture innovation and you want success at all cost, you will fail." The willingness to fail, Mazzucato insists, is the baseline for any project of financing an innovative drive. Yet recent developments in the financial sector point in the opposite direction. Bankers "have become increasingly short-termist. So the kind of financial architecture that is actually willing and able to engage with the very uncertain world of innovation is very hard to find."

> "99% OF INNOVATION ATTEMPTS FAIL - SO **YOU HAVE TO BE WELCOMING FAILURE."**

WHAT DRIVES INNOVATION

In order to determine what drives innovation and how innovation can create growth, Mazzucato's book starts by exposing a number of myths surrounding the subject. The first one is the assumption that innovation is directly linked to research and development (R&D) expenses. In fact, innovation policies still target R&D spending at the firm, industry and national levels but Mazzucato points out that very few studies actually find a causal link between R&D expenses and growth performance at firm level. Only under very special and rare conditions can a causal connection be found between R&D and growth. The second piece of common knowledge that the book takes apart is the idea that small firms are of paramount importance for growth, innovation and employment. In Germany, for example, it is pointed out time and time again that SMEs are the backbone of the economy. But Mazzucato explains that this assumption is often based on a confusion between size and growth. High growth is actually often found in young firms - that are more than often not small - but not all small firms show high growth. "Productivity should be the focus, and small firms are often less productive than large firms."
The book moves on to the idea that private venture capital is risk-loving: not true, says Mazzucato who explains that - among other reasons - the short-term perspective of private venture capital does not sit well with long-term scientific discoveries. The next myth to be analysed is the assumption that a high number of patents is the sign of a highly innovative economy. Mazzucato points out that the opposite might be true: the rise in the number of patents is due to various developments that have nothing to do with innovation. For example, the types of inventions that can be patented have been multiplied and now include publicly funded research, upstream research tools rather than only final products and processes, and even "discoveries" of existing objects (like genes) instead of actual inventions. The following myth to be debunked concerns Europe and the question why it lags behind the United States when it comes to innovation. "If the United States are doing better at innovation, it isn't because university-industry links are better (they are not) or because American universities produce more spinouts (they do not). It simply reflects more research being done in more institutions, which generates better technical skills in the workforce. And US funding is split between research in universities and early stage technology development in firms." Mazzucato also points out that there is no compelling record of R&D tax credits actually prompting research that would not have been done anyway.

Key Points

- *The state must play a leading role in innovation-led growth*
- *The state is more than a fixer of market failures*
- *The funding of innovation must be mission-oriented*
- *The returns of public-sector-funded innovation must not go entirely private*

PROVING THE STATE'S ROLE IN INNOVATION

Having argued that while the level of technological innovation is integral to the rate of economic growth, there is no linear relationship between R&D spending, the size of companies, the number of patents, and the level of innovation in an economy, Mazzucato then makes the case for a prime role of the state in financing and directing innovation.
"Finance for innovation must be long-term, committed and patient," Mazzucato says. It can and will thus only be done by government institutions, but they must be independent of the electoral

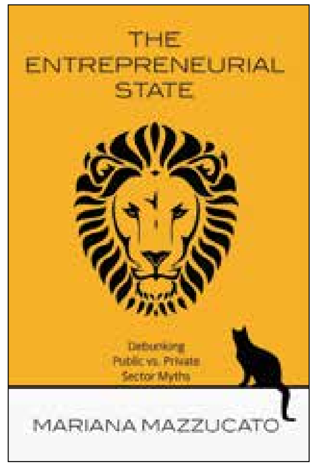
process. "It definitely doesn't work in those countries where the people in charge of industrial or innovation policies come along with the new president." Countries that have turned out to be successful in public funding of innovation have done so with the help of largely independent public institutions: the US Department of Energy, the Finnish Innovation Fund Sitra and the Office of the Chief Scientist in Israel's Ministry of Industry. The process works even better when those institutions are decentralised and "don't get too much attention." "When they are decentralised and well funded they are more willing to fail - because it's a bit less high-profile." US president Ronald Reagan, for example, "who was against big government, doubled the spending of the government agencies that funded innovation - but they were decentralised which is better than one big ministry that might get too much attention."

MISSION-ORIENTATION AND VISION

But independence and decentralisation are not the only requirement for institutional innovation funding. "John Maynard Keynes, the British economist who formulated the most influential theory on government intervention in the economy, said even digging ditches is fine as long as the government comes in and plays its counter-cyclical role," Mazzucato explains. "But in the long run, that doesn't work." The fiscal stimulus that Keynes propagated cannot just go anywhere, "it has to be directed to really have an impact." This was the case with the IT revolution and should be done for the next one, the green revolution.

But how do you give your innovative drive direction? Mazzucato thinks one needs vision - which is not so easy in economic terms because "economists don't even know what vision means, it's not in our models." Until now, the most common view is that of the state coming in to fill the gaps in sectors like basic research where the private sector stays away because it is difficult to appropriate the returns. Vision is something completely different: it is the state identifying and creating new spaces and setting up entire eco-systems of innovation that will then attract the talent that is needed to move forward. "It's like a buzz," says Mazzucato, "it needs coherent policy signals but also a place that feels like the cool new place where green investments are happening, then there are spill-over effects, people learn from each other. Government is not just putting a patch here and there but overseeing the system trying to nurture things."

These eco-systems, where they work well, have certain characteristics. Countries in Europe that are succeeding in growing through innovation like Finland, Denmark or Germany have patient capital, science-industry links and a great deal of medium sized companies. "The successful ones, what really distinguishes them, is that they have a big mission. Germany not only spends a lot on Research and Development in terms of GDP, these investments are "green directed." And green doesn't only mean solar and wind, it means really transforming your industries, and the Germans are really pushing that." The same goes for China that is spending 1,7 trillion dollars on seven new areas that have been identified by the government and that are "all kind of green-ish," Mazzucato says.



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"THE RISK OF TRUE INNOVATION, BEYOND 'LITTLE GIMMICKS', IS **FAR TOO HIGH** FOR PRIVATE CAPITAL TO BE INTERESTED."

Excerpts from "The Entrepreneurial State"

"Never more than today is it necessary to question the role of the State in the economy – a burning issue since Adam Smith's "An Inquiry into the Nature and Causes of the Wealth of Nations" (Smith, 1776). This is because in most parts of the world we are witnessing a massive withdrawal of the State, one that has been justified in terms of debt reduction and – perhaps more systematically – in terms of rendering the economy more 'dynamic', 'competitive' and 'innovative.' Business is accepted as the innovative force, while the State is cast as the inertial one – necessary for the 'basics', but too large and heavy to be the dynamic engine. [...]

Attempts at innovation usually fail – otherwise it would not be called 'innovation'. This is why you have to be a bit 'crazy' to engage with innovation... it will often cost you more than it brings back, making traditional cost-benefit analysis stop it from the start. [...] The State... 'foolishly' developing innovations? Yes, most of the radical, revolutionary innovations that have fuelled the dynamics of capitalism – from railroads to the Internet, to modern-day nanotechnology and pharmaceuticals – trace the most courageous, early and capital-intensive 'entrepreneurial' investments back to the State. [...] Such radical investments – which embedded extreme uncertainty – did not come about due to the presence of venture capitalists, nor of 'garage tinkerers'. It was the visible hand of the State that made these innovations happen. [...]

But how have economists talked about this? They have either ignored it or talked about it in terms of the State simply fixing 'market failures'. Standard economic theory justifies State intervention when the social return on investment is higher than the private return – making it unlikely that a private business will invest. [...] Yet this explains less than one-quarter of the R&D investments made in the USA. Big visionary projects – like putting 'a man on the moon', or creating the vision behind the Internet – required much more than the calculation of social and private returns. Such challenges required a vision, a mission, and most of all confidence about what the State's role in the economy is. As eloquently argued by Keynes in "The End of Laissez Faire" (1926), "The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all." [...]

While many of the examples in the book come from the US – purposely to show how the country that is often argued to most represent the benefits of the 'free-market system' has one of the most interventionist governments when it comes to innovation – modern-day examples are coming more from 'emerging' countries. Visionary investments are exemplified today by confident State investment banks in countries like Brazil and China – not only providing countercyclical lending but also directing that lending to new uncertain areas that private banks and venture capitalists (VCs) fear. And here too, like in DARPA, expertise, talent and vision matter.

In Brazil, it is no coincidence that BNDES, the State investment bank, is run by two individuals whose background is Schumpeterian innovation economics – and it is their team of experts that have allowed the bold risk taking in key new sectors like biotech and cleantech to occur. The bank is today earning record-level returns in productive, rather than purely speculative, investments: in 2010 its return on equity was an astounding 21.2 per cent (reinvested by the Brazilian Treasury in areas like health and education) while that of the World Bank's equivalent organization, the International Bank for Reconstruction and Development (IBRD), was not even positive (–2.3 per cent). Equally, it is the Chinese Development Bank that is today leading the country's investments in the green economy. While the usual suspects worry that these public banks 'crowd out' private lending (Financial Times 2012), the truth is that these banks are operating in sectors, and particular areas within these sectors, that the private banks fear. It is about the State acting as a force for innovation and change, not only 'de-risking' risk-averse private actors, but also boldly leading the way, with a clear and courageous vision – exactly the opposite image of the State that is usually sold."

THE EXAMPLE OF THE UNITED STATES

To drive home her case, Mazzucato points to an unexpected example of government-funded innovation that started a global IT revolution. "Despite the perception of the US as the epitome of private sector–led wealth creation, in reality it is the State that has been engaged on a massive scale in entrepreneurial risk-taking to spur innovation." The number one example is DARPA, the Defense Advanced Research Projects Agency. It was founded by the Pentagon after the "Sputnik shock" in 1957 in a bout of panic that the US might be losing the technological battle. The change the creation of DARPA brought about in military R&D was the freedom to allow "blue-sky thinking - ideas that went beyond the horizon in that they may not produce results for ten or twenty years. DARPA diversified its activities, funded the research that lead to many of the technologies later incorporated in the design of the personal computer and oversaw the early stages of the Internet. Other US initiatives include The Small Business Innovation Research programme, that was launched in 1982 and required government agencies with large research budgets to give a small fraction of their research funding to small, independent, for-profit firms. A year later, in 1983, the Orphan Drug Act established strong incentives for small biotech firms to develop products for treating rare conditions - the argument being that rare diseases present such a small potential market that without incentives, these drugs would remain "orphans." From these examples "a general point can be drawn," Mazzucato writes. "The US has spent the last few decades using active interventionist policies to drive

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Silicon Valley, San Jose, California.

"IN THE US, THE STATE HAS BEEN ENGAGED ON **A MASSIVE SCALE IN ENTREPRENEURIAL RISK-TAKING** TO SPUR INNOVATION."

private sector innovation in pursuit of broad public policy goals."

The latest initiative of the American government is Nanotechnology, where the leading role of the public sector was striking: "It wasn't business that wanted to do nanotech - the dream, the vision, the mission came from government, the National Science Foundation and later the National Nanotech Initiative - the word Nanotechnology came from government. Then they tried to convince business."

LESSONS FROM THE US EXPERIENCE: CHANGE THE NARRATIVE

While the effectiveness of the US public sector funding seems rather straightforward, there is another point that Mazzucato keeps stressing: "We have to change the narrative, the poor image of the public sector, the 'oh you're a boring bureaucrat.' That has to be changed." The state is constantly put in the back seat and portrayed as important but boring, she says, "when actually, in all sorts of sectors, not only military based IT research but also in the health sector, a lot of radical, revolutionary research is mainly funded by the state. It is public sector taxpayer money that is paying for revolutionary investments and it doesn't get the credit for it."

And for her, the problem for the state is twofold. It is not only in the narrative that it doesn't get the credit, it is in the distribution of the profits that the state is being left out as well. "And the two are related," Mazzucato insists. The striking example is Google. The algorithm at the heart of the Google search engine was developed with a government-funded grant. The same goes for the story of Apple and its iPhone and iPod touch. All of the technology in these devices - GPS, touchscreen, voice activated control - have come out of government-funded research. But when the company's success story is recounted, the state doesn't get a mention.

The narrative, according to Mazzucato, doesn't have to be changed in order for the state to look cool, but for the profits that innovation eventually generates to come back to the state to fund new research. That might be easier said than done. As Mazzucato keeps insisting, innovation will only work with mission-oriented funding, i.e. there is no foreseeable return on investment. So there can be no automatic payback. But in the rare cases when the return actually happens, the state should be able to recoup some of the benefits. "We should make sure that when there is a massive amount of profits coming out of these investments, that we think of ways in which the funding mechanism itself - in the case of Google, the National Science Foundation - can share the profits."

And the incomplete narrative has another drawback. "By not admitting the role the state has played with Google, we keep allowing Google and all these companies to pay less and less tax. Now the reaction to all this tax evasion is: let's lower tax even more and take away all the loopholes. But there is no evidence that more tax breaks are making R&D happen that would not have happened anyway - and at the same time they're killing the budget."

By changing the discourse and admitting what the government did for these companies, for Google, for Apple, this tax lowering dynamic could be resisted - and the government would have a less hard time finding money to fund new innovative drives. Because the fact that the profits from the Internet revolution all went private is hindering the development of the green economy today.

LESSONS FOR EUROPE

Are there lessons to be drawn for Europe? Definitely, says Mazzucato, but the Europeans first have to address a problem that she calls 'schizophrenia.' On the one hand, Europe is pursuing an innovative drive. In November 2011, the European Commission announced an eighty-billion-euro research, innovation and competitiveness program called 'Horizon 2020.' "We need a new vision for European research and innovation in a dramatically changed economic environment," the commission said at the time of the announcement. Horizon 2020 is supposed to provide direct stimulus to the economy and secure "our science and technology base and industrial competitiveness for the future, promising a smarter, more sustainable and more inclusive society." That's great, says Mazzucato, but on the other hand the treasuries at the national level and the commission's Directorate General for Economic and Financial Affairs (ECFIN) at the cross-national level still stick to their macro-economic theories of where growth comes from. Their macro policies actually prevent the countries from successfully fostering innovation.

"If you think about the whole way we have talked about Germany versus Greece, you could think that Greece has been spending too much," says Mazzucato. But she sees it differently: "no, it was not spending too much, it was spending wrong! Germany spent much more than Greece in all these areas that I'm talking about." Telling countries like Greece to tighten the belt will not help them achieve growth. "We know what drives GDP growth are investments: investments in human capital, skills, technology. Spain, since 2009 has cut its R&D spending by 40 percent, it's mad," she exclaims.

The first thing Europe needs to do is become much more coherent and have innovation become a central part of a macro growth policy, says the economist. "Otherwise innovation policy remains in the ghetto, and even when you spend on it, if it's not coherent with your macro policy, then it's destined to fail."

"Second: get your innovation policy out of that market failure framework where you're either just thinking that you have to solve the public good problem, or at best, create the conditions for innovation in this really dynamic private sector." The private sector, Mazzucato reiterates, requires government to be much bolder and directly invest in certain areas. "That means you have to make a decision where to invest."

The "skewed distribution of competitiveness" in Europe actually tends to prove her point, says Mazzucato. "The places that are least competitive, Greece and parts of Italy, as well as parts of Portugal and Spain, are those that had no strategic state funding." And Germany's success, according to her, is based on massive spending on strategic innovation funding, via the state bank KfW, the Fraunhofer Institute, a great network of research institutions with dynamic links to the private sector and the clearly "green direction" of research. "Everybody thinks that Germany became more competitive because it kept wages down; obviously that was part of the strategy, but that would never have been enough to win procurement contracts in the UK - Siemens is winning procurement contracts in the UK to build trains! Because they produce greener, faster, more modern trains. Why? Because they have a proper industrial policy."

And the solution to Europe's skewed distribution of competitiveness? "Greece should not do what Germany says it does, but what it actually did: get a proper state investment bank, get the Fraunhofer institutes, get the diversified financial structures, spend on R&D and direct it."

And finally, Europeans should learn to cooperate, to rely on each other and to allow a certain division of labour. "Let Greece do solar panels - with all the sun they have they should definitely develop solar panels, but right now, it is all imported - let Germany do machine tools, Italy art, the UK the science - not exclusively but to some extent, with this division of labour, Europe could become a competitive hub. Think together how we can all work with our capacities and use our tools - the European Investment Bank for example - to help us achieve these areas of serious competitiveness."

But with all these ideas, one remains central in Mazzucato's thinking, the necessity to get rid of the state's image of being a place for "boring bureaucrats." In the United States, she says, you find Nobel Prize winners leading government departments. "Now that's expertise!" she exclaims. She also points to ARPA-E, the successor to DARPA that was created in 2009 in order for the United States to remain a global leader in science and technology. "If you walk into ARPA-E today, it feels like Google. It is a really exciting place to be. The place buzzes." So working for the government can be cool.

"IT IS **PUBLIC SECTOR TAX PAYER MONEY** THAT IS PAYING FOR REVOLUTIONARY INVESTMENTS AND IT DOESN'T GET THE CREDIT FOR IT."

"THE FIRST THING EUROPE NEEDS TO DO IS **BECOME MUCH MORE COHERENT** AND HAVE INNOVATION BECOME A CENTRAL PART OF A MACRO GROWTH POLICY."

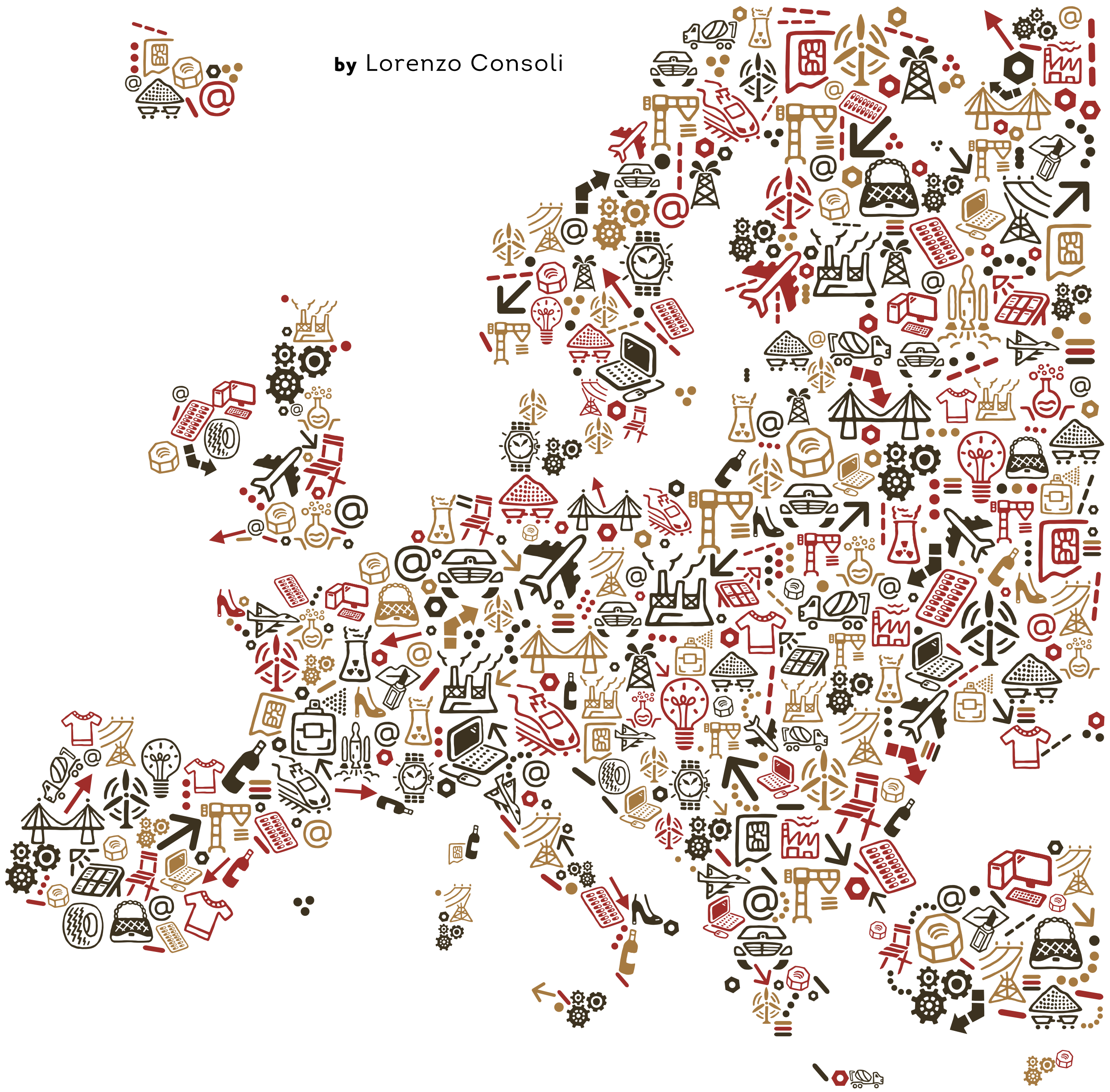
© Mariana Mazzucato

ABOUT

Mariana Mazzucato *is an Italian-born US-economist. She received her BA from Tufts University in History and International Relations, and a PhD in Economics at the Graduate Faculty of the New School for Social Research in New York. She is a Professor in Economics at the University of Sussex, where she holds the R.M. Phillips Chair in Science and Technology Policy.*

THE FAILURE OF THE EUROPEAN INDUSTRIAL POLICY

by Lorenzo Consoli



In an article published in April 2010, Dani Rodrik, Professor of Social Science at Princeton, announced: "Industrial policy is back." "In fact – he argued -, industrial policy never went out of fashion. Economists enamoured of the neo-liberal Washington Consensus may have written it off, but successful economies have always relied on government policies that promote growth by accelerating structural transformation."

> **"INTERVENTION THROUGH REGULATION** IS HOW THE UNION HAS SUCCESSFULLY MADE ITS INDUSTRY CLEANER, MORE ECO-FRIENDLY AND MORE SUSTAINABLE."

