Uniting Europe Means Uniting Labour – Historical and Economic Reasons for a Social Democratic »New Deal« in Europe

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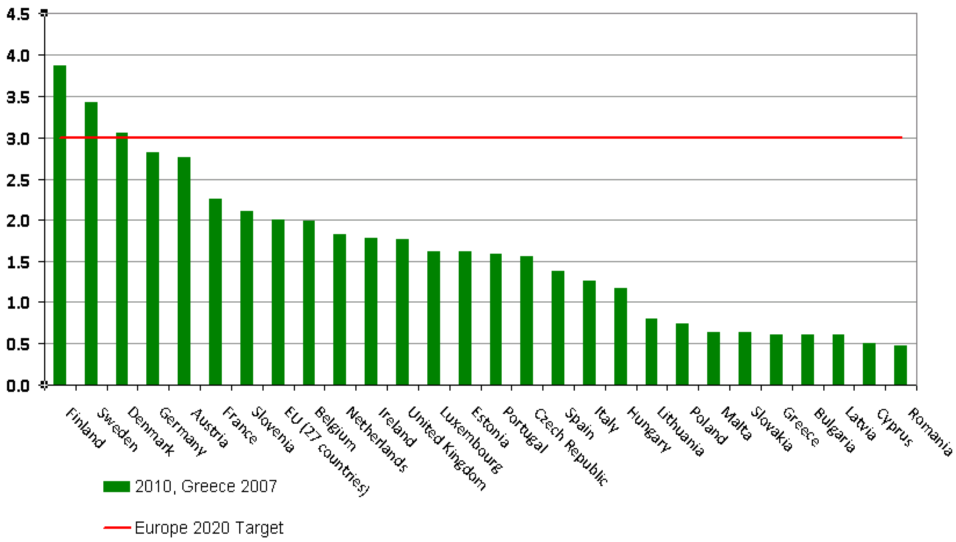
Until approximately mid-way through the 1970s, every national labour movement was able to count on wage growth and welfare expansion in other developed countries producing similar effects in its own country. All internal economic growth depended on two factors: a) the possibility of correcting any balance of payments deficit by exporting to countries where internal demand was growing (or soon expected to grow); b) rising general and high-quality employment which, together with expanding welfare, ensured a capital/labour balance that made the action of trade unions and socialist and social democratic parties effective. The efficacy action in turn made left-wing trade unions popular, so that unionisation and the socialist vote increased, further improving the balance between capital and labour. Under working class social democratic leadership, some countries even witnessed decades of a balanced capital/labour relationship.
All this gradually faded out mid-way through the 1970s when a number of reference points ceased to exist: Bretton Woods came to an end, rising oil prices and price fluctuation threatened to wreck the balance of payments and create fuel inflation if internal demand rose too sharply, neoliberal forces often managed to attribute inflation to expansion in wages and welfare rather than to oil prices, most expansion of welfare had already ceased, and there were the first signs of a need for more limited consumption of environmental and territorial resources. For the European social democratic movement, an epoch-making change (for the worse) arrived in January 1976 when the Danish social democratic Prime Minister, Anker Jørgensen, gathered European social democratic leaders in Copenhagen to plan a policy of demand stimulation that would promote growth in more than one country. Perhaps not surprisingly, given the current German attitude, Helmut Schmidt dissociated himself, stating that Germany would not accept being forced to change its economic policy. The outcome was clear: because of the uncertainty of the times, an increasing number of countries sought to rely on their own ability to produce an export surplus; countries like Germany which were confident of succeeding, but also Italy, to a certain extent. This policy was more successful where social democracy was most effective and deeply-rooted, since countries with a better capital/labour balance have a greater capacity to force capitalism to compete through innovation rather than exploitation. Over the years, a mercantilist approach has gradually taken over as capital/labour equality factors have come increasingly under attack due to the disproportionately anti-inflation (rather than anti-unemployment) parameters of the euro established at Maastricht, and also due to the previous policies of central banks acting independently of political power. Obviously mobility of capital and deregulated financial speculation that produces wealth without creating jobs have also contributed to this situation.

The »mercantilist« surplus of northern European countries was the result of both positive and negative factors. The positive one was that these countries were able to benefit more than others from the »Schumpeterian« aspects of the capital-labour balance already established under social democratic leadership. Rudolf Meidner, one of the leading strategists of this approach (which for decades was more than just a tendency in his homeland Sweden), explains it as basically the ability to make low salaries rise more than higher ones, especially within the unionised working class. This causes the closure of less successful companies and the consequent reallocation of labour to more innovative enterprises, and therefore significant and increasing investment in pro-active labour policies (over the years this rose from 3.75 per cent of the state budget in 1960 to 5.3 per cent in 1970).[1] In Denmark, according to Eurostat, such spending reached even higher levels, increasing to approximately 4 per cent of GDP in recent decades, although later falling again. In essence, the trend towards equality during the decades of social democratic leadership stemmed from steady gains in the lower reaches of the labour market. This directed investment towards research and development in countries with stronger social democratic influence, especially the Nordic countries but also Germany. The result was competition at a high and innovative level, and the capacity to boost and convert specialised production skills.