According to Rodrik, "China is a case in point. Its phenomenal manufacturing prowess rests in large part on public assistance to new industries. State-owned enterprises have acted as incubators for technical skills and managerial talent. Local-content requirements have spawned productive supplier industries in automotive and electronics products. Generous export incentives have helped firms break into competitive global markets." (1)

In August of the same year, the Economist published a long article under the title "Picking winners, saving losers - the global revival of industrial policy." One of the main forces driving this revival, according to the article, was the economic crisis: governments are "under pressure to reduce unemployment and stimulate growth" and, in these circumstances "support for chosen industries is a way of saving jobs and helping local firms fight foreign competitors." (2)

More than three years after, the euro crisis has made this reasoning even more relevant. Unemployment, affecting in particular the young, has dramatically risen in Southern Europe. Relaunching the economic activity and stimulating growth is urgent today more than ever, through public policy if necessary, given the clear lack of market dynamism. It is exactly the kind of situation that explains why post-Keynesian economists advocate state intervention.

The Chinese example and the urgent need to stimulate growth and create jobs are fuelling the debate about the need and desirability of a true pan-European industrial policy: a very controversial debate, given its strongly ideological character. Industrial policy means, in plain words, state intervention in the economy, aiming at supporting the process of industrialisation, or some industrial activities. These interventions may have a 'vertical' character, providing direct support to some particular industries or industrial sectors, or be 'horizontal', meaning that the public support aims rather at strengthening the conditions that make possible industrial success: research and innovation programmes, infrastructures and networks development, services for enterprises, credit access.

In the EU, vertical, French-style interventions were quite popular in the past; in more recent years, however, after a number of resounding failures and given the strong opposition of the neoliberal dominant culture, European initiatives have became more horizontal. As a recent OECD paper states "the rationale for industrial policy interventions […] has moved from a traditional approach based largely on product market interventions (production subsidies, state ownership, tariff protection), through market failure-correcting taxes and subsidies operating mainly on factor markets (R&D incentives, training subsidies, investment allowances, help with access to finance) to a focus on interventions that help build systems, create networks, develop institutions and align strategic priorities." (3)

A third, quite different type of industrial policy is public authority (national or European) intervention through regulation: fixing technical standards and imposing limits and targets, for instance for energy efficiency, the development of renewable energy sources, or cutting industrial emissions. This, in fact, has been the way the EU has acted, quite successfully, in order to make its industry cleaner, more eco-friendly and more sustainable.

Until very recently, in particular in the view of those policy-makers and economists that believe in the invisible hand of the market, the very concept of industrial policy was

1 *Rodrik, Dani, "The Return of Industrial Policy," [http://www.project-syndicate.org/commentary/the-return-of-industrial-policy], 12 April 2010.*
2 *The Economist, "The Global Revival of Industrial Policy – Picking Winners, Saving Losers," [http://www.economist.com/node/16741043], 5 August 2010.*
3 *Warwick, Ken, "Beyond Industrial Policy: Emerging Issues and New Trends," OECD Science, Technology and Industry Policy Papers, No. 2, OECD Publishing, [http://dx.doi.org/10.1787/5k4869clw0xp-en], 5 April 2013.*

immediately associated with French-style 'colbertism', mercantilism, protectionism, centralised economy and even Soviet-type central planning. This characterisation is rooted in the way industrial revolutions took off in modern nations in Europe and elsewhere. During the first industrialisation phase, the State generally intervened to help its nascent national manufacturing sector to grow stronger, protecting it until it achieved maturity. This was seen as a matter of public strategic interest, supported with public money and accompanied by the development of public infrastructures (transport and communications, energy supply), which are crucial for the industry expansion.

Typically, in the past this approach also included a protectionist stance with trade barriers, tariffs for imports and subsidies for export, and colonialism. Some governments pursued the so-called import-substitution-industrialisation (ISI), aiming at producing inside the country the goods that were normally imported. Sometimes, the state took direct ownership of the protected sectors, through nationalisation of industries and banks, the establishment of state monopolies, and the control over financial resources in order to make them available for the investment needed by the industry.

This pattern was common for the so-called 'second-comer' nations during the first industrial revolution. It was also applied almost everywhere in Europe in the Thirties - during the great economic transformation sparked by the world crisis which followed the Wall Street Crash of 1929 - and often in the framework of rising nationalistic movements, authoritarian regimes and re-armament in pre-war economies.

After the Second World War, during the economic reconstruction of Western Europe supported by the Marshall Plan, several countries put in place policies of centralised control of industrial development. And the very act of birth of our modern, integrated Europe, the Schuman declaration of 1950, was in fact an initiative of industrial policy: the decision to put in common the steel industries of six countries and the coal they needed for their functioning, under a supranational authority that had centralised extensive power on production, restructuring, trade, competition, and state subsidies in the sector.

"THE ONLY WAY TO AVOID THE CARBON LEAKAGE RISK WOULD BE TO **IMPOSE A 'CARBON TARIFF' ON IMPORTS** IN ORDER TO COMPENSATE LOWER PRICES DUE TO THE LACK OF EMISSION LIMITS OUTSIDE THE UNION."

PICKING CHAMPIONS

Less intrusive than nationalisation and direct state ownership of industries - but nevertheless harshly criticised by liberal economists as a distortion of the supposed efficient allocation of resources by market forces - is the selective approach: the attempt by the state to promote certain sectors above others, by selecting and supporting those industries that seem to have the potential to become country winners, or national industrial champions, according to a popular French definition. This old-style vertical approach was still widely used in the 1990s in Europe, and gave also remarkable results in some cases like the French TGV high-speed railways and the Franco-German-Spanish consortium Airbus. There were also, however, some disastrous outcomes, like the

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Key Points

- *Contrary to what neoliberal observers fear, national states and the European Union have a proven track record of fostering industry winners.*
- *Nonetheless, the current treaty on the Functioning of the EU does not allow it to supersede national states on industrial policy matters, contributing to divergences between would-be European partners.*
- *Innovation and education must be better funded but banks find speculative activities and financial products more profitable.*

HOW EUROPE GAINED AND LOST ITS LEADERSHIP

IN MOBILE TELECOMMUNICATIONS

By **Anne Bouverot,**
Director General of the Global Mobile Operators Association (GSMA)

Two recent events, the announcements of Microsoft's takeover of the Nokia handset business and Vodafone's sale of its stakes in the US, have been seen as examples of the decline of the European mobile communications industry. Acquisitions are a good thing in a dynamic market, but what we are seeing seems to be a one-way movement: European companies in the information and communication technology sector (ICT) are just becoming targets. Europe's most innovative industry is now lagging behind other regions.

Europe was long viewed as a pioneer of mobile, setting the GSM standard for digital mobile telephony and enabling European manufacturers to become world leaders in the mobile communications sector. The development of the GSM standard, started in the 80s, was a cooperative process where the best experts, hailing from a range of European industries, worked together. The technical specifications were then set in the framework of the EU Telecommunications Standards Institute (ETSI). By the year 2000, GSM had become the de facto global standard for mobile communications.

So what went wrong? We became complacent and innovation slowed. When the 3G mobile standard came out, operators paid outrageous sums in spectrum auctions to build 3G networks. And these investments did not pay back. The Commission wants to invest in researching the next generation of networks, namely 5G. 5G will be a reality in the region in another ten years from now; we first need to establish the right environment for deploying 4G in order to create a leadership role for Europe on 5G. Although it is a good idea to look forward and galvanise thinking on 5G, this should not be to the detriment of what we can do right now.

There is then the problem of the regulatory approach in Europe with its overemphasis on driving down short-term prices to consumers and increasing the number of competitors. Regulation of international roaming rates and reserving spectrum for new entrants are two examples. Nobody is asking to raise prices for consumers, nor to return to monopolies, but there is a need to focus more on promoting innovation and investment in the ICT industry.

EU spectrum policy, for instance, creates uncertainty for companies that are investing in the long term. In the future they could lose their licences, no matter how well they do, purely because the spectrum has to be made available for new entrants. By contrast, in the US, one loses the right to use the spectrum only if one does not use it or if one's business was not successful.

Another problem is that there are too many players in the European mobile communications market: around one hundred companies, while there are only three main operators in China and a similar number in the US. And then we have too many 'mobile virtual network operators' (MVNOs), companies that don't invest in the infrastructure: Europe is home to two-thirds of the 812 MVNOs globally! The Commission sees the development of MVNOs as a competition remedy, and imposes it as a condition to approve mergers or consolidations between mobile phone operators in the single national markets, as happened in Austria. This is a policy that runs against the need to develop European industrial 'champions' to compete on a global level. If there are too many fragmented players in Europe, the European economy will not be strong.

Now we have the Commission draft for a new single market package, but what does it propose for the mobile communications industry? Regulating international voice calls. But this is the past: what we actually need is a regulation promoting innovation. Cutting prices for consumers is good, but this should not be the only objective if we want to regain international competitiveness. The EU should enable, instead, innovative digital services and technologies, such as mobile diagnostic monitoring (mHealth) and smart grids in the electric utility market.

Today more than 390,000 jobs in Europe are directly supported by the mobile ecosystem. We are lagging behind, but this is still an industry that can make an important contribution to Europe's economic growth and recovery. However, this will require policies that encourage investment in mobile broadband connectivity, enable innovation and help build consumer confidence in mobile services. And we should also encourage students of younger age to study ICT to be sure we have the best brains working together to develop new solutions to support the move to a Connected Life, where nearly everything and everyone are connected. This presents an important opportunity for Europe to regain its leadership position.

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French government attempt to support the national consumer electronics industry by pumping money in companies like Bull and Thomson, which proved eventually unable to compete with the Japanese, or JESSI (Joint European Submicron Silicon Initiative), the project on semiconductors that was financed through EUREKA, the intergovernmental European Research Coordination Agency, but failed to maintain the European companies' market share in front of the much stronger Far Eastern competitors.

Also at the European Community level, during the same period, there was a perfect example of industrial policy gone bad: in the early 1990s, three major consumer electronics companies, Thomson (French), Philips (Dutch) and Bosch (German) engaged in the development of a common European standard for analogue high-definition television (HDTV), with the ambition to impose it as a world standard. The major drive for this attempt was the fact that NHK, the Japan Broadcasting Corporation, was already developing a similar standard since the 1970s. If the Japanese arrived first in the race to impose the HDTV world standard, Europe would have to follow, buying Japanese patents and adapt its production consequently. The European Commission embarked in the venture. The idea was to support a European standard through EU regulation, a targeted communication policy for consumers and economic incentives for the companies involved (consumer electronics and broadcasters). The Commission thought that a 'critical mass' could be reached in consumer demand by boosting the sales of the new 16:9 HDTV large screen (produced mainly by Thomson and Philips), which were more attractive to consumers than the old 4:3 format. By 1993, an action plan " for the introduction of advanced television services in Europe" was launched, followed in 1995 by directive 95/47/EC on the standards for the transmission of television signals. "The community intends, with this decision, to profit from Europe's technological edge in HDTV in order to secure its economic and cultural independence and improve its international competitiveness", explained in its Opinion on the Directive the European Economic and Social Committee, a perfect statement of industrial policy objective. [4] [5] [6]

But the plan did not work. Notwithstanding the subsidies, it turned out to be a major disaster for the EU industrial policy. The EU was "unable to impose the analogue standard being developed by Thomson and Philips to reluctant broadcasting and multimedia industries; and in any case the development of digital technology in the US and Japan was making European efforts out of date."[7]

There were, however, also success stories among the European attempts to develop European standards with the ambition to become the global standards. The GSM standard for mobile telecommunication, produced thanks to a cooperative effort by the industry, supported by the European Community, was probably the most emblematic of these stories, as Anne Bouverot explains in her interview on page 53.

THE EU GREEN INDUSTRIAL POLICY

Paradoxically, in the last decades the EU has managed to implement a quite successful industrial policy, but this has often encountered the fiercest industry opposition. This policy is the industry 'greening' through regulations, which have set standards for the protection of human and animal health, the environment and climate, and driven industrial innovation in this domains.[8]

Let us take the example of REACH, the EU law on Registration, Evaluation, Authorisation and Restriction of Chemicals (1907/2006 EC). The new regulation, which gave the industry a greater responsibility to manage the risks linked to chemical substances, was a battlefield for lobbies and NGOs for six years, before its approval in 2006. The chemical industry produced a number of impact assessments predicting disasters if the regulation was to be approved: between 150,000 and 2.3 million jobs to be lost in Germany according to a study commissioned by the German Industry Federation BDI (Arthur D. Little report, June 2002); between 360,000 and 670,000 in France according to the French industrial federations (Mercer report, April 2003); and again some 1.7 million jobs in Germany according to a second report by BDI in August 2003 (supplement of the Arthur D. Little report).

In February 2013, five years after its entry into force, the European Commission presented a first report on the implementation of REACH in which there was no mention of job losses at all. The report pointed out that "when REACH was proposed, the EU was the world's largest chemicals market with approximately 30% of global chemicals sales. Today it amounts to only 21%, China being

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4 European Economic and Social Committee, "Opinion on the Council Action Plan on HDTV," [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1992:332:0039:0043:EN:PDF], 16 December 1992.
5 Action Plan 93/424/EEC, "Council decision for the introduction of advanced television services in Europe," [http://europa.eu/rapid/press-release_IP-93-495_en.htm], 16 June 1993.
6 Directive 95/47/EC, "Standards for the trasmission of television signal," [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995L0047:en:NOT], 24 October 1995.
7 Sally, Razeen, "States and Firms: Multinational Enterprises in Institutional Competition," Routledge – Taylor & Francis Group, 1995.
8 Acemoglu, Daron; Aghion, Philippe; Bursztyn, Leonardo; Hemous, David; "The Environment and Directed Technical Change", American Economic Review, [http://economics.mit.edu/files/8076], February 2012.

A STRATEGY TO REINDUSTRIALISE EUROPE

AUSTERITY ALONE CAN KILL RECOVERY

By **Antonio Tajani,** European Commissioner for Industry and Entrepreneurship

A year ago, the European Commission presented a strategy to reindustrialise Europe. This strategy has the ambitious goal of raising manufacturing's contribution to the EU GDP to 20% by 2020. This strategy is based on four pillars: investment in innovation; creating better market conditions; improving access to finance; and investment in human capital and skills. At both a national level and in the next EU multiannual budget, resources should be used to attract private investment in research and innovation, focusing on those areas which can boost the whole industrial sector, namely key enabling technologies, bio economy, smart grids, advanced manufacturing, transport, and sustainable construction.

This strategy has been implemented with six task forces, working on priority areas such as action plans for the automotive sector as well as construction and steel industries, and the communication on security and defence industry. Also part of the strategy is the modernisation of the tourism industry and the simplification of the Visa code. At the end of September we presented two reports on the current situation concerning industrial competitiveness in Europe. What emerges from these reports is a picture with both positive and negative elements, and this is not satisfactory.

Despite showing some signs of recovery, the EU has not yet managed to leave the crisis behind. On one hand the manufacturing sector is in recovery for the second month in a row, thanks to positive data on exports. However, on the other hand the industrial base continues to decrease from 15.5% a year ago to its current position at 15.2%. To reverse this trend, a much more robust recovery is needed. This involves going beyond the prescription of austerity, which on its own may actually shut down the first outbreaks of recovery.

"AUSTERITY MAY ACTUALLY **SHUT DOWN** THE FIRST OUTBREAKS OF RECOVERY."

The data presented in these reports are in line with the competitiveness report published at the beginning of September by the World Economic Forum, which suggested that the situation had got worse for EU countries. In particular, countries subject to austerity measures fell several positions. Italy, for example, went from 42nd to 49th, while Spain, Portugal and Greece also fell, finding themselves respectively at the 35th, 51st and 91st ranks. The message of the report is clear. In Europe, efforts to combat debt and the breakup of the euro may have diverted attention from more fundamental structural problems related to competitiveness.

Therefore, the root of the crisis has to be found in the increasing competitiveness gap between European economies, which threatens the strength of the euro and the EU itself. Europe is currently characterised by deep structural imbalances. The productivity gap remains wide, with countries burdened with punitive taxation or inefficient public administration of justice. This is without mentioning energy costs, limited capacity for innovation, or unsuitable infrastructure.

It is not only the lack of reform at national level that undermines EU industry competitiveness. The EU itself sometimes creates more obstacles than benefits for businesses. The solution is to reactivate the process of convergence between the different economies. This will strengthen economic governance, not only for macro-measures of fiscal consolidation, but also for the micro-measures most directly linked to industrial competitiveness. The Fiscal Compact should therefore be accompanied by an Industrial Compact to balance and complement the action for growth, which will attract investment and encourage manufacturing.

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the largest chemicals market henceforth. However, the EU remains the world's largest exporter of chemicals and over recent years the industry turnover has increased in absolute terms." [9] In the meantime, the report concluded, "chemicals in Europe have become safer." The European chemicals safety standards have become a global reference for the industry, since not only European producers, but also importers from third countries must respect the REACH rules. And those rules are driving innovation in Europe. Particularly important is the substitution principle, which prescribes "the replacement or reduction of hazardous substances in products and processes by less hazardous or non-hazardous substances", even if it is not mandatory for all the chemicals in the scope of REACH.

Another EU regulation which has been harshly opposed by the relevant industry lobbies is the legislation, adopted in 2009, which sets mandatory emission reduction targets for new cars: 130 grams of CO_2 per kilometre by 2015 and 95g/km by 2020. The regulation is currently undergoing amendment in order to implement the 2020 target. Under the influence of its car manufacturers' lobby, the German government, which had already managed to water down the original directive when it was approved, is now trying to postpone the implementation of the 95g/km standard from 2020 to 2024, notwithstanding an agreement reached on 24 June during a trialogue meeting between the Commission, the European Parliament and the EU Council. It is interesting to read the reaction of CLEPA, the European Association of Automotive Suppliers: "EU members states still need to endorse the compromise agreement. […] The 2020 CO_2 targets offer a clear and stable legal environment for investment, and will further stimulate innovation by vehicle producers and component suppliers. In addition, fuel efficiency can create high-skilled jobs in engineering and advanced manufacturing." [10]

The European Space Expo in London.

The adoption in 2008 of the climate/energy package including the targets for 2020, was one of the most important and far-reaching decisions taken by the EU in recent years. The package included the instruments to reach the targets: the directive on renewables and the cap and trade system for greenhouse gas emissions (ETS, Emissions Trading System), the legislation on energy efficiency (which has been further developed through the implementation of the eco-design and eco-label regulations and the revision of the Energy Performance of Buildings directive). True, after a promising start, the EU carbon trade scheme is not delivering the expected results: the market price of CO_2 quotas has fallen too low, partly due to the economic crisis, but also because of some flaws in the system. One of the major problems, however, remains the so-called 'carbon leakage', the risk that production capacities would be moved into third countries which do not have the EU strict rules on emissions. It is the strongest argument used by large sectors of the EU industry that are lobbying to lower the EU climate ambitions and targets beyond 2020. The only way to avoid the carbon leakage risk would be to impose a 'carbon tariff' on import from those countries, in order to compensate the lower prices of products due to the lack of emission limits. This would be consistent with the regulation on chemicals, which imposes the REACH obligations also to importers.

GOOD INTENTIONS, GREAT AMBITIONS, POOR INSTRUMENTS

In fact, the European Union does not have today the power to pursue a 'real' European industrial policy. The Treaty on the Functioning of the EU gives it a place in art.6 and art.173, classifying industrial policy among the areas (culture, tourism, protection of hu-

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9 European Commission, "First report on the implementation of REACH," [http://europa.eu/rapid/press-release_IP-13-85_en.htm], 5 February 2013.
10 CLEPA - The European Association of Automotive Suppliers, 2013.

THE MISSING LINK

WHY INVESTORS DID NOT BELIEVE IN THE EUROPEAN INDUSTRY

By **Benoît Lallemand**, Senior Policy Analyst at Finance Watch

Why didn't innovation and industry development in Europe get the investments that the EU expected when it launched the so-called Lisbon Strategy, back in 2000? Where did the money go? Well, the real question is: why should the banks have put their money into the real economy, when they could have had a much better return for their investments in financial products and speculative activities?

The liberalisation of the financial system in the eighties, based on the idea that the market is much more efficient than the state, led not only to massive privatisation of public banks, but also to deregulation of credit allocation criteria, which previously gave priority to the needs of municipalities, industry and SMEs.

At the same time, any form of control over the international movement of capitals - which was still quite strong until the seventies - was dismantled. The banks, which are now totally privatised, became totally free to decide where to invest in order to maximise their private profits, and - not surprisingly - they started to invest where labour was much cheaper. Moreover, the banks knew that they could still count on state guarantees to cover the huge risks of their speculative investments, particularly when they were 'too big to fail'.

The very first step towards putting finance back at the service of society is to return to the separation of commercial and investment banking. The activities of commercial banks (deposits, allocation of credit, management of payment systems) are vital for the real economy and for society. Arguably, investment

"THE VERY FIRST STEP TOWARDS PUTTING FINANCE BACK AT THE SERVICE OF SOCIETY IS TO **SEPARATE COMMERCIAL AND INVESTMENT BANKING.**"

banks are useful, but not vital. It should be possible for them to fail. Consequently, they would find it much more expensive to take risks and to engage in speculative business. This is a liberal principle: investment banks would have to accept fair competition, without the unfair advantage of state guarantees.

The Liikanen group, set up by the EU Intenal Market Commissioner Michel Barnier, made a similar recommendation (positive, although insufficient) in its final report in 2012, but the Commission has not yet enacted the proposal. Barnier, however, has announced it will take the Liikanen recommendation into consideration by the end of the year.

Banking separation would be much more important to solve the systemic crisis of the international financial system than the new capital requirements (Basel III and CRD 4) and the whole new banking regulations. However, this does not seem to be the direction the EU is taking. In European member states, reforms in banking structure have recently been decided (in France and Germany) and are being discussed (in Belgium), namely to deal with this problem, but they do not require a real separation of banking activities. In fact, these half-hearted reforms could even pre-empt Barnier's proposal, signalling that member states do not intend to go any further.

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man health, education, youth and sport) where the Union may only "carry out actions to support, coordinate or supplement the actions of the member states, without thereby superseding their competence". In these areas, moreover, legally binding acts of the Union "shall not entail harmonisation of member states' laws or regulations."

Nothing to do with the 'shared competences' which empower the Union to adopt legislation in areas such as the internal market, agriculture and fisheries, the environment, consumer protection; not to mention the 'exclusive competences' the EU has in competition, monetary policy, common commercial policy. In other words, when it comes to industrial policy, the Commission can only make proposals to EU member states that they are not really obliged to implement, even when they commit to do it. The Commission has no power to sanction them, cannot use the instrument of the infringement procedure, nor the threat to refer them to the Court of Justice. It can only express its regret. It is the same unsuccessful 'coordination method' that was applied to the Lisbon Agenda, adopted in 2000, which was meant to boost funding for research and innovation. It aimed at making the EU, by 2010, "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion". A dream that did not come true. In part, this was due to the lack of interest by private investors, attracted by other more profitable investments, as Benoit Lallemand of Finance Watch argues in his interview on page 57.

However, above all, the Lisbon Agenda completely lacked the instruments needed to achieve its goals. The comparison with the European single market plan, which successfully and timely achieved its target, is enlightening. By 1986, Jacques Delors, the president of the Commission who relaunched the European project, was given an essential instrument: the Single European Act, a reform of the EC Treaty which enabled the Commission to propose hundreds of binding acts, as building blocks of the single market, giving the Council of ministers the power to adopt them by a qualified majority before the deadline of 1993. However, the most accomplished example of a European industrial policy plan was the Davignon plan, launched by the Commission in the period 1977-1982. Etienne Davignon, then Industry Commissioner, managed to have an official declaration of 'manifest crisis' in the European steel sector voted upon by the Community governments in October 1980. This empowered the Commission to adopt extensive measures against overcapacity, such as price regulation, mandatory production quotas, suppression of capacity as a condition for Community support to restructuring plans, regulations against state subsidies, quotas for import from third countries. Today, this would not be possible, because the legal basis to enforce the Davignon plan, the 1951 Treaty of Paris on the European Coal and Steel Community, expired in 2002.

The current Europe 2020 strategy, launched by the Commission president José Manuel Barroso, does not seem to be any better than the Lisbon Agenda regarding the means to accomplish its stated aims. The same can be said, unfortunately, of last year's strategy for the re-industrialisation of Europe, launched by EU Industry commissioner, Antonio Tajani, which set quite an ambitious target: to increase to 20% the share of industry in the EU's GDP, currently at 15%, by 2020. In an intervention on page 55, Tajani advocates measures which should go "beyond the prescription of austerity, which on its own may actually shut down the first outbreaks of recovery", and "an Industrial Compact to balance and complement the action for growth, which will attract investment and encourage manufacturing." But, again, it is not clear with which instruments and powers these good intentions can be implemented.

Barroso has committed to present, by the end of his mandate next year, a proposal for some new treaty modifications, which are needed to strengthen the economic union, which remained undeveloped after the establishment of the monetary union. It could be a great occasion to try to remove the industrial policy from its limbo and transform it, at least, into one of the 'shared competences'. But nothing is less certain. Member states will not be keen on giving even more power to the Commission, particularly in an area that is so important for national pride and economic interests. Moreover, the neoliberal ideology predominant in Brussels is strongly opposed to interventionism by the state in the economy, and the very idea of promoting European 'industrial champions' would be seen as an attempt to weaken the competition rules and undermine the primacy of competition policy in the EU.

"WHEN IT COMES TO INDUSTRIAL POLICY, THE COMMISSION CAN ONLY MAKE PROPOSALS TO EU MEMBER STATES **THAT THEY ARE NOT REALLY OBLIGED TO IMPLEMENT."**

STRATEGY OR WISH LIST?

In a bid to create jobs and growth, the Lisbon Strategy set an ambitious goal in 2000 of devoting 3% of European Union's total GDP to research and development within 10 years. The project didn't deliver. But does it mean that R&D in Europe has failed?

Within the strict terms of the Lisbon Strategy, Europe has indeed failed to live up to its ambitions for R&D expenditure. However, the statistics come with a warning label: be wary of over-generalising. For in areas ranging from robotics to electric cars, and nanotechnology to digital manufacturing, Europe is highly advanced. The same is true of its universities, where their lower world rankings belie the fact that countries such as Germany avoid the national elitist structure of the US or UK and focus resources at a regional level. Furthermore, if one considers the R&D exercise a failure, it's clearly linked with the broader failure of the entire Lisbon agenda. The reasons for the latter are well-known and led by a governance based on the Open Method of Coordination, which wasn't robust enough to discipline those countries disinterested in following the agenda. However, the consequences of the Lisbon failure go far beyond R&D. The idea of the euro was that monetary integration would run alongside economic convergence. However, that convergence never happened and is now the main reason for the divisions between north and south.

As for Lisbon's successor, the Europe 2020 growth strategy, there is a worrying sense of this being simply another wish list, albeit with some sanctioning mechanisms. The underlying problem is that several areas of strategic importance are largely beyond the competence of the EU, energy being a case in point. Germany's unilateral decision to abandon nuclear power was very consequential for the rest of the EU, and was taken at a time when Europe really needed an integrated energy system. I call this 'paper Europe': it means that far-reaching ambitions are set up, but they lack the mechanisms to achieve them and tend to only really exist on paper. However, this doesn't prevent the EU from having very worthwhile strategies in some fields of R&D. Its €1 billion project to develop a computer simulation of the human brain, for example, will open up key areas for the future.

At the same time, it's also important to support Europe's industrial strengths. Airbus, for example, is a very successful enterprise and we need to ensure the economic conditions that facilitate the competitiveness of such industries are sustained, without indulging in protectionism. SMEs will have a key role in that, as they will be very much part of the fantastic transformations underway in IT and digital production, and will be a growing source of innovation for large corporations. Europe has to be at the forefront of this revolution, and there's a supporting role in that for the EU. Indeed, I favour a re-industrialisation of Europe; one that could be a mixture of leading-edge innovation and the recapture of low-tech industries - such as clothing and furniture - that have been off-shored. R&D is a pressing issue, but one that cannot be viewed in isolation. **Europe clearly needs to turn a corner in economic terms or R&D expenditure will continue to decline.** In education, programmes such as Erasmus and the Bologna Process for educational standards have been valuable but need to be pushed much further. I also think that English should be adopted as an official second language and taught in every EU school; it would make a huge difference to communication. Overall, the key to R&D is to deploy specific programmes in specific areas and to bear in mind that although the future is impossible to predict, when it comes to innovation, Europe is not so badly off.

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Anthony Giddens
British sociologist, author of 'Turbulent and Mighty Continent: What Future for Europe?' (Polity, October 2013)

PASCAL LAGARDE

Public banks and growth

European public investment banks seek to support both private-sector growth and innovation, all while developing ties with European partners. The head of research, strategy and development at France's Public Investment Bank, Pascal Lagarde, offers his assessment of this ambitious challenge.

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by Yves de Saint Jacob

Yves de Saint Jacob: The Public Investment Bank (Bpifrance) was established by the French government as a means of revitalising the country's economy. Some have seen it as a tool for bailing out struggling French firms, while others view it as a resource for backing innovative businesses. Could you remind us of the Bank's aims and investment strategy?

Pascal Lagarde: Bpifrance is a public investment and financing institution designed to offer long-term support for investment and growth in France. Bpifrance aims to support finance for SMEs, as well as mid-cap firms, especially those that are growing and innovating.

Our objective is to address market imperfections such as capital constraints on lenders or lack of long-term development capital and support economic growth by bringing together public and private funds to create more effective finance markets for enterprises. We only provide funding for viable businesses and in no case do we bail out struggling firms. However, we invest, alongside private investors, in turnaround funds managed by independent teams. We are also able to finance businesses that are rebounding, i.e. that are seeing a return to growth after a period of hardship.

Y.S.J.: How do you see your role at European level, in relation to the EU financial institutions or public institutions in other EU countries?

P.L.: We're active on three levels. Firstly, we cooperate closely with the EIB Group (European Investment Bank) and its private equity and guarantee arm, the European Investment Fund. In June of this year we signed a cooperation framework agreement with the EIB that by September had already borne fruit in two very specific ways: we agreed on a €750 million refinancing deal made available by the EIB, and we operate in France the risk sharing instrument on behalf of the EIF which provides a €200 million guarantee to Bpifrance innovative loans.

Secondly, we are active in working with European regional funds, the structural funds designed to balance the level of economic activity across Europe. We already manage some of these funds allocated to business financing on behalf of some of France's managing authorities ("prefecture de regions" today, and "regional governments" for 2014-2020).

And lastly we have a third European focus, which involves multilateral projects with partners in other European countries. They include, for example, the so-called Eurostar projects to support research and development, which are administered jointly by the member states and the European Commission. We are committed to promoting multilateral or multi-country investment funds, especially funds in the venture capital sector with some partners that are members of the European Venture Fund Investors Network (EVFIN) with the aim of providing a boost to European capital risk funds, as part of a bottom-up approach.

Y.S.J.: What is your assessment of those three levels of cooperation in Europe? Are they adequate?

P.L.: I think there are many things that work quite well. During the economic crisis, European initiatives helped companies through this difficult period. I would emphasise one other point as well: we must strengthen horizontal cooperation between the public institutions that provide capital and finance for businesses to foster synergies and promote the establishment of transnational investment vehicles that can address the fragmentation of the banking and venture capital markets. This cooperation must then be coupled with a strengthened cooperation with European financing institutions. Eurostar and multi-country joint investment vehicles projects developed by some EVFIN members represent two examples of such projects. We have national public institutions; it's important to make the most of them. They provide a bottom-up approach that obviously works best in tandem with the more top-down tools of the European Union.

We also need to align innovation priorities in each country and in Europe as a whole. The concept of "key enabling technologies" (KET) is a step in that direction. The focus should be on smart specialisation: instead of everyone doing the same thing all at once, we have to identify the fields and the regions where Europe is strongest. This is what has been proposed by the European Commission for the upcoming budget period within the EU cohesion policy and this is a god thing. In this regard, more effort should be made to simplify further the regulation which can sometimes be a little cumbersome.

Y.S.J.: Politicians often talk about the need for "European industrial champions". How do we make that a reality?

P.L.: That will only come about through constructive relations between member states, industrial incubators, productive research and services, and tools for lending a boost to emerging champions. At the same time, there needs to be a discussion between member states and EU institutions, which necessarily have a role to play as regulators. In that regard, we've seen two initiatives carried out in France, one by Anne Lauvergeon, which identified promising innovation sectors for France, and another by Arnaud Montebourg, Minister for Industrial Renewal, who has defined 34 "industrial plans". Other countries, including Britain, have been working on these same issues. We now need to weave this research together and make it a topic of discussion at meetings of European ministers. I'm a believer in integrating horizontal (bottom-up) and vertical (top-down) approaches, but ultimately it's a matter of choice.

Y.S.J.: Isn't it futile to be fostering competitiveness and innovation given the competition from emerging countries, which don't always adhere to the same environmental and societal standards as Europe?

P.L.: In my view, there are two primary issues: innovation and exports. All of our research into the business climate for small and medium-sized firms makes one thing very clear: the companies with the brightest outlook are those that innovate and export their goods or services. The firms that have an international focus will create the most jobs outside the EU, but those same firms will also create the most jobs in France. Employment in France is driven by international growth. The real issue is how to go about offering products and services in emerging countries. I'm thinking about Asia, obviously, but also sub-Saharan Africa, which is currently one of the world's biggest growth regions and one where France has some unique advantages. Yes, there is competition with emerging countries, and there always will be, so we have to seek ways in which we complement each other. It's a political issue – you have to strike a balance. But as Europeans we ought to be able to negotiate terms with emerging countries that include standards for social and environmental responsibility closer to the European social model. And don't forget the major tool at our disposal and one we don't brandish often enough: the euro.

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ABOUT

Pascal Lagarde *is a graduate of Ecole Polytechnique and Ecole Nationale Supérieure de Techniques Avancées. He is Director of Research, Strategy and Development for France's Public Investment Bank.*

A low-energy building in Copenhagen's Vildrose project.

THE GREENING OF THE EUROPEAN INDUSTRY

Industry represents an integral part of the move towards a sustainable way of life. In Europe, while many larger companies are aware of their responsibilities to the environment, the state has a vital role to play in pushing private enterprise to become more sustainable. Inevitably, this raises a political challenge – and an opportunity – for the progressive movement.

by Louis Lemkow

At a time when the future of the environment is open to question, there is one inescapable fact: we will not have a sustainable world unless industry, and notably industrial production, becomes sustainable.

Rather than a simple observation, this is an absolute imperative. However, it brings with it a set of questions about the very nature of sustainable industry, the related issue of green energy and, ultimately, the political challenges these questions raise for the progressive movement. To address these three areas involves not only considering where we stand today, but also the direction of travel for the future.

"CONSUMERS INCREASINGLY WANT TO KNOW ABOUT THE ETHICS OF THE COMPANY THEY ARE BUYING FROM AND THE QUALITY OF ITS PRODUCTS."

The issue of industrial production is clearly a broad one, ranging from the environment and competitiveness, to health and safety in the workplace and the questions of jobs and growth. The tension between business competitiveness and policies for greening industry has been around for many years, yet these two elements are in fact compatible rather than contradictory. Green technologies and sustainable approaches in industrial production are actually about the rational use of resources. In fact, significant savings can often be made by a system of production that uses resources rationally, with a key factor here being the notion of Corporate Social Responsibility in industry. CSR not only incorporates social and economic questions, but also the issue of sustainability. As a result, many leading companies now monitor their productive capabilities and use indicators to see how well and how sustainably they are using resources, with the ultimate objective being to reduce the environmental impact of production. That desire to improve is reflected, for example, in the 700+ companies that are now signatories to the Carbon Disclosure Project's climate change programme.

A key instrument here is Life Cycle Assessment, a technique that is increasingly being deployed by more progressive-minded companies. LCA involves the analysis of resources entering the cycle of production, from extraction – which can potentially be very damaging – to the transportation of extracted materials to factories, manufacturing processes, what waste is produced, how much of that waste is recyclable and then, finally, the distribution of the finished product. The consumption of energy, water resources and materials is examined within this cycle to produce a clear, quantitative analysis that will enable a company to intervene and to reduce some of the excesses. Such information also forms the basis of the sustainability reports published by major corporations, which are expected to base their claims on objective indicators about their resource and energy use.

Clearly, such analyses can lead to savings in production costs. However, they are not the only way in which European industry can become more competitive by embracing sustainability. The consumer part of the equation is also becoming attuned to environmental impacts and is now exerting demand-side pressure. Consumers, albeit largely from the middle class, increasingly want to know about the quality and ethics of the company they are buying from and its products. The trend for European consumers to buy locally-sourced foods because they have a lower carbon footprint – and also support local employment – is just one example of where competitive advantage, Corporate Social Responsibility and sustainability find common ground. In other industries, however, the question is more complex. For the construction sector, a new zero-carbon emission building that rationalises energy use may well require a larger initial investment than a conventional building – yet will go on to deliver long-term savings. Here at the Autonomous University of Barcelona (Universitat Autònoma de Barcelona), a state-of-the-art green building is being completed that will provide really notable savings over the longer term – though it will have cost more than a classic research facility. In miniature, it reflects a much broader issue for sustainability – the fundamental tension between up-front cost and savings over time. I believe that CSR is helping to make a positive impact on this, but the short-termism that has dogged private and public institutions remains very much alive. It is part of our political culture and changing that is an extraordinary challenge – particularly in the context of today's economic crisis in Europe.

JOBS AND GROWTH?

The frequently-raised question of jobs and growth created by greener industry is meanwhile equally complex, if not uncertain. There is also an important contextual point to be made first – namely, that growth implies yet more use of natural, non-renewable resources. One day, however green we may become, some of those resources will be completely depleted. We must therefore take on board the idea that growth should perhaps be limited, given its impact on resource use, and some even demand zero-growth or 'de-growth'.

"GIVEN THE NATURE OF GLOBAL CAPITALISM, **THE STATE HAS TO BE MORE PRESENT, MORE AGGRESSIVE AND MORE VISIBLE** – AND THAT'S WHERE THE PROGRESSIVE PARTIES HAVE A MAJOR ROLE TO PLAY."

The question of jobs is a complex one due to the fact that technology changes and innovation can have both positive and negative effects. Digital technology has certainly created a massive number of jobs, for example, but introducing it into the production process brings with it the risk of displacing people from the workplace. Although developing and expanding markets may boost employment, I believe there is also a danger of hype surrounding the potential for job-creation – simply because new, more sustainable products are being manufactured. There is also the question of positive/negative impacts in terms of work and the environment. Technology has made home-working possible – thereby bringing people into the world of work who might otherwise have been marginalized for reasons of mobility. Home-working also reduces demand for transport and all the associated CO_2 emissions. One area where the picture is clearer, though, is in the field of renewable energy technologies. Europe is a major player in many of these technologies, courtesy of both private and state-funded research and development. Companies in Germany and Spain are now leaders in wind turbine and solar energy technologies, and are able to export these systems worldwide and drive job creation. The role of R&D here is a particularly important one as it is not just about more efficient renewable technologies, it is also about price reduction – making the technologies themselves more competitive – and Europe has played a very significant role in that. Unfortunately, R&D costs money and in the economic crisis there have been cutbacks in both public funding at national level – with Spain being a clear case in point – and to a lesser extent in the private sector.

The bigger challenge, though, for green energy is certainly its deployment as the primary energy source for Europe. Despite the technical and political difficulties, I strongly believe we should be trying to build an integrated electricity supply system across the EU, one that places the emphasis on renewable sources. Reducing carbon emissions and our dependence on oil are priorities that would also help to address the thorny question of energy security. It was said many years ago that no major country would be able to have an electricity supply entirely based on renewables, but that's now being shown not to be the case. Whether 100% renewable energy is feasible EU-wide remains to be seen, but we can definitely achieve well beyond 50% over the next two decades. Spain had a stated objective of 92%, although this now looks unlikely to be achieved due to the combined effects of the country's economic crisis and the recent restructuring of the renewable sector. Deployment of a renewable strategy will, of course, loop back into the potential for job creation, while providing a monitoring role within the system for digital technology.

A ROLE FOR GOVERNMENT

The very fact that we are talking here about national policies highlights another important aspect about the greening of European industry – namely, the role of government. Personally, I believe in state intervention, and that the state has a role to play in introducing incentives and mechanisms on the one hand, and tightening regulations on Environmental, Health and Safety (EHS) impacts on the other. Incentives for green production and R&D in green technology can provide immediate benefits and are not complex to introduce – notably in the form of tax incentives. Inevitably, there will be those who argue against such incentives, particularly the laissez-faire neo-conservatives. But these objections can be overcome at a national and an EU level, where there is a track record of funding programmes to promote green technology research and to refine the techniques for monitoring the productive process.

The Spanish Gemasolar solar power plant in Fuentes de Andalucía

As progressives, we must also be aware of the question of inequities. It has to be a priority for governments to minimize impacts – and not just in terms of climate change and low-carbon economy, but also with regard to all forms of environmental degradation that affect people's lives. Unfortunately, those most affected by the health outcomes of that degradation tend to be the most socially vulnerable groups in class terms. From a progressive perspective, this is about social and environmental justice, and applies equally to health and safety in the workplace. Regulatory measures can of course be taken to stop the excesses, to minimize the considerable impact of industrial production on the environment. Legislation is in place at a national and an EU level, and a lot has been achieved by measures such as the European Water Directive. However, as with health and safety regulations, there is a real issue with compliance. It varies enormously around Europe; there are some very compliant member states and others that are non-compliant, despite having signed up to the regulatory framework. In certain European nations such as the UK and in Scandinavia there is a very strong tradition of health and safety monitoring and inspection, for example. But in countries like Spain, the infrastructure for applying those regulations is weak. This issue requires a long-term vision, rather than shallow short-term approaches, and I would underline the link between work and environmental quality. There is also the related issue of European companies basing their manufacturing outside the EU, where not only wages but also EHS standards are lower, resulting in lower costs for the industry or company concerned. It may indeed make such European companies more competitive – but it raises questions about ethics and working conditions, as well as accidents.

The common thread in these sustainability issues is therefore the response of governments. Put simply, we're only going to be able to overcome the major environmental problems when we have active state intervention. Since most of industrial production is in private hands, the state has a duty to push enterprises to take on board sustainable practices. In many parts of the world, especially in countries with a social democratic tradition, the two sides do see eye to eye on sustainability. However, given the nature of global capitalism, I believe that the state has to be more present, more aggressive and more visible – and that's where the progressive parties have a major role to play. We don't believe in the myth of the self-regulation through market forces. It doesn't work. This is clearly the case with climate change and action is something that has to be agreed globally – as the efforts of any one country are not going to be very relevant. I believe that progressive parties have a vital role to play internationally in broaching these issues – as some regulatory aspects, for example, must be dealt with at a global rather than a European level. But we ought to be able to cooperate in a pan-European way as progressives – not just on climate change but on a whole range of issues related to the environment, health and safety. The latter, in particular, represents an area where there isn't much of a tradition on the conservative right, but there is on the left.

THE POLITICAL CHALLENGE

So how can the left make the most of this potentially fertile ground? At the moment, sustainability issues are only really being addressed by minority parties – whereas they need to be dealt with by majority parties on the progressive left. Personally, I agree with a lot that the Greens say, but it's a fact of political life that they have only a marginal impact on governments. They have been in coalition governments for a period here and there but only represent 5-10% of the vote. The big social democratic parties need to bring this on board if we are to get any real progress on sustainability, because nobody else is going to do it. It should be a more integral part of our electoral narrative, so that when we're talking about the economy, it's not good enough to say 'we would need to introduce economic policies that respect nature and the environment'. Anybody can say that, whether you are on the left or the right; the days of being long on rhetoric and short on coherent practice are over. Parties need to be able to do concrete things, propose mechanisms and be explicit about that. From the progressive side, it needs a more integrated view of the economy, the environment and society. Sustainability should be a core element and linked to the idea of overcoming some of the bigger inequities related to health and other issues. And I genuinely believe there is a sense of urgency about this. It's true that some social democratic parties are more sensitive to the green agenda and a number have taken it on board, but it needs to be taken up Europe-wide.

With the 2014 European elections just around the corner, the time is ripe for progressive parties to take a radically different approach to the environment in their manifestos: namely to make it a thread running through their entire policy spectrum rather than just being an add-on. A manifesto that sets out policies on the economy, social policy, health, education, technology, transport and then a beautiful sentence about nature and the environment is not much use. We need to talk about the environmental aspects of each of these areas, so that sustainability becomes part of the whole train of thought – and not just the last carriage. We should talk about the environment in the same way we would normally talk about inequality in each of these areas. However, this is not the only manner in which the progressive lexicon is reflected in the green agenda. Although the term sustainability is widely used, I believe we should also communicate about the importance of 'intergenerational solidarity' – because solidarity is part of the left's tradition, and sustainability is about inter-generational solidarity. We need to act on climate change – and also reduce the inequities of its impacts. We must be sensitive to the fact that they impinge on some groups more than others. We need to look for mechanisms to encourage CSR, including sustainable production. I believe these questions should be central to progressive manifestos. Sustainability is not just about climate change and environmental degradation: it's about solidarity and social justice.

"AT THE MOMENT, SUSTAINABILITY ISSUES ARE ONLY REALLY BEING ADDRESSED BY MINORITY PARTIES WHEREAS **THEY NEED TO BE DEALT WITH BY MAJORITY PARTIES** ON THE PROGRESSIVE LEFT."

Key Points

- *Corporate Social Responsibility is making industry greener and generating savings.*
- *The state can help the environment through incentives and regulation.*
- *Progressives need to integrate sustainability throughout their manifestos.*


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ABOUT

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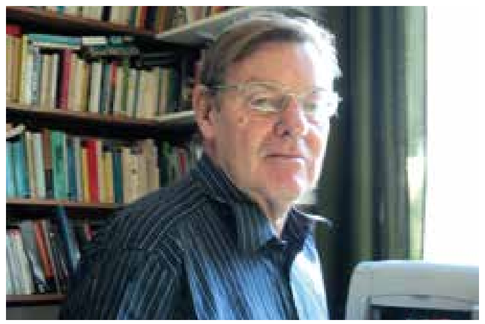
HOW TO CHANGE GLOBALISATION

Globalisation is seen by many as an unstoppable force that has made life more difficult. But the seemingly irresistible process can and must be controlled, say Swedish MEP Marita Ulvskog and British economist John Grahl.

Joint interview by Kim Rahir



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John Grahl *is a professor of European integration at Middlesex University and a member of the EuroMemo Group (European Economists for an Alternative Economic Policy in Europe). He has published articles on economics in the left wing 'New Left Review' and the French monthly 'Le Monde Diplomatique'.*

Marita Ulvskog *is a Swedish social democrat and was elected to the European parliament in 2009. A trained journalist, she served for ten consecutive years as minister in Swedish social democratic governments, and later as secretary general of the Swedish Social Democratic Party*

Kim Rahir: What kind of globalisation do you envisage?

Marita Ulvskog: Many citizens regard globalisation as a strain, something that has made their lives more complicated, as something that cannot be fought or resisted. Very few believe that they can have an impact on globalisation themselves. They live with the impression that financial markets and large companies run the show and take every decision.

John Grahl: I concur with Mrs. Ulvskog on the fact that most people feel unable to affect the course of globalisation or to challenge it in any way. At the same time, they tend to be very critical of the process. The financial crisis revealed very serious dysfunctions in the way the world economy is controlled. In England, many people benefit from very cheap imported goods while competition from these same imports has put pressure on wages and employment. Many younger people, on the other hand, take for granted their access to global communication networks and the possibility of global travel.

As someone with a Marxist background, I am inclined to see globalisation as a new phase in what Marxists refer to as the socialisation of production, based on the construction of new connections and a widening of social and economic systems. The rapid development of the Chinese economy is surely a very positive aspect. But, as with earlier phases in capitalist development, such as the industrial revolution or urbanisation, the increase in society's productive powers is running ahead of our ability to control, correct and stabilise economic and social life.

K.R.: Then do you believe our view of globalisation has to evolve or must we make globalisation evolve?

M.U.: Yes, we do have to change globalisation. It might even start changing from the inside because even from an economic point of view, an unchecked course of events could have negative effects: a bad impact on democracy, on investment, on people's health, and on the environment could provoke a very negative reaction that could put the forces behind globalisation at risk. And those forces are extremely averse to risk. It simply means that a counterweight to the market driven processes of globalisation is not only relevant: it has become essential.

J.G.: I completely agree that deep changes are needed and that even the dominant players – the global corporations and the big banks – will suffer if changes are not brought about. However, it is complicated to promote systemic changes because private companies are focussed on market competition and because governmental action beyond the frontiers of individual states is still very difficult. The problem of climate change provides the clearest example – collective action is needed to prevent the damage caused by the pursuit of narrow corporate or national interests. But international finance, international investment, international migratory flows and questions of security all present similar problems of collective action.

K.R.: Where should this controlling momentum come from?

M.U.: Politics must be a decisive force of the movement that will turn globalisation into something more adjusted to people's needs. We cannot leave it to blind economic forces even if I believe that within the economic forces behind globalisation lies the seed of a new way of thinking, something that calls for putting brakes on the latter. But we cannot wait for this seed to grow by itself. We as politicians must be the driving force at both national and global level.

J.G.: In my view, politics has to be the key but it is very tricky to extend political life to tackle global problems since there are very few strong associations beyond individual countries. The political problems of the EU are a case in point: national political issues dominate European parliamentary elections and voters are not given any clear choices on European policies. However, one can see a development of transnational associations and groupings, which will hopefully provide more support in the future for stronger political forces beyond individual countries.

> "IF WE BELIEVE WE CAN COMPETE WITH CHINA IN TERMS OF LOW SALARIES, LOW SECURITY, LOW ENVIRONMENTAL DEMANDS, **WE ARE TOTALLY WRONG."** (MARITA ULVSKOG)

K.R.: Are the flows of money, of information, of people still controllable?
M.U.: The idea that we have lost control of those flows is a major problem, because it means that people have given in. We could point to the example of China to illustrate how globalisation can work in two directions. In Europe, China is often presented as a threat, especially in the industrial sectors where Chinese products are the same as European products, only cheaper. If you look at what is happening in China, you can see that workers are beginning to fight for more democracy and decent salaries, that people are protesting against the appalling air quality in big cities. And we can see that the political system is reacting. Absolutely not in the way it would react in Sweden, United Kingdom or Germany, yet it is reacting. Actually, it is another aspect of globalisation, that is to say the fact that they can feel the world's eyes on them.

J.G.: I agree, and add that endless propaganda against regulation, government intervention and public provision has helped to bring about such a situation – where market forces are seen as an adequate answer to all problems of economic organisation. There is no doubt, however, that control is possible in many spheres. For example, in the question of tax avoidance and tax evasion, determined action by the EU and US together could provide a global solution. Although governments are today very short of revenue, they are not yet ready for such action because many of them still want to base their economic development on tax breaks for big corporations. On conditions in China, common action in the West could make a big difference too – China's access to Western markets could be made conditional on improvements in wages and working conditions. I do not think that would be protectionist – it would only demand that trade be mutually beneficial rather than a game with winners and losers. To take a more clear-cut example, clothing imported into the Union by big companies such as GAP is being produced in Bangladesh by workers doing a hundred hours a week. To accept such imports is to become the accomplice in a crime, but as policies towards global problems are limited to the promotion of free markets, control cannot be established.

"IT IS COMPLICATED TO PROMOTE SYSTEMIC CHANGES BECAUSE **GOVERNMENTAL ACTION BEYOND THE FRONTIERS OF INDIVIDUAL STATES IS STILL VERY DIFFICULT."** (JOHN GRAHL)

K.R.: What kind of industrial policies do we need to change that?
M.U.: We know that industrial products still make up 75 % of our exports. A lot of people are working in the industrial sector and one job in the industrial sector corresponds to two jobs in the service sector – private and public. Europe started as a Coal and Steel Union and still industrial sectors like these define much of what we are today. But so far, globalisation has not made our industries competitive enough. We must be well skilled. We must be the smartest on climate issues because not being climate-smart is now unacceptable for citizens and consumers, energy efficiency is crucial to keep production and transport costs down. Workers must be treated as human, not machines. If you have a say in your workplace, you can improve production methods. You are the expert, after all. In Sweden, we are totally dependent on exports – steel, qualified raw materials, forest industry, and digital industry. It is interesting to see that we have had lots of payback through the fact that the the employees have been very involved in its work for decades.

J.G.: Britain is not doing as well as Sweden either in economic or in social terms. We could probably learn from Nordic countries that the two factors are linked – that a fairer society can support a more efficient economy. Our greatest vulnerability in the global economy probably comes from our poor educational performance and that is closely related to poverty in childhood and to multiple social disadvantages in housing and employment. Our employment relations are primitive in comparison with those of Sweden. What is ironic is that, if you ask why we cannot do better in education or in employment relations, you are told that the global economy needs low taxes and deregulated labour markets and that we cannot afford to deal with these issues.

K.R.: Can this really be done through legislation or is this also a cultural question?
M.U.: Every country must choose its own model, but when it comes to involving and empowering people in their workplace, I think it should be done through legislation. That is what we did in Sweden, and trade unions and the workforce have proven to be a valuable asset of the company. So in this context I would emphasise that deregulation, under the banner of "rules simplification" is definitely not the quick fix that will solve all of our problems. In Europe, the work of Mr. Stoiber on rules simplification, often serves as an excuse to push through deregulation, especially for small and medium-sized companies (SME). If we believe that we can compete with China in terms of low salaries, low security, low environmental demands, disempowerment of employees, then we are totally wrong. So let's simplify the rules, but not by undermining the rights of employees, or consumers.

J.G.: It is important to add that partly because of German pressure, deregulation and cuts in social provisions are being forced through in the weaker EU economies. The dominant view is exactly the one that Marita Ulvskog has just condemned – to restructure these economies through lower salaries, lower security and generally lower standards. I also have to add that the European Social Democrats have not been as consistent or determined as they should have been in challenging the kind of policies advocated by Edmund Stoiber. Sometimes they give the impression that policies that would be unacceptable in Finland or in the Netherlands are quite appropriate in Portugal or in Slovenia.

1 German conservative Edmund Stoiber heads a EU group in charge of reducing bureaucracy.

"BRITAIN IS NOT DOING AS WELL AS SWEDEN EITHER IN ECONOMIC OR IN SOCIAL TERMS. **WE COULD PROBABLY LEARN FROM NORDIC COUNTRIES THAT THE TWO FACTORS ARE LINKED."** (JOHN GRAHL)

FINANCE, COMPANIES AND COMPETITION

Divergences between countries in the industrial competitiveness – especially between France and Germany – are causing economic dislocation in the euro zone and undermining Europe's ability to compete on the international stage. These problems have been compounded by the increasing financialisation of corporate governance and an ideology hostile to industrial policy. Remedying this situation requires a combination of two priorities: multi-stakeholder governance and the development of innovation solutions.

by Michel Aglietta

Key Points

- *Shareholder governance is subject to the whims of stock markets and focuses on clearing debts. It encourages offshoring and therefore deindustrialisation.*
- *Protecting market share in a highly competitive environment requires the pursuit of incremental innovation based on the valorisation of intangible assets.*

Let us start with the French example. Ever since the Gallois report, there has been no denying the fact that French industrial performance deteriorated significantly in the ten years preceding the crisis. Rising wages and shrinking margins are common excuses for shortcomings in management accountability. Competitiveness is seen solely as a reflection of payroll costs, which naturally points the finger at the labour market. Industrial policy is content to focus on internal devaluation, resorting to wage deflation, pitching one country against another.

The media overlooks the lack of research and development among companies in southern Europe, France included. Since 2002, R&D in the private sector has never exceeded 1.4% in France, compared with an average of 1.9% in Germany, 2.0% in the United States, 2.5% in Japan, and 2.8% in Sweden. Meanwhile, French companies continue to lose ground in automating industrial production processes: they had bought 3.5 times fewer industrial robots than their German counterparts in 2001; seven times fewer in 2011. Research into total factor productivity (TFP) shows that the particularly dated assets of French companies are a key contributor to the slowdown in productivity. Payroll costs may well be growing in France more than elsewhere, but that is because productivity is stalling.

This offers a new perspective on the issue of competitiveness. If France is losing ground, then it is because its firms are failing to invest enough in innovation, largely because its business leaders and owners refuse to do so or because they cannot do so. In the first case, we need to consider the type of corporate governance cultivated by the financialisation of the economy. In the second, we need to look beyond the capacity of companies to produce technological, human, information and financial resources and assess the kind of innovation systems in which they use them.

> "IF FRANCE IS LOSING GROUND, THEN IT IS BECAUSE **ITS FIRMS ARE FAILING TO INVEST ENOUGH IN INNOVATION."**


© Paul Tearle / Getty Images

FINANCIALISATION AND GOVERNANCE

After the Second World War, France pursued modernisation under the impetus and guidance of central government. State patronage allowed French capitalism to build competitiveness clusters in transport, energy, construction materials and chemicals. With the introduction of the Common Market, the industrial model shifted in favour of increased competition, with currency devaluation occasionally used to offset a lack of competitiveness. European constraints changed the rules of the game as financial deregulation began to gather steam. The 1983 watershed for competitive disinflation caused a passive trend toward neoliberalism, which turned active in 1995 when the fabric of capitalistic interests came apart at the seams and the sudden surge of US and UK shareholders in CAC40 companies caused upheaval in corporate governance. French capitalism embraced pro-shareholder governance with open arms, in contrast to the stakeholder view prevailing in Germany. The combination of an overwhelming focus on pushing up share prices and pursuing a hierarchical, pyramid-style approach to business organisation (a long-standing French tradition) strongly discouraged managers from adopting any innovation in productive investment.

Management dependency on company share prices through stock options and the threat of hostile takeovers led by hedge funds and investment banks left business strategies prey to the whims of stock markets. Private equity (PE) provides a capitalistic alternative to flotation. However, PE is particularly harmful to long-term strategies given that more than 70% of a buyout can be financed by debt instead of a real equity contribution. Private equity funds use the assets and future revenues of the companies they target as collateral to secure their loans. Lending banks in turn use asset-backed securities (ABS) to spread risks among investors. Boards of directors are made up of managers from the target company (the ones not laid off) and representatives from the private equity fund. The fund managers seek to squeeze as much profit out of the target company within three to five years to repay their debts and use leverage to secure returns of more than 20%. Such strategies might be compatible with the sudden growth of start-ups. In most cases, however, they represent a form of governance based on stripping and regrouping available assets, destroying rather than creating value to divvy up profits among a financial elite to the detriment of the workforce.

This approach is taken to the extreme in the private-equity model, but it is also widespread in all firms governed by shareholder value. Across 21 European countries, foreign shareholders – including pension funds, private equity firms and hedge funds – held an average of 37% of company shares in 2008, compared with 29% in 2003. This transformation in European shareholding based on the model made popular in the US and UK has led to the disappearance of core shareholders and a loss of majority ownership over time. The stock market has become the only key shareholder, with market value the sole manifestation of shareholder interests. This has had a disastrous impact on methods of governance. Firms are no longer seen as going concerns that require solid backing over time to develop a long-term productive investment strategy. The Wall Street model considers a company to be nothing more than a group of assets that can be sold off separately on the stock market. Liquidity supplants long-term commitment as the primary focus, as investors seek to maximise earnings. The financial crisis has exacerbated this distortion. The drive to shed debt has become the number-one management priority, with massive fluctuations in share prices indicative of price-risk instability, which fetters investment.

Private equity can spur innovation. However, it is a completely different type of private equity that helps small and midsize businesses to pursue new ideas: the type which involves a long-term commitment, which clears debts, which combines venture capital with strategic expertise for fragile yet growing companies. All this requires a wholly different approach to governance.

MULTI-STAKEHOLDER GOVERNANCE AND EMPLOYEE EMPOWERMENT: THE SOCIAL CONTRACT

The concept of governance in the interests of shareholders alone stems from an ideological view that gained a following in the United States in the 1970s and became more widespread in the 1980s. This view is based on a mistaken conception of the company that fails to distinguish between the actual business and the "private firm on paper." A company is an undertaking involving a group of people working to produce something that contributes to society. A group of people is not something that can be owned. In contrast, the "private firm on paper" is a corporate body in the shape of a legal entity that determines the purpose of the company. This purpose is capitalist: it follows the abstract reasoning that sees capital in terms of accumulation and therefore the automatic growth in monetary value. In this sense, the private firm owns the company. However, the shareholders simply own part of the firm's assets. They are the rightful owners of the firm as a legal entity, but in no way represent all of its stakeholders.

Those who defend shareholder sovereignty claim that it is warranted because all of the company's other relations are implicitly part of the nexus of contracts and therefore carry prices equivalent to market value. Such claims do not hold water. A company is essentially a team. What makes that team effective is the cooperation and synergy between its members and their skills. As a consequence, a company's share price does not fully reflect its use to society. The conflict of interests between shareholders and the people who make up the company warrants another distribution of power, in the shape of multi-stakeholder governance, and a conduit for that power, in the shape of the board of directors, which is more than simply a mouthpiece for shareholders.

"PAYROLL COSTS MAY WELL BE GROWING IN FRANCE MORE THAN ELSEWHERE, **BUT THAT IS BECAUSE PRODUCTIVITY IS STALLING."**

Stakeholders have a range of interests. The board of directors does not act on behalf of a single party. It sets company policy, and comes to agreement through deliberation. As a result, it has a strategic objective that is reflected in standards of governance. It is the board's role to oversee the company management – or technostructure – to ensure that it complies with standards of governance. Since the corporate body entrusts its representative(s) – the board of directors – with the task of organising the company, then governance – through which the board interacts with all aspects of the business structure – must ensure that stakeholder coordination is not hijacked by the interests of management alone. Multi-stakeholder governance implies the use of checks and balances: separation of powers between the chairman and the CEO; internal audit committees reporting to the board of directors and distinct from management; objective criteria and methods for measuring management performance; agenda under the responsibility of the board chairman.

Because it draws on the creativity of the company's human resources, multi-stakeholder governance is key to competitiveness. Indeed, comparative advantages come from within. Productivity stems largely from collective learning: tacit knowledge obtained by pooling skills in a manner that builds on individual capabilities; informal interaction between employees through horizontal structures; motivation through employee empowerment. Only multi-stakeholder governance in which employees are actively represented on the board can create the system of checks and balances needed to cultivate collective skills as a factor of production. Corporate social responsibility is neither a "touch of soul", nor a cost: it is an intangible asset that can increase overall productivity by increasing the efficiency of the labour factor.

"A COMPANY IS AN UNDERTAKING INVOLVING A GROUP OF PEOPLE WORKING TO PRODUCE SOMETHING THAT CONTRIBUTES TO SOCIETY. A GROUP OF PEOPLE IS NOT SOMETHING THAT CAN BE OWNED."

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COMPETITIVENESS AND INNOVATION SYSTEMS

Yet there is more to the matter. Competitiveness based on intangible assets considers company stakeholders beyond the legal boundaries of the corporate body. There are no clearly defined ownership rights for intangible assets. Intangible assets are a source of positive externalities between the company, other companies, public entities and the local communities in which companies are based. They create a close bond between industry and services, business strategy and economic policy, resulting in products and solutions that are in tune with social issues: examples include the circular economy, energy transition, urban renovation, health and lifestyles. They are often non-rival and a source of return that is not immediately appropriable. They must be calculated on the basis of notional value. They improve the efficiency of all production processes and the quality of products. From a company standpoint, intangible assets offset the drop in the marginal productivity of physical capital invested as it grows. This is because intangible assets incorporate knowledge and are not destroyed through use. On the contrary, their marginal productivity grows through use. When companies are organised into networks that internalise externalities resulting from this interplay, they create innovation systems. Making the most of this coordination requires a form of governance that recognises the diversity, capacity for interaction and mobility of human resources. In other words, it requires extended stakeholder governance.

There is no single innovation system that is superior to the rest. Differences stem from the cultural traditions, theories on education and ideologies that shape the ways in which companies are viewed. The venture capital contribution to the innovation system in the United States is well known. This approach makes individualism an influential aspect of the business mindset. Entrepreneurs – often with a background in government research – secure the backing of angel investors, who help them get started on the path to growth in areas of innovation in which there is real symbiosis between entrepreneurs. They maintain momentum with the help of private equity firms, which allows them to avoid the premature burden of debt. Success or failure is settled by the Nasdaq.

"BECAUSE IT DRAWS ON THE CREATIVITY OF THE COMPANY'S HUMAN RESOURCES, MULTI-STAKEHOLDER GOVERNANCE IS KEY TO COMPETITIVENESS."

This approach to industrial organisation is a far cry from traditional practices in Asia. In Japan, small and midsize enterprises are an integral part of the value chain for major corporations. SMEs are not seen as subcontractors to be used as a means of outsourcing costs; instead, they are viewed as partners on industrial projects. China's Guanxi capitalism is modelled on a network of connections deeply rooted in Confucian tradition. Extended family relations, trust-based ties forged through mutual assistance and shared ethical standards provide building blocks able to stand the test of time.

GERMAN MITTELSTAND AND THE ABSENCE OF ANY CLEAR INNOVATION SYSTEM IN FRANCE

The Mittelstand is a benchmark for competitive excellence in Europe. It contrasts sharply with the hazy nature of the French industrial organisation that has followed state withdrawal. The surge in Germany's strength as an exporter since the introduction of the euro contrasts with the slow deindustrialisation seen in France. The way in which leading companies have responded to the tougher competition ushered in by globalisation is instructive. German firms have invested heavily in Eastern Europe to hone the competitive edge of innovation systems based on their home turf. They have made a point of integrating their foreign investments closely into their industrial systems back in the Länder. Meanwhile, under the influence of their US and UK shareholders, French companies have allowed themselves to go adrift, even offshoring their research facilities.

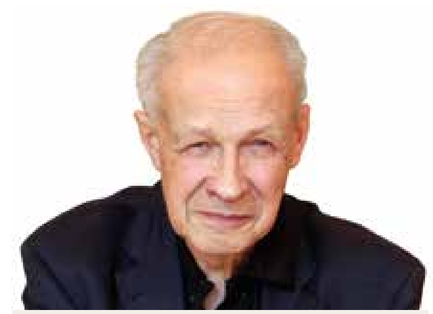
"THE SELF-SUSTAINING DYNAMIC OF INDUSTRIAL GROWTH IMPLIES AN ORGANISED BALANCE OF POWER BETWEEN PUBLIC AUTHORITIES AND PRIVATE ACTORS. IT ALSO REQUIRES POLICIES DEDICATED TO INNOVATION SYSTEMS."

The Mittelstand is a sort of self-perpetuating ecosystem that creates a virtuous circle underpinning its ability to weather a storm and stand the test of time. At its core is a continuous improvement in the quality of intangible assets. It enables ongoing innovation by increments, something French commentators like to call *la perfection du banal* ("improving on the ordinary" or "building on the banal"). As a result, it is not a system that makes sudden forays into areas of radical innovation. Instead, the industry-wide incremental approach provides a source of invaluable competitive advantages that can ensure solid market share and secure healthy margins. Sound trading accounts allow Mittelstand firms to use cash as their primary source of investment, enabling businesses to remain for the most part family run. This leaves supervisory boards free to pursue an independent strategy in the long term, meaning they can maintain their razor-thin focus in the quest for incremental innovation and market share.

There are three lessons to be learned from the German experience. First, innovation is usually incremental once you have a solid industrial base. Second, niche domestic markets can lead to highly profitable exports into global markets. Third, it is possible to safeguard a wide array of business activities against competition from emerging countries through a policy of innovation that builds on strengths.

Social innovation is the predominant factor in improving competitiveness, involving government initiatives to retrain workers, with close ties between businesses and schools to promote apprenticeships. Two other points of note, lacking in Germany but prevalent in Scandinavia, include equal career opportunities for men and women, and government aid to provide child care for preschoolers.

The self-sustaining dynamic of industrial growth implies an organised balance of power between public authorities and private stakeholders. It also requires policies dedicated to innovation systems. Industrial strategy must be an integral part of local policy. In France, it falls to the regions to promote a new mindset. They must select companies capable of developing regional competitive advantages, identify promising sectors of industry and pursue pilot initiatives backed by public-private funding. To encourage small and midsize businesses to innovate and export, it might help to introduce a specific status for innovative SMEs with access to attractive financing solutions while ensuring more effective support for SMEs abroad. Lastly, repatriating industry and fostering incremental innovation requires using sustainable development as part of a strategy on both a European and national scale.



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ABOUT

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ANDREAS GÖRGEN

“Energy: Europe is the best equipped to act”

Andreas Görgen, President South West Europe with Siemens Energy, readily acknowledges that the process of defining a common energy policy often divides the 28 member states. He urges them to join with industry to better manage and organise a market that transcends national boundaries and has to compete on a global level.

by Jacques Docquiert

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INTERVIEW

Jacques Docquiert: What are the major energy challenges Europe faces?
Andreas Görgen: Like all countries, Europe must first provide the energy it needs at an affordable price. It must then ensure security of supply. Finally, it must control its CO_2 emissions to limit their negative impact on the environment. Europe is in a unique situation when it comes to energy: some member states generate more than they need and, due to the links between them and the elimination of borders, energy strategy must be planned for the European market as a whole.

J.D.: But there are major disagreements between member states on nuclear energy and shale gas. Can Europe speak with one voice on these issues?
A.G.: I don't think that Europe speaks with one voice when it comes to defining these aspects of energy policy. On the other hand, in the 1950s, the European Coal and Steel Community, which was the foundation for the construction of Europe, had a policy of pooling 80% of its electricity generation. We need to revive this common will and commitment, especially on divisive issues. It won't be easy, but it is the only way forward. Germany and France, for example, have completely different strategies for nuclear power. But Germany has not yet resolved the matter of how it's going to manage the transition to renewable energy and in the meantime it could buy nuclear power from France to provide temporary support.

J.D.: So a European energy policy could eventually see the light of day?
A.G.: Energy production and supply remains a precarious business in Europe and the market needs to be better managed and organised. But the market alone is not the answer to everything because energy is not like other commodities. It is essential to industry and therefore our societies and the survival of us all. It also comprises a research and development component that cannot be regulated by the market. The price and supply of electricity represent a societal challenge and I think the EU is the best equipped to address all these issues within its borders.

“WE NEED TO REKINDLE THE SPIRIT OF THE ECSC AND EURATOM IN EUROPE, IN ORDER TO **POOL R&D AND FINANCIAL RESOURCES AND DRIVE THE ENERGY ISSUE FORWARD.”**

J.D.: What can companies like Siemens Energy do to help meet this challenge?
A.G.: Companies like Siemens act on three levels. First, locally: in France, for example, we employ 7,000 people. Then at European level, since we provide tens of thousands of jobs in the EU. Finally, we must also be competitive on a global scale. We need to develop products tailored to European demand but which compete on an international level. This gives our companies valuable expertise to help define EU policy. The Commission consults us, as do the rotating presidencies and other institutions. But Europe does not only revolve around Brussels… nations such as France and Germany also play an important role. It is not our job to make decisions, at whatever level, but our expertise can help guide the decision-making process. For example, governments are currently considering a reform of the onshore wind power market and we can provide advice either directly or through our associations, while leaving them with the final say.

J.D.: Is energy strategy a political issue? Do you see differences between governments?
A.G.: When you give flour to a baker, he sees it as raw material to make bread. If you give it to a child, he's going to do something else with it. When a politician tackles the energy issue at national level, he will make it a national issue informed by his political choices. When a European body takes hold of it, it will see the European issues. And it's the same thing for industry. So I think we need to strengthen the dialogue between all those working on energy policy to find better solutions, which are not only achieved at national level. For the Coal and Steel Community, the pooling of production resources was a way of ironing out the differences. After the ECSC, there was Euratom, which pooled R&D and financial resources to develop a technology that was considered very expensive and hazardous. Ultimately, we need to rekindle this spirit in Europe and use it to drive the energy issue forward. We have just completed a study with the University of Munich which shows that by supporting renewable energy where it is most productive – in other words, solar power in sunniest

regions and wind power in the windiest – we can reduce costs by €30 billion between now and 2030. But that implies an agreement between member states on how to pay for renewable energy that takes into account the specific situation of each nation.

J.D.: How does energy conservation fit into the equation?
A.G.: It's fundamental. The best energy resource is that which is not consumed. In building renovation, there is still a considerable amount of work to be done at national and European level. And there is an even more pressing need to act because this sector offers huge potential for job creation.

J.D.: Must Europe set standards for achieving sustainable development? How do we factor in the constraints experienced by companies in the face of global competition?
A.G.: Our responsibility as an industry is to develop products that provide the best possible solutions to the climate change challenges of the 21st century, in other words, those which produce less greenhouse gases and make the best use of green energy such as wind power. We must also make competitive, flagship products that we can export, and encourage other countries to follow our lead. Moreover, we need to lay down restrictive regulations that set an example for our international partners – this is the role of the EU and national governments. To quote one example: for ten years, it was believed that the buy-back scheme was the best model for developing renewable energies. This was true when these forms of energy first came along. Now they account for 15-16% of the market and this model is no longer suitable; we need to change the rules and come up with a new model that can be applied worldwide.

J.D.: Consumers are very interested in the development of the electric car. What progress has been made?

“THE MARKET ALONE IS NOT THE ANSWER TO EVERYTHING BECAUSE **ENERGY IS NOT LIKE OTHER COMMODITIES.”**

A.G.: Siemens is working on electrical components in partnership with Volvo, as well as on batteries and storage. The fundamental question is whether the electricity consumed by an electric car produces less CO_2 or if a hybrid engine is a better solution. We'll know in a few years but the jury is still out.

J.D.: How can we foster synergies between businesses and universities? What other partners could become involved?
A.G.: Siemens is conducting research and development programmes with universities around the world and of course we support numerous research programmes in Europe. This gives us a better understanding of the various stakeholders in the European Union. At local level, a company must have partnerships in all countries where it operates, because a company like Siemens does more than just sell things, it makes and exports them, employs people and supports innovation.
J.D.: It is often said that Europe's academic institutions produce outstanding research scientists who then move elsewhere in search of better working conditions.
A.G.: I often see this with my younger colleagues – it's the “Erasmus generation”. They have always lived, studied and partied in a Europe without borders. They start working for a company and then find that employment laws, pension systems, and everything else is different from one member state to another and that it's often more difficult to build a career within the European Union, moving say 500 or 1,000 kilometres, than it is to go to Asia or the United States. When you're young, you want to be in step with the world and not feel boxed in. In Europe, there is still much work to be done in this respect, particularly with regard to immigration and improving the education system, which should enable all young people to find employment. A socially-responsible Europe can only be beneficial to European industry. In another area, the development of an EU patent is, for example, a very positive step but it has taken more than ten years to achieve...

J.D.: Is the constant innovation observed in the energy sector compatible with European harmonisation?
A.G.: The EU must understand that the world has changed. In the 80s and 90s, the push for consumer protection was justified and had a decisive influence on the development of competition policy, which prohibited anti-competitive agreements and established strict control of corporate mergers. But now that European industry has to face global competition, it's time to look at things differently. To maintain an industrial base in Europe, we have to give European industry the means to better cooperate and organise itself. In the energy sector, a number of mergers have been stopped, which weakens the competitiveness of our companies. It was Jacques Delors who said that competition stimulates and cooperation is essential.

J.D.: Perhaps the single market, created during a period of growth, did not adequately address certain social constraints?
A.G.: Who are we to criticise Jacques Delors? We could do with more men like him. Moreover, he proposed creating a “Social Europe” that has never seen the light of day.

J.D.: Returning to energy, which domains should remain national and which should be under EU authority?
A.G.: Building a united Europe with 28 different nations is not easy. It wouldn't make sense, for example, for Lithuania to impose its energy mix on France. But at the same time, it didn't make sense for Angela Merkel to phase out nuclear power without even picking up the phone to warn her partners. The answer will not be found in Brussels; the EU must not try to overrule the member states in this area. The solution lies between the two. As for the energy mix issue, though it would take longer, someday the national governments will need to talk about it and work together because it cannot remain a purely national policy area, at times pitting countries against their neighbours. The core duo of France and Germany and their partners will need to ramp up discussions.

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ABOUT

*Born in 1967, **Andreas Görgen** holds a PhD in Law and is a graduate of the Ecole Nationale d'Administration (ENA). An ombudsman, he has taught at ESSEC and ENSAM. He is now President South West Europe with Siemens Energy.*

BUSINESS AS USUAL

for Europe's luxury goods sector

While much of the European industry is in difficulty, its luxury goods sector is growing rapidly, fuelled by growth in the world's emerging economies. However, governments and the EU need to take action against the counterfeiters to safeguard the jobs of those working in a key industry.

by Diego Della Valle

It may sound counterintuitive, but at a time of economic crisis, Europe's luxury goods sector has never been so successful. One explanation is that the luxury sector is, by definition, directed at people with real purchasing power and therefore people who are suffering less in the current crisis. However, the underlying reason is the major phenomenon we have witnessed over the past ten years of the rise of economies in Asia, the Middle East and parts of South America. These countries are bringing in many new customers who are passionate about luxury goods. In particular, the rise of the BRIC economies – Brazil, Russia, India and China – means that the number of people with the ability to buy quality products is constantly increasing.

At the same time, a country like Italy is well-placed to take advantage of these growth markets. Creating luxurious objects is a tradition that is steeped in Italian culture, a world where the beautiful arts are important and where there is a history of workmanship going back centuries. There is also the fact that Italy has excellent craftsmen – the sort that other countries have either lost or never had in the first place. Put that demand and supply picture together, and it is not surprising that the opportunities are growing. We are indeed fortunate to be in one of the few sectors in the Italy economy that is not suffering from the current crisis. The important thing for us to bear in mind as manufacturers is that we must never lose sight of the soul of our products and always remember that 'Made in Italy' is something very important.

THE THREAT OF THE COUNTERFEITERS

As an industry, Europe's luxury goods sector stands squarely on its own two feet, and has no need of direct support from governments or the EU. However, what would clearly help the sector - and safeguard the jobs it provides - would be for Europe's institutions to take firm action against the traffic in counterfeit luxury goods. This is not just about defending an industry from unlawful competition; it is also about protecting the children who are being used to produce these illegal copies in many countries around the world. I believe there is a pressing need for a legislature to protect the exclusivity of the great brands from a world of business that simply does not abide by the rules and causes a great deal of damage and suffering. It is a major business problem because the world of fake goods is not just harming the brands; it is also endangering the jobs of more than a million people who work in this sector in Europe. Along with the measures that need to be taken at a EU level, national governments also need to act on this. There is a battle to be fought here, and I believe it needs to be fought soon.

Clearly, the sector is not against the idea of competition per se. That said, I do not see any real competition for Europe in an industry such as ours. Global competition certainly exists in the world of generic consumer products and industrial goods where production is being transferred to emerging economies with lower labour costs. In the luxury market this does not happen. By and large, our problems start and finish with the counterfeiters. Aside from them, the prospects are looking positive. For companies with a good reputation and who are creating products of great quality, I see the future as being bright, and getting brighter. And that can only be good news for Italy and France, who have the leadership positions in this market.

"WHAT WOULD CLEARLY HELP THE SECTOR WOULD BE FOR EUROPE'S INSTITUTIONS TO **TAKE FIRM ACTION AGAINST THE TRAFFIC IN COUNTERFEIT LUXURY GOODS."**

A POLITICAL CHALLENGE

In business, progress is clearly our priority. But I would have to add that economic progress is also about politics. And as we look to move forward in Europe, I think it is important that we do not forget the weaker countries and that we make plans which are not egotistical in nature and concerned only with the state of one's own house. Instead, I believe we need to show solidarity – albeit with a sense of vigilance – with those countries with more problems than others. Otherwise, there would not be a lot of point in having a European Union, and perhaps a lot of countries would lack the energy needed to keep it together. People need to realise that countries that have perhaps made mistakes in the past, and are now in difficulty, need a plan that will enable them to pull themselves out of those difficulties. They cannot be just ignored and left in a corner. Otherwise, the risk is that at some point, those countries will explode.

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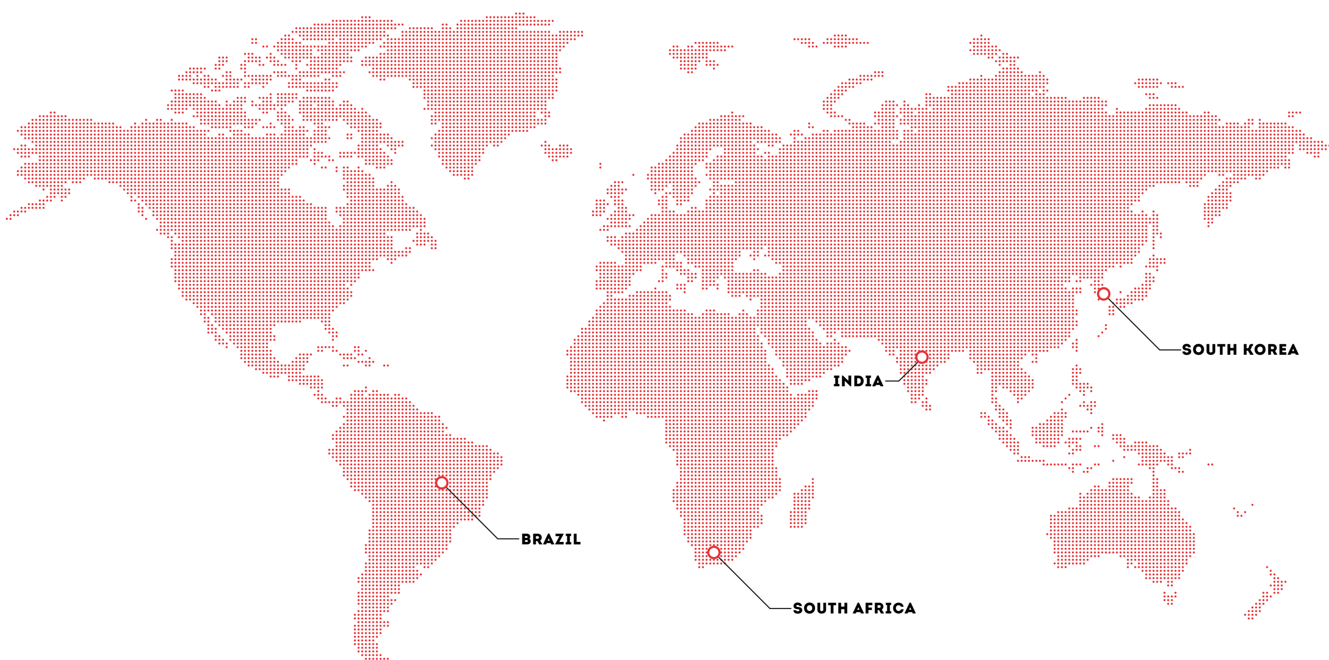
ABOUT

*Born in 1953, **Diego Della Valle** is the president and CEO of Tod's Group, a family shoemaking business founded by his grandfather Filippo in the early 1900s and transformed since the 1970s into a series of global brands: Tod's, Hogan, Fay, and Roger Vivier. A keen football fan, he and his brother Andrea own Italian top-flight club, Fiorentina.."*

THE DEVELOPMENTAL STATE IN THE 21ST CENTURY

Queries *asked five international development economists to answer the same question: "What institutional and economic structure can best support industrialisation, innovation and growth?"*

by Fernando Sarti, Ana Rosa Ribeiro de Mendonça, Seeraj Mohamed, Dae-oup Chang & Jyoti Saraswati



NEW GROWTH PATTERNS

and challenges for development

The international financial crisis, which started in 2008 and is still ongoing, has strengthened the role played by the emerging countries in the international economy.

In the last decades, the economic growth of emerging countries has been strongly dependent on external markets, mainly on exports to advanced countries. The increasing participation in the international trade flows was supported by a massive influx of financial and investment flows, which promoted a subordinated insertion of these countries in the global value and production chains, but also a low capacity of innovation. In the 2000s, a major change occurred in the pattern of these countries' growth. External was replaced by domestic demand as the economic growth driver. In just a few cases, such as China, demand growth was led by investment in infrastructure and urbanization, and in others, such as Brazil, by household consumption. This movement accelerated and sustained emerging countries' economic growth rates and allowed them to be in charge of the global output and income expansion in the post-crisis world.

In Brazil, this growth pattern shift was marked by a rough patch. In the 1990s, the liberalization process and the resulting misguided productive, commercial and financial insertion in international economy promoted a sharp slowdown in the economic growth, with negative impacts on industrial and technological development. In the 2000s, the brief economic rebound, initially supported by the agricultural and mineral commodities exports boom and lately by the expansion of household consumption, lost strength and exhausted. As a result, in the last three decades, Brazilian industry has performed poorly in developing productive capacity and innovative strategies.

The reversal of this picture and the resumption of industrial development should rely on the adoption of articulated strategies, to be coordinated and supported by the combination of policymakers' actions and the Brazilian institutionality, mainly the public financing system. It is important to highlight that this public financing system has played a special and broad role in the last decade, financing industrial and infrastructure investment, a large social housing project, enlarging bank access to the poorest, being a fundamental element in the anticyclical policies to face the effects of international crises. It has been contributing to the emergence of a new developmental state in Brazil. The Brazilian development bank (BNDES) is responsible for nearly 70% of the long-term credit and 40% of the total external funding for industrial and infrastructure investment.

The strategies to revert the picture of a poorly developed productive industry and the resumption of industrial development should rely on the stimulation of domestic demand through the expansion of investment, and BNDES should be an important instrument for this effort. BNDES estimates investments of $1.9 trillion for the years 2014-2017. These investments would lead the rate of gross capital formation the current 19% to 22.2% of GDP in 2018, accelerating the rate of economic growth.

Financing is one of the main challenges to guarantee these investments. The public financing system should be reinforced. This is not an easy task, as the system, especially BNDES, is constantly jeopardized by private financial sector interests, which never played a relevant role in long-term financing.

It is essential to ensure that the demand generated by these investments is mainly directed toward industrial domestic production and not imports, in order to make the supply chains denser, to increase cross-industry demand and to to accelerate industrial investment. This virtuous cycle of growth will promote and also benefit from better production and technological capabilities.

***Fernando Sarti** and **Ana Rosa Ribeiro de Mendonça** are respectively Dean and Assistant Professor at the Institute of Economics – University of Campinas.*

GOVERNMENT

and the developmental state

There are contradictory demands about the developmental state in the pursuit of industrial development, innovation and growth. The state that promotes economic development is one that pursues structural change. Not only does it have to work with what it has already achieved to do so, but it must also be able to work against these achievements.

In our discussion about the state, we must be careful when thinking of it as a homogeneous entity. In fact, it is probably better to think of it as multiple organisms. Unfortunately, this association of an undefined number of organisms does not by its nature have a clearly defined identity. They do not automatically share the same goals, values or ideology. The same can be said about the ruling party, the government, government departments, and even the cabinet of ministers charged with providing leadership to the government and the state.

The financialisation of the South African economy and its negative impact on industrial development provides an example of the conflicting views and interests within government. The economic growth rate climbed to over 5 percent per annum during the 4 years preceding the 2008 global economic meltdown. My view is that much of the growth was linked to financialisation. Surges in short-term financial flows into financial markets sharply increased debt-driven consumption and speculation in real estate and financial markets. Non-financial corporations used financial activities and speculation to increase profitability to meet the expectations of the shareholder value movement for ever higher returns. During this period the financial assets of NFCs in South Africa grew to 250 percent of fixed assets. This growth increased debt and deindustrialisation.

The National Treasury (NT) was exultant about the growth rates. They claimed that the growth was due to the success of their macroeconomic policies and they praised the growth of financial businesses in the economy. They want to support further financial sector growth. The government Departments of Trade and Industry and Economic Development raised concerns about financialisation, uncontrolled capital flows and volatile exchange rates. They argue that these factors are negative for industrial investment and employment.

It seems that it would be a really hard task to align the government around the tasks of industrialisation, innovation and growth. This task would necessitate that the government provide the adequate leadership, institutions and policies to build a developmental state. Furthermore, that government would have to manage multiple interest groups and the demands of different powerful and well-organised constituencies within its society. It would be difficult but we can draw lessons from a number of different states at different times in history. We can study the development of the now developed countries, the reconstruction projects of the developed countries after the Great Depression and World War II, and the late developers.

Alice Amsden drew attention to the need for "reciprocal control mechanisms" where the state set performance requirements and supported only businesses that achieved them. The developmental state also has to regulate finance and limit the disruptive influences of cross-border capital flows. It has to assert influence over the allocation of capital to support its industrialisation policies, reward innovative businesses that attain development goals and to constrain speculation on asset markets.

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THE STATE THAT PURSUES DEMOCRATIC DEVELOPMENT

Too good to be true?

When state-led development suffered from both a severe recession and attacks by neoliberals in the 1970s, development studies academics looked to the East...

The academics realised that Japan and newly industrialising countries like South Korea and Taiwan had effective states promoting rapid industrialisation, repaying debts, alleviating poverty, and educating their population. The Japanese economy achieved an annual average growth of 10% in the 1960s. South Korea and Taiwan both showed a remarkable average annual GDP growth rate of 9.2% and 9.5% respectively between 1961 and 1980. These economies successfully transformed from agrarian to industrial society by the 1980s through export-oriented industrialisation, which seemed to be led and coordinated not by private actors but by highly effective states – these are the so-called East Asian developmental states. These states seemed to have roles far beyond that of perfecting the market. The developmental state has been presented as an alternative development model by many economists since then and it is becoming more so since the emergence of the current recession. However, this idealised model of development severely misrepresents East Asian development by ignoring many of its own contradictions. Externally, the model underestimates the contradictory world-historical context of the actually existing developmental states. In fact, all successful developmental states in the 20th century were semi-sovereign states. Contrary to the image of the developmental state being a defender of dubious national interests as a closed unit of national development, they surrendered half of their sovereignty to the United States and became an integral part of the US-led Cold War development, in order to secure aid, resources and market access. Worse still, these states kept the other half of their sovereignty for the authoritarian state apparatus and used the force to squeeze their working population, while their products were consumed by the fordist workers in the United States and Europe. This model therefore does not have a roadmap to enhance people's democratic control over economy, in addition to only emphasising effective industrialisation and fast economic growth at all costs. The ordinary working population is not given any active role in this development model. It simply needs to work hard until the gains of the economic development trickle back down to it. In order to consider East Asian development as a model alternative to neoliberalism, the experience of people under these states needs to be critically evaluated. The question should be geared toward institutional and economic structures that enhance the general wealth of people without undermining democratic participation of the general population rather than effectiveness and capacity of the state itself. Perhaps a real alternative would be a democratic state that guarantees the maximal participation of its citizens in choosing developmental goals, and cultivates social infrastructure through which people can come up with innovative ideas for the wellbeing of the general population.

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THE INDIAN DEVELOPMENTAL STATE

What went right?

The developmental state is closely associated with regimes and societies unique to East Asia. For most developing countries, India's experience of industrial policy is far more illuminating.

Is India a developmental state? To the pioneers of the concept, it most certainly isn't. Indeed, the alleged failures of the Indian state's interventions vis-à-vis its East Asian counterparts provided the central tenet of the developmental state – the need for an autonomous state to devise and implement effective industrial policy. But to those more familiar with the Indian economy, the case can be made that not only was (and is) the Indian state developmental, but that its experience is more pertinent to other developing countries than that of East Asia. Of course, the Indian state did not engender the degree of industrial development that the Korean state did. But the reasons for this lie more in the wider politics of the country, in particular the ability of vested interests to successfully resist land reform and the economic and social benefits that spring from it. The widely held belief that Indian industrial policy was a failure and Korea's a success is both simplistic and misleading. Each state succeeded spectacularly in certain sectors and failed disastrously in others. More typically for both states, interventions within the same sectors would oscillate between success and failure. Thus, despite widespread inefficiencies across state-supported sectors by the time of the 1991 liberalisation, the Indian state had also helped to establish a wide-ranging industrial base in the country with strengths in several key industries, including pharmaceuticals, software and automobiles. Moreover, despite the reforms the state has continued to intervene in the economy, albeit often in new and innovative ways. In the automobile industry it has helped to enhance the position of local firms within transnational production networks. And in the software industry, it has worked closely with the leading firms to ensure India retains its position as the world's preeminent international outsourcing hub. What does all this mean for our understanding of the developmental state in the 21st century? First, that a democracy is not incompatible with successful industrial policy. Second, interventions can be as effective in emerging knowledge-intensive industries as in mature, labour-exploitative ones. Third, that policy space still exists for states to implement a pro-active industrial policy. Fourth, and most importantly, in raising the living standards of the majority of the population, effective industrial policy is no substitute for wider political and social reform.

"THE WIDELY HELD BELIEF THAT INDIAN INDUSTRIAL POLICY WAS A FAILURE AND KOREA'S A SUCCESS IS **BOTH SIMPLISTIC AND MISLEADING.**"

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BEYOND THE COMMODITY TRAP

The IT transformation of production

For the advanced industrial democracies to expand the real income of the citizens and sustain growth in employment and productivity, their economies will have to escape from the Commodity Trap.

The Commodity Trap is the price-based competition throughout markets for standard goods and services, which puts pressure on wages and profit margins alike. It was created by the widespread availability of conventional technologies and the decomposition of production. The result was an array of points of competition and diverse competitive entrants throughout the supply networks.

Clearly, the way out of this trap is to create distinctive high value added products – both goods and services. The emerging transformation of the production of goods and services is dramatically altering what is produced, where, how, and who captures the value. The crucial policy question is how to nudge that transformation in the advanced countries toward higher value added, higher skilled, higher wage solutions.

Let us begin with the production of services. Transforming services through rule-based information technology has become a source of economic dynamism. Services are no longer an economic sinkhole, immune to significant technological or organizationally driven productivity increases. Like manufacturing, IT enabled services rest on capital-intensive infrastructure. Google server farms establish the capacity to respond almost instantly to a demand, but those farms require investments of billions of dollars.

The service transformation is economy wide, not limited to traditional information rich sectors such as finance, insurance, and entertainment. There are highly automated information rich service offerings such as Google search, Skype, or Netflix. Hybrid offerings – systems integrating people and machines – embed IT enabled services in agricultural equipment and cranes changing the way we farm and run ports, for example. Even fundamentally human service offerings from restaurants to building maintenance are potentially altered. From app-based restaurant reservation systems to the IT-intensive management systems that create a global building maintenance business for ISS in Denmark and Johnson Controls in the US.

IT has equally revolutionized manufacturing, with computer-aided design (CAD), virtual prototyping, novel materials, new production processes including 3D printing. It has even allowed innovation in large-scale data analytics or sophisticated scheduling and supply chain management. These innovations taken together reopen the question of how manufacturers will address their markets and organize production.

IT enabled transformation of services and manufacturing will be accelerated by the emergence of cloud computing as the next information technology platform. We must distinguish between Cloud Operations, a new version of distance computing, and Cloud Architecture, a basic way of organizing IT activities. Cloud will make computation intensive applications – from CAD and manufacturing processes to big data analytics – more accessible than ever.

Escaping the commodity trap will require a productivity agenda, a strategy to push toward high value high wage production. The IT enabled transformation of services and the revolution in manufacturing means that productive innovative solutions can be found throughout the value networks, at all the phases of production – from product conception and design through actual manufacture. Indeed new business models will be as important as the technology development itself. A policy agenda must emphasize technology diffusion to assure those tools are available and that firms and entrepreneurs understand their potential. The institutional starting points for such diffusion mechanisms will be varied, and there are policy analogies in agriculture – the American Agricultural Extension service – and in machine tools, the Japanese machine tool centers. Not everywhere needs to look like Silicon Valley, and developing new IT tools is just the beginning. Effectively deploying the new tools throughout the economy is the crucial task.

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HOW TO SUPPORT INNOVATION *in European SMEs?*

Small and Medium-Sized Enterprises (SMEs) are the backbone of the European economy and the main vector for its recovery. Or so say most Members most of the Members of the European Parliament. Although measures for stimulating the development of enterprises – be it the reduction of red tape or a better access to financing – are a prerogative of the member states, the EU institutions have lately made their moves towards contributing to the coordination of such measures across the Union.

◇◇

by VoteWatch Europe

While the provisions regarding the activity of the SMEs have been rather cross-cutting the EU legislation, the MEPs have – in the current European Parliament term (which coincided with the outbreak of the economic crisis) – aimed to mainstream the approach to SMEs through own-initiative reports.

SMES VS. MICRO-ENTERPRISES

For example, the report titled ***"SMEs: competitiveness and business opportunities"*** is the EP's reaction to two Commission communications, one on the internationalisation of SMEs and the other on European competitiveness. The report states "the EU should invest in programmes whose aim should be to address the entrepreneurial potential of European citizens as a real alternative to employment, in particular among young people, women and migrants. [...] The natural consequence will be the creation of new jobs, more innovation, and higher economic growth of all enterprises, whether industry, services or socially oriented."

This report called for a reduction in bureaucracy and more incentives for entrepreneurial initiatives. A central point of the report is the 'mapping' and integration of all existing funding instruments for SMEs from the European, national and local levels. It reached the plenary stage in September 2012, where the complete text was approved by a comfortable majority (though not by a roll call vote). However, divergence among the positions of the political groups surfaced when it came to whether micro-enterprises should be excluded by default from any proposed legislation that targets SMEs ***(Paragraph 51/3).*** Indeed, the S&D, GUE/NGL and ECR groups voted for the exemption of the micro-enterprises, thus in favour of allowing more freedom for special legislation and measures to support this type of very small businesses.

SMEs: competitiveness and business opportunities – Motion for a resolution: Paragraph 51/3

For	Against	Abstentions
393	247	10

PROTECTING MICRO-ENTERPRISES

The fourth part of the same paragraph ***(Paragraph 51/4),*** on the other hand, aimed at maintaining the high standards with regard to health, safety at work, EU workers' rights and environmental legislation, was supported by an overwhelming majority, with only the European Conservatives and Reformist group opposing.

SMEs: competitiveness and business opportunities – Motion for a resolution: Paragraph 51/4

For	Against	Abstentions
569	60	3

EASIER ACCESS TO CREDIT

A second own-initiative report, this time from the Committee on International Trade titled ***"Financing EU SMEs' trade and investment: facilitated access to credit in support of internationalisation"*** reached the plenary stage in November 2012. This report represents the EP's reaction to the 2011 communication by the Commission called "Small Business, Big World - a partnership to help SMEs seize global opportunities" and puts forward a wish list for making EU SMEs more competitive on the global market, primarily by enhancing access to information regarding opportunities, and increasing access to capital for import/export operations. The report was received with wide support among MEPs, the reservations coming only from some of the groups the left, GUE/NGL (who opposed) and the Greens/EFA (who abstained). Their reservations were mainly related to their general concerns that further opening of international trade may damage the workers' interests, primarily in the developing countries.

Financing SME trade and investment – Motion for a resolution: single vote

For	Against	Abstentions
577	38	55

NEW TAXATION SYSTEM

Previously, in July 2011, the EP had voted a report called ***"Financial, economic and social crisis: measures and initiatives to be taken."*** Amongst other things, the report encouraged the Commission, in paragraph 73, to carry on measures to tackle harmful tax competition, but also to aim at a "specific and simplified taxation system for SMEs." The paragraph received wide support, with only the ECR and GUE/NGL groups opposing it. In the case of the ECR, it looks like their opposition to the introduction of a common consolidated corporate tax base (and the involvement of the European Commission in taxation matters in general) outweighs their likely support for simplified taxation systems for SMEs.

Probably the same reason lies behind the separate opinion (from the rest of S&D group) of the British Labour delegation (who opposed), and the Danish and Swedish Socialist delegations (who abstained).

Financial, economic and social crisis: measures and initiatives to be taken – Motion for a resolution: Paragraph 73

For	Against	Abstentions
530	111	26

All in all, in the 7th EP term there has been consensus among the MEPs that SMEs need to be stimulated by special measures and that the EU should ensure the coordination and harmonization of these measures across the member s tates. The analysis of the (relatively scarce) voting data on this topic seems to show that the slowdown of the economic growth has lead to an almost consensual approach among the political families at the centre-left and centre-right of the spectrum that economic recovery is highly dependent on the capacity of the SMEs to become competitive. For this reason, both sides support the so-called 'SMEs test', an assessment of the potential impact of new legislation on small and medium businesses.

Moreover, relative consensus seems to have been achieved on the necessity and urgency of active measures such as reducing red tape, improving access to financing and stimulating of innovation in production processes. The reservations come only from the groups that believe that the EU should not get involved in promoting and coordinating such measures. On the other hand, between the centre-left and centre-right there are still some divergences over the differentiations between the regimes of micro-enterprises and SMEs, with the centre-left being relatively more in favour of such differentiation as a way to better protect very small businesses.

In cooperation with

VoteWatch Europe

VoteWatch Europe is an independent organisation set up to promote better debates and greater transparency in EU decision-making, by providing easy access to, and analysis of, the votes and other activities of the European Parliament (EP) and the EU Council of Ministers (Council).

[+] INFO: www.votewatch.eu

INSPI-RA-TION

PERSONAL DATA
in a digital society

The espionage programmes of the US and the UK have met with harsh criticism in Europe. The US is chasing whistleblower Edward Snowden, who uncovered operations for spying on European citizens and institutions. How much surveillance can a constitutional state take?

In cooperation with

euro|topics

Diversity and uniformity are just as evident in Europe's headlines as they are in Europe itself. The **euro|topics** press review shows you which topics are moving Europeans and reflects the great variety of opinions, ideas and emotions on those issues. Whether the topic is politics, the economy, society or culture, **euro|topics** takes a daily look at the European press and cites the most important voices. Because the question that interests us is: What does Europe think?

[+] INFO: www.eurotopics.net

09.06.2013

Surveillance in West as bad as in China

According to The Washington Post and The Guardian, Internet companies have been giving the US National Security Agency access to user data since 2007. The left-liberal Sunday paper The Observer finds this worrying and sees parallels with China, whose President Xi Jinping visited the US on the weekend: "So this series of revelations should be welcomed for the light it casts on the ways the west has changed and on the nature of the secret powers that were exercised by democratic governments. If there are stories to tell about the value of the intelligence, the lives saved, let's hear them, but the fact is that executive powers are apparently no more hindered in the UK and US, in this regard, than they are in China. ... It is striking how the west and China are moving incrementally towards each other, especially in the practice of mass surveillance. But unlike the Chinese, for the moment at least, we have the option to oppose what's happening."

[+] INFO: www.theguardian.com

10.06.2013

Washington undermines the rule of law

The surveillance scandal in the US will come back to haunt President Barack Obama because it has no legal basis, the left-liberal daily De Volkskrant predicts: "In principle nothing can be said against surveillance of the Internet - as long as it's done in accordance with transparent rules so that everyone knows what's allowed and what isn't. As long as abuse can be punished, and as long as its scope is limited and it takes place in the context of targeted investigations. And precisely that is the biggest problem with Prism: its lack of clarity. The US didn't ask anyone to approve its operations. And in addition, it seems that that it acquired access to the private data of millions of citizens who weren't even suspected of terrorism. For this reason Obama will rightly face problems. He has a lot to explain. Because states that use investigation methods secretly and indiscriminately contribute to the very thing they are trying to fight: the undermining of the rule of law."

[+] INFO: www.volkskrant.nl

10.06.2013

FEAR OF THE US BIG BROTHER

With their Prism programme the US's National Security Agency has far overstepped the boundaries of the permissible, penetrating the private sphere of citizens all over the world, the left-liberal daily El Periódico de Catalunya complains: "Not only does the Big Brother announced by George Orwell actually exist, in this age of information he has a series of increasingly sophisticated instruments at his disposition. And he enjoys the political support of a democratic system. ... The companies to whose servers the espionage agency has access are called Google, Facebook, Yahoo, Apple and Microsoft. All of them are American and present in every corner of the Earth. The mass surveillance programmes are an inadmissible violation of the private sphere, even if the US Congress has given them its approval and they are monitored by a special court [the United States Foreign Intelligence Surveillance Court]."

[+] INFO: www.elperiodico.com

11.06.2013

FIGHT AGAINST US STASI NOT LOST YET

The US runs the risk of become a surveillance state along the lines of the former East Germany, writes Daniel Ellsberg, the whistleblower who made public the pentagon Papers a good 40 years ago, in the left-liberal daily Information. But the exposure of the Internet surveillance programme Prism is cause for hope, Ellsberg writes: "The NSA, FBI and CIA have, with the new digital technology, surveillance powers over our own citizens that the Stasi - the secret police in the former "democratic republic" of East Germany - could scarcely have dreamed of. Snowden reveals that the so-called intelligence community has become the United Stasi of America. ... But with Edward Snowden having put his life on the line to get this information out, quite possibly inspiring others with similar knowledge, conscience and patriotism to show comparable civil courage. ... I see the unexpected possibility of a way up and out of the abyss. ... Snowden did what he did because he recognised the NSA's surveillance programs for what they are: dangerous, unconstitutional activity."

[+] INFO: www.information.dk

24.06.2013

PUTIN'S YEARNING FOR THE TIMES OF THE KGB

Vladimir Putin obviously dreams of a return to the golden age of espionage, the left-liberal daily La Repubblica writes mockingly about Moscow's help for ex-intelligence agent Snowden: "The rough yet romantic times of the spies who came in from the cold seemed gone forever. But now they have returned in a shiny new Internet version. Because Vladimir Putin, the ever less democratic Russian tsar, wants to turn back the clock. ... Although it's not easy to return to the glorious Soviet times, Putin is doing all he can to make sure the mission is a success. ... The unyielding, stony-faced Putin who presented himself at the G8 summit certainly bore a greater resemblance to the man who came in from the cold of Dresden than the cold of Moscow, which has left the ice age behind it."

[+] INFO: www.repubblica.it

01.07.2013

Defenceless in the digital world

The revelations about US spying activities in Europe expose above all the EU's weaknesses in the digital world, the liberal daily Libération comments: "The spying on the embassies of European allies and EU institutions is a graphic illustration of the weakness of the Old Continent. Already unable toimpose taxes on the US Internet giants that operate on its territory and open their servers to their country's intelligence services, how could it possibly create, apply and defend a digital habeas corpus? Or introduce its own laws on the protection of personal data and the relocation of servers? To borrow Pierre Bellanger's phrase, Europe seems to forbid itself from even thinking in terms of 'digital sovereignty', although such sovereignty now makes up an essential part of state power and has established itself as one of the most important moral, political, economic and international topics of our era."

[+] INFO: www.liberation.fr

08.07.2013

EU won't put free trade zone at risk

Representatives of the EU and US will resume talks about a joint free trade zone today. Accusations about the US intelligence service's data espionage won't stand in the way of the negotiations after all, the left-liberal daily Delo writes: "Europe has been rocked by the NSA scandal and the spying on Europeans' personal data and EU institutions. Watched by their home audiences, European heads of government are vehemently calling for the matter to be cleared up during the talks. Even though one can barely imagine negotiations when one party knows that the other party has spied on it to an inconceivable extent, the EU doesn't want to take any chances. The free trade agreement is too big a project to be jeopardised by complaints about a digital attack on Europeans' personal data. After all, it's seen as an excellent opportunity to give the EU's ailing economy a much needed boost."

[+] INFO: www.delo.si

16.07.2013

Merkel turning Germans into US subjects Spiegel

In the debate about the US spy programme on the weekend SPD chancellor candidate Peer Steinbrück accused Chancellor Merkel of having violated her oath of office. The columnist of the news portal Spiegel online, Jakob Augstein, believes he's right: "Systematically and on a mass scale the US is violating the fundamental rights of people who have no opportunity to vote about the practice in elections. Because the NSA and the CIA are not working within our laws. ... The issue here is not what our position on America is. Or on international terrorism. Or on the role of the intelligence services. Everyone has an opinion on these things. The issue is that our rights are being violated and we are unable to raise an objection. This means we are no longer citizens but subjects. And that is a fundamental experience of German history that we never wanted to repeat. Who do we turn to now? Who is there to help us? ... We obviously can't count on the German government. Angela Merkel's response to the biggest spy scandal in history was to keep her mouth shut for weeks on end - and then say nothing."

[+] INFO: www.spiegel.de

21.08.2013

CAMERON'S GOVERNMENT CAN'T BE TRUSTED

The actions taken against The Guardian are a massive abuse of state power and demonstrate the unpredictability of the British government, the left-liberal daily Der Standard points out indignantly: "The clumsy and legally questionable acts of aggression against the newspaper only confirm the suspicion that Cameron's government can be trusted even less than the US to master the balancing act of providing both security and privacy. Those who can't tolerate the truth coming to light sooner or later won't be able to resist the temptation to abuse the data gathered to protect against terrorism. And if the British only act this way under pressure from the US, we have to ask how much sovereignty one of the leading nations in Europe actually has on a central issue."

[+] INFO: http://derstandard.at

The “8 House” sustainable building in Copenhagen.

ECOLOGY IS A NEW FORM OF HUMANISM

by Olivier Blond

Cities have been the centre of power in society for centuries. They are now much more than that: cities almost are society. And that in turn is having a profound impact on ecology, which is now urban in focus.

In 2007, the proportion of the world population living in cities officially reached 50%. The figure is already over 70% in Europe and North America. Protecting the natural world now depends on people who have no direct contact with it. With this geographical divide comes the need for education; ecology must become an integral part of city life. Above all, this means raising awareness of the relationships that exist between urban choices and their direct or indirect consequences, which are often hidden from view.

Everything from constructing a building or a road, to commuting to work, going shopping, heading off on holiday or choosing a particular diet has an impact on the environment. All these activities produce greenhouse gas emissions, use varying degrees of toxic chemicals and consume an array of resources. They are all sources of pollution, sometimes far off in giant Chinese workshops, sometimes in our own backyard. But how can we convince young people from disadvantaged neighbourhoods who have never seen the ocean nor experienced forests or mountains, except on a screen? How can we ask them to protect the planet?

One idea is to stop picturing the environment as some distant natural landscape and to return to the primary meaning of the term, to think of the ‘environment’ as what surrounds us in its broadest sense. Improving and preserving this urban living environment is the aim of a new kind of ecology that is crucial for contemporary urban policy-making. First and foremost there is a major challenge to overcome in terms of public health: 1.3 million people die every year as a result of outdoor air pollution – largely because of pollution from cars in developed countries – whilst 2 million people die as a result of indoor air pollution (often due to poor-quality heating systems) in the developing world.

There is much work to be done: a number of remarkable initiatives, good practices and aspirations have yet to fully take root, as cities have become an ecological testing ground. They are perhaps even more crucial than the countryside. The building sector, for example, offers more potential for reducing greenhouse gas emissions than any other. All this can be achieved to the direct financial benefit of city-dwellers, which is often the condition on which their support depends (particularly in the form of lower energy bills).

Expanding the use of renewable energy is vital, including on a small scale with micro wind turbines and solar heating systems. We also need to encourage green roofs and environmentally friendly transport, reduce the volume of waste produced, and improve waste reprocessing and recycling.

> “INCREASING URBAN DENSITY WHILST **ENSURING DECENT LIVING CONDITIONS** FOR ALL IS THE ISSUE THAT DETERMINES ALMOST ALL OTHER CHOICES.”

RELOCATION AND URBAN DENSITY

The fact that cities depend on an increasingly vast and distant “hinterland” places a significant burden on the environment. A single piece of fruit transported by plane halfway across the world, for example, causes CO_2 emissions of several times its own weight. Relocating production, at least in part, is therefore necessary to reduce global warming. It also maintains the social fabric and creates jobs. Local initiatives vary, from AMAPs to urban farms. They offer an important resource for educating people about the relationship between the city and nature.

Increasing urban density whilst ensuring decent living conditions for all has also become a prominent issue. Cities are increasing in size every year but contrary to popular opinion, the density of major cities in developed countries is decreasing. Skyscrapers, for example, are generally occupied by offices and city centres clear out in the evening whilst the suburbs continue to grow, following the American model. Urban sprawl of this kind results in land being ‘artificialized’: in France, the equivalent of one department is ‘artificialized’ every ten years, generally at the expense of agricultural land. At the same time, the expansion of the suburbs generates a significant volume of car traffic and pollution, wasting both time and resources for society.

INVENTING A NEW MODEL

In the end, the main ecological challenge cities face is facilitating the emergence of new political and social models. The aim is not to invent some kind of new green utopia or idealised cooperative, but a tangible, dynamic world. Society must put its scientific, political, spiritual and artistic creativity into finding new solutions. And as the traditional hubs for immense amounts of talent and creativity, cities have a distinct role to play.

It is a matter of social cohesion, since ecological problems always present more of a threat to the most vulnerable among us. We have to create new forms of solidarity to tackle the changes on the horizon, from energy bills to forced migration and quality of life. We have to rediscover how to live together. Conviviality is a popular word among ecologists. In the cold, impersonal cities in which we live, it could be interpreted as a call to action. Transforming society will only be possible if we work together as a community: urban ecology is a new form of humanism.

__Olivier Blond__ is the Editorial Director of the GoodPlanet Foundation, founded by Yann Arthus-Bertrand. He created the television programme “Vu du Ciel” on France 2 in 2006 and the Ecology section of Courrier International magazine in 2003.

THE SUSTAINABILITY
of European cities

Size, wealth and availability of energy resources are a few of the factors that help explain why some major European cities are not on equal footing when it comes to sustainable environmental policy. Thankfully, the European Green City Index produced by Siemens and its partners provides an objective framework for comparing the cities, pointing the way to balanced urban development in Europe.

Photographs by Yann Arthus-Bertrand
Captions by Yves de Saint Jacob

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#1 COPENHAGEN, DENMARK
© Yann Arthus-Bertrand / Altitude

Copenhagen is Europe's "greenest" city with high scores across the board. Natural gas and renewable energy have reduced dependency on oil. The city's buildings are well insulated and nearly all are connected to the district heating network. Virtually all Copenhageners live within 350 metres of a public transportation station and every administrative authority has its own environmental coordinator.

© Yann Arthus Bertrand / Altitude

#2 STOCKHOLM, SWEDEN
© Yann Arthus-Bertrand / Altitude

The Swedish capital reigns supreme in terms of transportation: despite the cold climate, 68% of residents cycle or walk to work, 25% use public transportation and only 7% commute by car. Stockholm also leads the way in energy-efficient buildings, and enjoys a remarkable level of cross-party political support. Along with Vilnius, it has the cleanest air in Europe.

#3 OSLO, NORWAY

© Yann Arthus-Bertrand / Altitude

If the European Union performed as well as Oslo in terms of CO_2 emissions, it would already have exceeded its targets for 2020. The Norwegian capital is aiming even higher and wants to improve its performance by a third by 2030, through increased use of district heating networks and electric cars. Almost 2,000 of these cars are already in use and are entitled to drive in bus lanes. Air quality, however, remains a weak spot.

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#4 VIENNA, AUSTRIA

© Yann Arthus-Bertrand / Altitude

The Austrian capital is hot on the heels of its northern counterparts. 13% of all energy consumed comes from renewable sources, compared with an average of 7% across Europe. The city has also made its mark with a number of innovative initiatives, including a network of 50 repair shops for everyday household items to reduce waste and support for timber-framed buildings, which are more energy efficient.

#5 AMSTERDAM, NETHERLANDS

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Water has pride of place in Amsterdam's history and culture, so it is no surprise that the city ranks top in terms of water management. Extremely low water network losses (3.5% compared with average of 23% in other cities) and extensive use of individual water meters have helped keep prices low. The city has also achieved excellent results in incinerating waste, regarded as a resource in its own right, but performs less well in terms of air quality.

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#6 ZURICH, SWITZERLAND

© Yann Arthus-Bertrand / Altitude

Switzerland's largest city stands out for its excellent waste management. Residents have to pay for special bin bags, which has reduced the average amount of waste produced to 400 kg per person (compared with over 500 kg elsewhere in Europe). Effective recycling schemes and modern incineration plants round out the picture. Zurich also scores well in CO_2 emissions, thanks to its efficient public transportation and district heating.

#7 HELSINKI, FINLAND

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The Finnish capital was the first European city to launch a comprehensive sustainable development plan, in 2002. Helsinkians have had a hand in managing green spaces and urban forests since 1995. The result: eco-suburbs that have created jobs and energy-efficient homes, effective waste and water management, and air quality that makes it one of Europe's most breathable cities.

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#8 BERLIN, GERMANY

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Berlin has pulled out all the stops to renovate and improve the energy efficiency of the ramshackle buildings in the former communist part of the city. Over the last 20 years, the German capital has become a renowned expert in the field, in particular the use of solar energy and highly efficient financial arrangements. Waste recycling is a strength thanks to well-disciplined citizens but transportation remains an issue.

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#9 BRUSSELS, BELGIUM

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The Belgian capital has long been a leading light in initiatives to inform the public and help individuals reduce their carbon footprint. The Sustainable Neighbourhood project encourages residents to form groups to identify a sustainability project, which is then eligible to receive public funding. A scheme is also in place to encourage hitchhiking in the suburbs. Air quality, however, remains mediocre.

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#10 PARIS, FRANCE
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Paris and its suburbs – home to some 12 million inhabitants – must be viewed as a whole in order to properly assess the capital's environmental performance. At this level, the densely populated, industrialised city performs better than London or Berlin in terms of CO_2 emissions. While Paris has its work cut out in terms of transportation, the Grand Paris urbanisation project has opened up exciting prospects for environmental governance.

What kind of city do you want to live in?

The PES Group in the Committee of the Regions (CoR), in cooperation with FEPS, held a series of seminars on Sustainable Europe, focusing on Progressive Urban Development. Debates emphasised the need to promote mixed and integrated cities and neighbourhoods, and to include all groups of society in urban spaces. New technologies and social media applications should be further explored in encouraging citizens' participation. The key contribution of EU funds in the development of sustainable urban concepts was a recurrent theme in the debates. Commenting on progressive urban development, PES Group President Karl-Heinz Lambertz underlined that local authorities must be empowered to use EU funds effectively and should no longer pay the price of continuous austerity measures.

IT'S NOT ALWAYS CAPITALS THAT LEAD THE WAY...

BARCELONA, SPAIN
© Yann Arthus-Bertrand / Altitude

The Catalonian metropolis has wisely taken advantage of major events such as the 1992 Olympic Games and incorporated them into its sustainable development strategy. A test-bed for urban development, Barcelona has transformed a heavy industry hub in the city centre into a modern district dedicated to the knowledge-based economy and new technologies.

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FREIBURG IM BREISGAU, GERMANY
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Germany's sunniest city prides itself on being the country's ecological capital and the Green party's "solar city". The ecological and energy-efficient construction techniques used in its Vauban district have been studied all over the world. The city's environmental movement has been driven by decades of impressive demonstrations against nuclear energy and in favour of solar power. The only risk is that it might become an "oasis" isolated from the outside world.

GERMAN LESSONS
for the European elections

by Hannes Swoboda

The recent federal elections in Germany – Europe's biggest country and economy – preoccupied people and politics in Germany as much as across Europe. In Brussels, several issues were delayed, most notably progress on the banking union. But which lessons for the European elections in May 2014 can we learn from Germany?

Europe was not the main topic in the German campaign. 'Europe' usually served as a scapegoat in debates about German contributions to Greece's bailouts or Germany's willingness to transfer powers to EU level – or lack thereof.
At the same time, people across the European Union followed the German campaign attentively. Opinion polls were made in several European countries, including Greece, on how these neighbouring countries would vote if they could choose the next German parliament. The candidates, campaigns and slogans were analysed in detail across Europe's member states.
It may be strange but it is a fact that "the German elections this time were also our elections", as somebody in Spain put it. Germany today is economically strong and willing to block developments it does not see as favourable. And many countries which do not like this German role are too weak to resist Germany having one foot on the brake and simultaneously preaching extreme fiscal austerity. As long as we have this kind of German government and policy, Europe will be far away from economic stability, growth, high employment and equality.
The elections in Germany – despite the massive support for Ms Merkel – are a chance to correct and balance the European policy of the German government. Europe needs a German government that at the very least combines its fiscal responsibility with more investment into growth and jobs. And Europe and Germany would need an employment policy that creates jobs from which people can live decently. We have to remember, that Germany - with its low rate of unemployment - has the highest rate of precarious jobs in Europe. It is time that Europe sees a Germany that presents all its good sides - from social partnership to the high percentage of industry with impressive export rates.
More people may have doubts about the European Union now than before the last European elections five years ago - mainly because of the neo-liberal Commission leadership and a Council which spends most time blocking proposals instead of producing solutions – but we have to welcome the doubts of the people.
Dubium sapientiae initium, doubt is the origin of wisdom, was coined by René Descartes. As Socialists and Democrats in Europe we must embrace those doubts that people have about the European Union and answer them, instead of deflecting from real problems.
We have all the advantages on our side because the European Parliament elections truly matter. Over 70% of legislation in Europe comes from the European Parliament, the EU's only directly elected body. And for the first time, the European Parliament elections will also contribute to deciding who will be at the helm of the European Commission, to lead the EU for the next five years.
So we must not copy the German elections and let 28 national campaigns abuse the EU as a scapegoat for the greater or lesser evil. We have to use the opportunity to really engage with people, online, through traditional media and face to face, to tell them why Europe matters and why their vote is essential in these elections.
Ahead of the European elections, it will be our main task to communicate our past achievements to the voters, and to make clear what challenges lie ahead and how they can best be tackled. In the last years the Progressive Alliance of Socialists and Democrats in the European Parliament has fought against the neo-liberal mainstream and proposed progressive agendas. Through our strong engagement in the legislative work in the European Parliament we could construct a new framework for the financial sector. This will reduce the instability that resulted from a deregulated financial market, for the economy and the people in Europe.
But more has to be done in the coming years to bring stability, growth and employment back into our European economy. A new industrial recovery is needed to reduce unemployment radically. And we need a clear strategy for preserving democracy and civil liberties as vital elements of our European identity.
These are huge tasks for the new European Commission. To fulfil these tasks we need a new Commission president, who like Jacques Delors has a strong European commitment and a clear vision of a social and democratic Europe. And we need a Commission that is ready to fight for a Europe which addresses these challenges and simultaneously strengthens Europe's global role. For once, the Council should not aim for a weak Commission but one that multiplies the strength of member states.

"WE MUST NOT COPY THE GERMAN ELECTIONS AND LET 28 NATIONAL CAMPAIGNS ABUSE THE EUROPEAN UNION AS A SCAPEGOAT FOR THE GREATER OR LESSER EVIL."


© Zaman/Kursat Bayhan

ABOUT

__Hannes Swoboda__ was elected President of the S&D Group in January 2012. A member of the Austrian Social Democratic Party since his youth, he became one of Austria's first MEPs when the country joined the EU in 1995. Before becoming an MEP, he served in the Vienna City Assembly and Municipal Council.

CALL TO EUROPE III

Beyond austerity: building European solidarity

Brussels – 16 & 17 September 2013

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The austerity policy has not been able to ease the symptoms, let alone heal the underlying structural and long-term causes of the lingering crisis in Europe. Instead it transformed the economic malaise into a full-blown economic, social and political crisis of the European Union. With the aim to provide visionary and inclusive alternatives to austerity, FEPS called upon academic experts, democratic representatives and civil society.

by Ewa Karwowski & Christophe Sente

Recent media reports have been eager to portray the economies of Europe as recovering. A return to growth for the eurozone has been heralded in August when the area recorded a quarterly output growth of 0.3%. After two and a half years of consecutive GDP contraction, this meagre growth rate appears as a long-awaited salvation. In the UK, more upbeat expectations by consumers and businesses resulted in an improving growth outlook. As a consequence, the IMF raised its dismal GDP forecast for the austerity-stricken country to 1.4% this year. These bright spells are however fleeting. Only one day after the IMF upgrade, the UK unexpectedly had to announce the largest decline in its industrial production in nearly a year. Similarly, it can be doubted that the eurozone has returned to sustainable growth as signs of economic expansion remain elusive outside of Germany. It is clear that the welfare of most European has not been improving given high and persistent unemployment. Currently, more than 26 million unemployed are desperately looking for jobs in the 28 countries that belong to the Europeans Union.

These persistent clouds in the EU growth outlook are hardly surprising given the austerity policies implemented in Europe shortly after the global financial crisis. As a consequence nowhere nowhere have the repercussions of the crisis been as severe and persistent as in Europe. Five years after the implosion of financial markets and the freeze-up of credit in the most advanced and financially sophisticated economies, the crisis is still lingering in the eurozone.

Since 2008, Policy responses, have been abundant but ineffective. The financial sector bailout after the collapse in 2008 was fast, internationally coordinated and decisive. The subsequent attempt to launch stimulus packages was less assertive, short-lived and finally reversed. The symptoms of the financial crisis were bandaged, but a deep-seated economic and social malaise emerged in the EU. Once again the credit markets froze up but this time for government borrowing by economically weaker EU member states. This time the mere treatment of symptoms was insufficient. The diagnosis blamed fiscal profligacy in crisis-hit countries for their loss of competitiveness. This living-above-your-means lifestyle had to be stopped – according to the conservative diagnosis – through the implementation of austerity, that is severe cutbacks in government spending, the welfare state and public-owned assets.

Austerity policy has not been able to ease the symptoms, let alone heal the underlying structural and long-term causes of the lingering crisis in Europe. Instead it transformed the economic malaise into a full-blown economic, social and political crisis of the European Union.

These troubled times call for bold and effective alternative policies, which would allow Europe to embark on a new developmental trajectory where growth, job creation and equity are achieved across all regions of Europe. To provide these visionary and inclusive alternatives to austerity, the Foundation for European Progressive Studies (FEPS) called upon academic experts, democratic representatives and civil society. Together they discussed an alternative social and economic approach for Europe and the importance of building European solidarity among citizens and countries.

> "EUROPEAN RECOVERY: **MOSTLY CLOUDY WITH SOME BRIGHT SPELLS AND A HIGH CHANCE OF RAIN."**

HOW TO BRING ABOUT THE RECOVERY? THE QUEST FOR WAGE-LED GROWTH

But if the current EU-wide austerity policy is the problem, then what could be the solution? Experts and progressive policymakers call for wage-led growth. Wage-led growth stresses the importance of wages as a key

> "AN IMPORTANT ROOT OF THE FINANCIAL CRISIS AND EUROPEAN TROUBLES IS **HIGH AND RISING INCOME INEQUALITIES.**"

economic factor underlying domestic demand. A more equitable income distribution can be a powerful engine of growth since more money in the pockets of the less well-off boosts economic activity through higher domestic consumption. However, new empirical research presented at the 3rd Call to Europe conference shows that wages have been confined to a shrinking share of national income across European economies (and globally) over the past three decades. Indeed, since the early 1980s, a significant increase in the profitability of capital has been accompanied by a sharp decline in labour bargaining power and wages seem caught in a relentless global race to the bottom.

An important root of the financial crisis and European troubles is high and rising income inequalities. Therefore, differentiated policies encouraging increases in wage shares across Europe could generate the equitable growth so urgently needed in the EU to put people back into employment and pay off heavy public debt burdens. Such a strategy could strengthen solidarity among EU economies since it would allow for a symmetric policy response towards trade imbalances accumulated between weaker and stronger member economies. In the past, export competitiveness has been gained at the cost of stagnating domestic wages. So-called export-led growth resulted in the international indebtedness of the importing countries. Unlike at the global level, there is a strong bond within the EU between these surplus and deficit economies as most exports are part of intra-European trade. Consequently, member countries with export surpluses, such as Germany, have a responsibility to boost domestic wages in order to stimulate domestic demand and imports. Practically, this more equitable growth strategy requires the strengthening of organised labour, the introduction of an EU living wage (differentiated by country), and

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Massimo D'Alema's opening speech – 17 September 2013 – Concert Noble, Brussels

supranational labour authorities. Trade unions and other employee institutions have been persistently undermined over the past decades by labour market deregulation. In order to strengthen the crisis resilience of the European economy, precarious labour conditions have to be prevented and flexibility should be based on employment security, as demonstrated, for instance, by German manufacturing. This would strengthen domestic demand, while encouraging further productivity growth.

DESIGNING A EUROPEAN FUTURE: INNOVATION AND GROWTH

While economic crisis and stagnation are current challenges, the well-being of European citizens in the future remains the key target for EU policies. Future growth will require Europe to become more innovative. But innovation is an ephemeral creature, hard to define and even harder to fabricate. From an academic perspective, it can be described as an uncertain, collective and cumulative process. As highlighted at Call to Europe III, these characteristics impede access to finance for innovators.

Private sector lenders are often not willing to take the risk, commit to a project and be patient. Therefore, there is a major role for governments in the process of innovation, going well beyond just lifting red tape. We need public investment in areas where the private sector cannot or is not willing to be active, and we need public support for innovative private investment. Until recently, this public support was mainly organised in public-private partnerships (PPPs), where public bodies had to bear the brunt of the investment risk while private partners pocketed the majority of profit. Such parasitic constellations should be discarded in favour of more balanced investment arrangements where the private sector takes on a fair and efficient share of the risk, and governments can share in the profit. Politically, there is now more space for such policies. After years of stale and unproductive debate reiterating the supposed

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Nat O'Connor, Director of TASC & Ania Skrzypek, FEPS Senior Research Fellow.

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Gustav Horn, Research Director of the Macroeconomic Policy Institute of the Hans-Böckler-Stiftung.

contrast of state versus market, the taboo of innovation and industrial policy has been broken. Few now contest that state and market activity can be complimentary in promoting growth. Public investment banks, which support private investment in innovative – and often privately underfunded – areas, have become an increasingly popular tool to foster investment. The success stories of the German KfW and the Brazilian BNDES attract followers. The latest announcement to launch a new public investment bank was made by the French President in August.

There is scope for innovation in all sectors of public provisions. Education must become more progressive, especially since it is so vital to passing on and creating the knowledge that forms the base of innovation. Administrative and health services can be improved to support innovation by enterprises. Tax avoidance and tax evasion should be addressed to help finance public services. Closing tax havens and legislative loopholes could contribute to levelling the playing field between large corporations and SMEs somewhat, since the latter have very limited possibilities to circumvent taxation. Importantly, the workforce should be more involved and better included in innovation since it represents one of the most important resources of companies – its human capital. Workers and employees will be most productive and innovative when they enjoy social and employment protection. This should be part of a human workplace where workers enjoy job security and decent working conditions.

Finally, innovation might be a competitive process but solidarity among EU countries should not be left behind. Currently, there is a strong divergence among European economies concerning their innovation performance, which has become more pronounced since the onset of the financial crisis. The financial resources of the EU should be used to support innovation in structurally lagging areas. The Horizon 2020 project and EU Structural Fund combined with EIB lending, offer suitable policy tools to address regional divergence while promoting EU-wide innovation.

"THE LEFT CANNOT SIMPLY RELY ON SLOGANS TRUMPETING A VAGUE PROMISE OF SOLIDARITY."

BUILDING EUROPEAN SOLIDARITY: VALUE-BASED POLICIES

What is the message that the European left has to deliver to European citizens to ensure a bright economic and political future for the EU? It is becoming increasingly clear that the left must convince people that political and economic choices in Europe are not between "nation states" and the EU but between a solidarity-based Social Europe and a conservative regional governance of globalization defined by austerity. If the progressive parties fail to deliver a convincing European political project in 2014, the first consequence will be the consolidation of macroeconomic management focused on the balancing of budgets and not on solidarity, as defined in terms of job creation, equity and growth. To this end, and in the run-up to the 2014 European elections, the left cannot simply rely on slogans trumpeting a vague new European political promise of solidarity. Many people in Europe are suffering and are looking for practical solutions to real economic problems. Solutions to the poisonous populism the right appears to offer. Solidarity must be defined in clear terms and encompass the creation of high-quality jobs (for all age groups and for both men and women), equitable and sustainable growth and empowerment. But more importantly, these broad concepts should be translated into real progressive policy proposals. The citizens of Europe must see a fair and practical alternative to both austerity and to the neoliberal agenda that has dominated Europe in the past four decades.

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NOVEMBER 1-3

Vienna – FEPS Young Academics Network seminar

FEPS YOUNG ACADEMICS NETWORK

The third seminar of this year's cycle will be an opportunity to summarise the respective working groups' research, highlight the most inspiring findings and discuss how they can best contribute to the progressive agenda for the electoral year 2014.

This group of thirty young researchers will gather for two and a half days, during which they will devote their time to finalising their papers and deliberating on dissemination strategy.

BACKGROUND

The Young Academics Network (YAN) was established in March 2009 by FEPS with the support of the Renner Institute to bring together progressive PhD candidates and young PhD researchers interested in applying their academic experience to the debate about the Next Europe. In the third cycle, the groups work on the following topics: modernising party politics, employment, populism, enlargement, economic governance, elections 2014. This year they have already published four papers:

- *The European Youth Guarantee: a reality check*
- *How Eurobonds Relate to European Integration*
- *Fixing the Broken Promise of Higher Education in Europe*
- *Reinventing a social democratic Europe: What can we learn from the weakness of 'Social Europe'?*

NOVEMBER 8-9

Budapest – "For a Progressive, European energy system" seminar

Increased cooperation in terms of energy facilities would help ensure the success of policies designed to make energy supplies in Europe more affordable and secure. Enhancing our energy system is a central topic of discussion at the moment. FEPS began addressing these issues this year. A series of round tables in different EU countries is being held on the issue. The first two events took place in Latvia and Finland. There will be two more this autumn, – including one in Budapest, with the support of the Táncsics Foundation, with experts from the region. Complementing this, FEPS has established an energy focus group with experts from various sectors who meet regularly in Brussels. A collection of articles will be published in December to exhibit some of those deliberations. In addition, let us also note the recently published initial report from the energy research project that FEPS has undertaken with the support of the British Institute for Public Policy Research (IPPR). The final report of that research will be published next year, exploring in detail the infrastructure and interconnection needed ias part of targets for 2030 in the EU energy and climate package.

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NOVEMBER 11

Helsinki – 8th Research and Policy Days – The Future of European Democracy

As part of the European Year of the Citizens, this year Research and Policy Days will focus on the state of democracy in contemporary European societies. It will ponder the state of democracy at the local, national, European, and global levels.

BACKGROUND

Organized with the support of the Kalevi Sorsa Foundation, the aim of this prominent event is to promote progressive policy debate across disciplines and to bridge the political-academic divide. The participants include stakeholders from different backgrounds, including researchers, politicians, civil servants, trade unionists, and journalists. The Research and Policy Days have so far touched upon several diverse topics linked to current European issues, including 'Politics and Religion' to 'Euroelitism and Populism'. Among the speakers of this new edition: Tarja Halonen, President of Finland, Bruno Liebhaberg, FEPS Scientific Council Chair, Tuija Brax, former Minister of Justice, Eero Vainio, Vice Chairman Social Democratic Party.

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EARLY DECEMBER

Brussels – Book launch and discussion on populism

Italianieuropei

CENTRO PER LA RIFORMA DELLO STATO

***The Changing Faces of Populism: Systemic Challengers in Europe and the US* is a a joint publication of FEPS, Italianieuropei, and the Centro per la Riforma dello Stato aimed at studying the growth of populist movements in Europe and North America during the past three decades.**

Populism is both a reaction to and a product of the growing distance between citizens and their institutions of governance, both at state or European level. This book offers a selection of case studies that reflect the diversity of populist movements that presently exist in Europe and North America, providing a snapshot of groups from the perspective of a variety of authors and research methodologies. The book launch, which will take place at the FEPS office, will be followed by talks with journalists, politicians, academics, and the general public. Discussants will be invited to analyse and critique the book.

DIARY

MEMBERS DATEBOOK

FONDAZIONE SOCIALISMO | ITALY
November 1-3, Gallipoli (Lecce)
Successfully launched in 2010, the School of European Democracy with FEPS's contribution continues this year for its fourth season, under the name of Luciano Cafagna, distinguished historian and socialist. The topic is 'Mediterraneo del Nord e Mediterraneao del Sud'.

FOUNDATION MAX VAN DER STOEL | NETHERLANDS
November 2, Amsterdam
In Netherlands, the Afrikadag is the place to be for political debate about international cooperation. This year's theme is labour and over 30 participating organizations – including Oxfam Novib, Cordaid, Heineken, and Amnesty International – will discuss its various aspects, from job creation by foreign investments and the role of gender, to child labour and slavery.

NOVO DRUSTVO | CROATIA
November 9-10 & November 23-24, Zagreb
'Politics to Women' is a comprehensive educational programme on feminism, social policy, women in the labour market, political activism, and women in the media. Supported by a Friedrich-Ebert-Stiftung grant, it brings together 35 participants from all over Croatia, as well as prominent progressive academics, politicians and activists.

CENTRO PER LA RIFORMA DELLO STATO (CRS) | ITALY
November 11, Rome
Presentation of the book *Dove vanno le primavere arabe?* ('What future for the Arab Spring?'), edited by Antonio Cantaro, member of CRS and professor of constitutional law in Urbino. The volume puts together a number of general, geopolitical appraisals and country articles with updates for summer 2013. The panel will comprise Massimo D'Alema, president of FEPS and Italianieuropei; Lucia Annunziata, TV journalist and commentator; and Stefano Silvestri, director of the think tank Istituto Affari Internazionali. After the volume edited by Stefano Rizzo, this is the second book published under the auspices of CRS on the subject of the Arab revolutions.

FONDATION JEAN-JAURÈS | FRANCE
Mid-November, Paris
26 May 2014, the day after the European elections. Europe wakes up in shock: massive abstention, a populist wave... Is that the worst-case scenario? In a new book entitled *The European emergency*, Claude Bartolone, the President of the French National Assembly urges the left to resume the offensive after the German elections in order to avoid a political earthquake. His ideas? Make use of 'radical reformism' to get Europe out of the crisis, set a model of sustainable and inclusive growth and meet the challenges of a globalized world.

POLICY NETWORK | UK
November 18, London
'The Insider-Outsider Dilemma: A Stranglehold on Social Democracy?' – A debate led by Professor David Rueda of Oxford University on how the electoral coalitions of European centre/left parties are threatened by an insider/outsider dilemma. Indeed, social democrats have become unable to reconcile the demands of two groups of voters that have traditionally supported them: on the one hand labour market "outsiders," who have insecure jobs or no jobs at all; on the other hand labour market "insiders" with stable employment.

FUNDACIÓ RAFAEL CAMPALANS | SPAIN
November 22-23, Barcelona
Co-organized with FEPS and the International Institute of Social Studies, the "Beyond Financial Regulation: European Industrial Policies in the Wake of the Global Financial Crisis" symposium is an opportunity to listen to progressive, evidence-based ideas on how sustainable economic recovery can be achieved in the European economies. The seminar will be divided into four panels: Economic growth and innovation, Industrial policies and the role of state, European and national policies for post-crisis recovery, and Industrial financing.

OLOF PALME INTERNATIONAL CENTER | SWEDEN
November 23, Malmö
Organized in collaboration with the Social Democrats and the S-students, this year's Palme Day's theme is 'Fight the Gaps'. The day will comprise many exciting lectures and talks. Among the speakers: Lee Cheuk-yan, secretary general of China's only free trade union, who will talk about the struggle for trade unions in China; and Joakim Palme, professor of Political Science at Uppsala University, who will talk about poverty reduction and social protection systems.

FONDATION JEAN-JAURÈS | FRANCE
November 27, Paris
Meeting at Laurent Bouvet's Foundation of the Observatory of political life, on the "Handbook of Social.democracy" written by Fabien Escalona and Mathieu Vieira.

FRIEDRICH-EBERT-STIFTUNG | GERMANY
November 27, Brussels
After the latest tragedies in southern Europe, it is high time for more solidarity, dignity and common standards at European borders. What are the next steps towards a fair Common European Asylum System and what role can and should Germany play? These questions will be discussed during a conference at the EU Office of the Friedrich-Ebert-Stiftung with Birgit Sippel, Member of the European Parliament and of the Committee for Civil Rights, Justice and Home Affairs; Dr. Ralf Stegner, Chairman of the parliamentary group and the Schleswig-Holstein-SPD; and Serpil Midyatli, Member of Landtag of Schleswig-Holstein.

POLICY NETWORK | UK
December 9, London
'Understanding the Populist Signal' – A debate on how and why populism can be seen as both a threat and a corrective to liberal democracy and the health of political parties and public institutions. The corrective comes in seeing the rise of populism as a warning signal to parties and governments to re-politicise those problems that intentionally or unintentionally are not being addressed by the establishment. How to beat populists in a populist climate? How can populists be beat signal serve as a corrective?

GAUCHE RÉFORMISTE EUROPÉENNE (GRE) | BELGIUM
December 12, Brussels
"Is there still a role for the state in the European economies of the 21st century?" is the title of the debate between Jean-Pascal Labille, Belgian Minister in charge of Public Corporations and Development Aid; Pascal Lamy, former Director General of the World Trade Organisation and former European Commissioner in charge of Trade; and Bruno Liebhaberg, President of *Gauche Réformiste Européenne* and Chair of the Scientific Council of FEPS. The debate will take place at the Brussels School of Economics and Management (ULB).

TASC | IRELAND
Mid-December
TASC will be publishing a book on themes in industrial policy, including examining the state's role in 'making winners' through the production of new industry capabilities, the creation of networking spaces and the promotion of 'conceptions of control' that are favourable to industrial development. The book will also examine the controversial role of Ireland's 12.5 percent corporation tax rate, public expenditure in support of enterprise, the crucial difference between innovation and R&D, and a re-evaluation of Ireland's competitiveness.

Jean Jaurès
Fondation

In every issue, Queries will introduce the work of one of the FEPS member foundations.

The first of France's political think tanks, the Jean-Jaurès Foundation was created in 1992 by socialist former prime minister Pierre Mauroy-who drew inspiration from the German model-and remains aligned with its founder's party. Recognised as a public service since its inception, the foundation has been working for the past twenty years in France and further afield to build a more democratic world, develop ideas for the future and foster understanding of social and labour history.

BUILDING A MORE DEMOCRATIC WORLD

Backed by a network of foundations and left-wing political parties in more than a hundred countries, the Jean-Jaurès Foundation takes action worldwide to promote the democratic process – previously in Ukraine, now in Egypt, soon in Mali – train political staff and support the most promising initiatives. This work includes election planning (Tunisia), supporting democratic and European initiatives (Serbia & the Balkans, Georgia) and establishing contact and organising debates (Israel and Palestine).

DEVELOPING IDEAS FOR THE FUTURE

As a forum for dialogue and reasoning among high-level politicians, union and trade body representatives, academics and experts, the Jean-Jaurès Foundation contributes to the advancement and spread of progressive ideas. As part of its efforts to provide clear, sharp analysis of our society, the foundation has set up nine Observatories for long-term reflection in which influential figures from all disciplines engage in open dialogue and produce analyses and proposals on issues of concern to the French and European left. True to its mission of public service, the foundation is committed to making its intellectual and political output available for the benefit of all, both in publications freely accessible on the internet and at public events.

FOSTERING UNDERSTANDING OF SOCIAL AND LABOUR HISTORY

The Jean-Jaurès Foundation does important work to educate others about socialist history, with an archive unique in France, publications and events that offer a historical perspective on current events, as well as an online portal providing access to tens of thousands of documents. In 2014, the centenary of the assassination of Jean Jaurès, the foundation will be organising numerous initiatives – including publications, talks and debates, a major exhibition at the National Archives and a documentary broadcast on Arte – to commemorate this important historical figure and highlight some lesser known aspects of his life.

Pierre Mauroy, *founder of the Fondation Jean-Jaurès*

THE SPECTRE AT THE FEAST

Capitalist Crisis and the Politics of Recession

Review by Dimitris Tsarouhas

The financial and economic crisis has led to a sharp downgrade of global economic growth for 2013. Particularly in the Eurozone's southern periphery, the problem is explosive with record-high unemployment and a sharp reduction in output leading to angry social protests and political instability. These are dangerous times, and analysts have been writing and analyzing the situation for a while. In this context, it is interesting to step back to the time when the crisis actually occurred and the analysis that stemmed from a much narrower set of empirical data. This is a useful exercise to evaluate a writer's ability to comprehend the crisis, sketch out its likely trajectory and outline different scenarios as to its future evolution.

This is precisely what Andrew Gamble set out to do in his book The Spectre at the Feast. The book set out to explain why the world became engulfed in what was then known as the "credit crunch", which then soon mutated into a banking, then financial, and ultimately economic crisis. Andrew Gamble's credentials in embarking upon such an exercise are well-established. His earlier work on political economy, and especially his widely acclaimed The Free Economy and the Strong State on Thatcherism, means that this is a book written by one of the few academics expected to deliver a sharp, analytical yet easily accessible account of the forces that led to the mess we are currently experiencing.

In that task, Gamble does not disappoint. The book is compact at a total of 180 pages, yet packed with the kind of analytical insights that its author is renowned for. He correctly asserts that the crisis will lead to a "prolonged period of political, economic and ideological impasse" (p.10), as indeed it has. The origins of today's mess lie with the construction of (to quote Colin Crouch) "privatized Keynesianism" that Reagan in the US and Thatcher in the UK were busy implementing. What emerged during that crucial time, apart from Washington Consensus policies, was a momentous expansion in credit and an attempt to make the financial sector "the most important driver of growth and competition in the economy". To a large extent the project succeeded, and it is for this reason that it is proving so difficult to get rid of financialization now that its failures have become apparent to all. After all, peoples' expectations on consumption and lifestyle are bound up with this system.

The book's value lies in two further factors: first, the author explains that neoliberalism has never been a monolithic entity, and overcoming it goes through understanding its true nature. It entails a) a "laissez faire" strand that resembles market fundamentalism, b) an "anarcho-capitalist" strand geared towards the privatization of state asset and a c) "social market" strand reminiscent of German ordoliberalism. Secondly, Gamble sets out possible scenarios for the future of the world political and economic system. Rejecting protectionism and market fundamentalism, he asserts that the post-crisis world has to operate on the basis of multilateral cooperation, with the US in relative decline, a rising China and structural imbalances of the world economy. Analytically rich and descriptively compelling, The Spectre at the Feast is a profoundly important book.

The Spectre at the Feast: *Capitalist Crisis and the Politics of Recession //* Andrew Gamble (Palgrave, 2009). *Reproduced with permission of Palgrave Macmillan. The full published version of this publication is available from* ***www.palgrave.com***

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THE PROGRESSIVE ARGUMENT

for individualism

Review by Christophe Sente

Since completing a doctoral thesis on left-wing critiques of the European Constitutional Treaty, Sophie Heine has published several books, including such promising titles as Oser penser à gauche ("Daring to think left") and now Pour un individualisme de gauche ("The progressive argument for individualism").

Always insightful and educational, her work is capable of winning over a lay audience and gives the lie to the idea that the representation of a specific social group is integral to any progressive political agenda.

At the same time, while careful not to confuse the multiple objectives of modern socialists and the holistic ambitions of traditional communist movements, Heine criticises the modern left for its seeming inability to integrate the needs and interests of individuals into its programmes. According to Heine, the left has certainly evolved in response to the rapid rise of neoliberalism and the quickening pace of globalisation, but has made the mistake of "continuing to address its message to 'sacred' groups". And it pays the price at the ballot box.

For Heine, attempts by "communitarian" and "republican" intellectuals to reshape the identity of the left are doomed to failure as long as, despite all their differences, they espouse the theoretical superiority of the collective in its various forms, in a society of individuals. Conscious of the rise of populism, Heine recognises the political effectiveness of an appeal to the nation and the technical inability of the left to do so. Commenting on the far-right National Front party's popularity among the working class in France, she writes: "Trying to convince them to return to the progressive fold by appealing to […] higher values or an 'open' national identity is a strategy that is unlikely to work, because the right, unhindered by the taboos that bind the left, exploits these concepts with much greater success."

Heine uses part of her book to sketch out an anthropological basis for individualism. According to her, individualism is part of human nature and expresses a desire for self-determination, rather than the rational pursuit of self-interest, as posited by economic liberalism. Inherent in this theory are two conclusions: the left will inevitably absorb the idea that the individual is the "ultimate purpose of collective action", and this, in turn, will require public institutions to be adapted, but not destroyed.

One shortcoming of Sophie Heine's argument is its failure to mention the importance of social democracy's vibrant social-liberal tradition. Since emerging in the work of the young Marx and Proudhon, it continues to influence thinkers such as Anthony Giddens and Ulrich Beck. Likewise, by distancing herself, in the name of individual freedom, from the idea of promoting political participation, she makes it difficult to achieve the very thing she is arguing for.

These criticisms should not, however, distract us from her defence of the relevance of current demands for a reduction in working time. The argument is certainly a lot closer to a libertarian approach than to the traditional socialist perspective as reimagined by André Gorz and Michel Rocard. Nevertheless, it should serve as a reminder to the left that one of its historic demands remains socially relevant and sets it apart.

Pour un individualisme de gauche // Sophie Heine (Editions JC Lattès, 2013).

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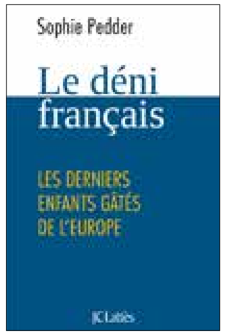
THE FRENCH DENIAL

The last spoiled brats in Europe

Review by Andy Smith

A journalist at The Economist and resident in France for the last decade, Sophie Pedder provides here a book-length version of an argument she first made in an article that caused considerable controversy during the 2012 French presidential elections. Using a term from popular psychology, her basic argument is that the French are 'in denial' about both the state of their economy and the capacity of their state to maintain current standards of living. From this postulate the book develops a standard diagnosis of this state of affairs and proposes a slightly more original set of antidotes.



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As so often, the problem with the French is traced to excessive public spending, wasteful social protection measures (particularly pensions and unemployment benefits), crippling levels of social insurance costs and bureaucracy placed on private companies and a wrongheaded willingness to tax the rich rather than address more deep-seated issues. In short, all this interference in the economy is seen as 'infantilizing' the people and discouraging change in the policies and behaviour of France's political elites.

Not surprisingly, Pedder's solution is essentially that the budgets of virtually all the above public policies should be progressively but drastically reduced. However, she does suggest some (pension rates, unemployment benefits, administrative jobs) be cut more than others (e.g. family allowances), and this in the name of building a new 'social pact'. Although little is said about how such an agreement could be politically achieved, the Swedish experience of the 1990s is proposed as the model to follow.

Notwithstanding this partial attempt to go beyond the recipes of mere austerity, the reasoning behind the book as a whole is problematical for at least three reasons. Firstly, its underlying and unstated premise is that today there are unavoidable 'economic rules' that sooner or later will simply oblige the French to 'get real' about their socio-economic choices and fall in line with practice in the rest of the world. The unproven assumption here is that everywhere else the anonymous forces of globalization have determined political choices and so this will happen to France too. However, as the heterogeneity of national interpretations of globalization shows, there is no such one best way, nor do 'economic rules' simply impact upon societies. To the extent that such rules even exist, they do so only having been translated into policies by those in power.

The second problematical dimension of this book is that it perpetuates the myth that strong welfare states are necessarily a handicap for economic growth. As Hay and Wincott's The Political Economy of European Welfare Capitalism (Palgrave, 2012) convincingly shows, such a correlation frequently does not exist in practice. On the contrary, welfare states can be a motor for economic development provided they are attached to a sustainable growth model. There is certainly much wrong with that of France, but its relatively low dependence on rising house prices merits reflection that is entirely lacking in Pedder's book.

This point about the current crisis being one of growth, not debt, raises in turn a final problem with advocating public expenditure cuts. As Mark Blyth, underlines in Austerity: The history of a dangerous idea (OUP, 2013), across the board cuts increase wealth inequalities, reduce demand, shrink the economy, and thereby hamper growth. They have not worked in the past and won't now.

Le déni français. *Les derniers enfants gâtés de l'Europe. // Sophie Pedder (Editions JC Lattès, 2012).*

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