<u>Spending on research and development in 2010</u>



Source: Eurostat

The negative aspect was that these countries (which are now less and less social democratic on account of the aforementioned dynamics) became mercantilistic and are risking destroying the eurozone and maybe also the European Union through far-reaching disruption of the capital/labour balance (for example, Gerhard Schroeder's Hartz IV reforms). The Ghent system of unemployment benefits and the pro-active labour market policies pursued the specific aim of opening up low-wage areas. The process of impoverishing the lower sectors of the labour market was implemented more in Germany (with the Hartz IV reforms) than in any other country: according to the Danish think-tank Cevea on the basis of Luxembourg Income Survey data, there were 16 per cent working poor among those with less than one year's work experience in 1984, whereas by 2010 this figure had risen to 25 per cent. But the growing prevalence of low pay eventually encroached on more experienced sectors too: in 1984 there were a 3 per cent of working poor among those with more

[1] Lars Magnusson, *Sveriges Ekonomiska Historia* (Stockholm: Tiden Athena, 1996), pp. 452–4.

than 20 years of work experience; today the figure has risen to 7 per cent. It is noteworthy that the latter figure has doubled in the last ten years (i.e. it is an ongoing effect). In the Nordic countries, according to the Joint Committee of the Nordic Social Democratic Labour Movement(SAMAK), the Gini index has deteriorated considerably since 1980 as a result of policies adopted: from 0.20 to 0.23 in Sweden, from 0.22 to 0.23 in Denmark, from 0.23 to 0.28 in Norway, and from 0.21 to 0.28 in Finland. Thus, alongside areas of strong competitiveness, emerging job insecurity is affecting numerous sectors of society and curtailing internal demand. Under these conditions, Mediterranean countries are unable to complete the process of modernization (which was well under way), because the capital/labour balance (which had always been weaker than in Germany and the Nordic countries), is collapsing in order to keep pace with production prices in the core countries. Under these circumstances, it is useless to accuse these countries of not being competitive enough, when the incentives for innovation that derive from a strong labour market are thrown away. In the long run, this tendency can also damage the innovative capacity of Germany and the Nordic countries, which, as we have seen, was encouraged by the relative lack of low pay. The capital/labour balance is at the heart of European modernisation on many different levels: a political/democratic level (because it leads to representation rather than populism), a productive level (because it involves innovation instead of exploitation), a cultural level (because it encourages the spread of knowledge rather than job insecurity), a civil level (because it calls for democratic negotiation at a collective level), and an individual level (since it perceives men and women as instruments for transmitting science and well-being, that is to say, as an end and not as an alienated productive element).

This historical economic process weakens and divides the European working class in at least three ways: a) job insecurity and the declining value of labour weaken social democracy and the trade unions and favour populism and abstention (political/electoral division); b) for similar reasons, unionisation is also weakened, while the unpopularity and increasing weakness of social democratic parties widens the gap between trade unions and social democracy (class, trade union and labour market divisions); c) the national interests of Europe’s various working classes no longer coincide (growth in salaries and welfare created opportunities for everyone), but diverge (national divisions within the EU, and what risks becoming, in spite of its sentimental and uncritical supporters, a merely rhetorical and bureaucratic European socialism).

Nevertheless, there is still a social democratic path, even if it needs to be renewed and reorganised at a supranational level. It would be wrong to define social democracy as a political culture belonging to a bygone twentieth century because:

a) It is untrue to say that social democracy was linked only to the national welfare of European countries. On the contrary, as argued above, it prospered in an age of an effective although institutionally more informal alliance among the blue- and white-collar workers of Europe.

b) Without a democratic and reformist capital/labour balance there can be no wage recovery, and consequently no basic demand to replace the financialised, debt- and borrowing-driven growth. The current prolonged economic crisis cannot be explained without remembering that the wage share of GDP in the 15 countries comprising the EU in 2004, slumped from about 76 per cent in 1973 to 65 per cent in 2005 (Commission data from 2006).

c) It is untrue that social democracy was only a question of »distributing affluence while it lasted«. On the contrary, as already mentioned and revisited below, European socialism and the working class movement used a capital/labour balance to change methods of producing, competing, innovating and working. In order to overcome the economic crisis, this model can and must be re-proposed at a supranational level.

The European trade union movement is well aware that following a competitive path based on mercantilism and social dumping would be fatal for Europe. This conviction is also shared by the German trade unions, which believe that only an increase in German wages sufficient to redress imbalances in demand and the balance of payments can bring economic recovery: »Trade Unions must also contribute to the management of a common currency union. This particularly applies to wage coordination (…) necessary to stabilise the currency zone. European Trade Unions have already developed their first mechanisms for wage coordination (wage coordination formula of the European Metal Workers' Federation). These are to be implemented and developed in order to prevent a widening of the gap in living standards in Europe. (…) it is imperative that the trade unions do the coordinating. Attacks by the European Commission, the ECB and the International Monetary Fund (›troika‹) on the wage-bargaining autonomy of labour market players are resolutely dismissed by IG Metall.«[2] But greater autonomy in advancing demands, accompanied by international coordination, would require trade unions to have the possibility of making wage claims using mechanisms such as those indicated by Blanchard in the Hungarian journal *Portfolio*: coordination of wage inflation between countries with a surplus and those with a deficit, centred around a controlled mean inflation axis. In countries with a trade surplus, it will be in the interests of trade unions (indeed their specific duty) to encourage a situation in which workers can reap the wage benefits of their own productivity and export success. In countries with a trade deficit, it will be in the interests of the trade unions to take advantage of the favourable opportunities for exports generated in countries with a trade surplus (when and if the latter will let their wages grow), by first increasing employment and subsequently wages. In this way, countries with trade deficits would become countries with a surplus and in turn fuel the exports of other countries when they also let their wages grow correspondingly to their new surplus. Also for this reason, a Marshall Plan like that of the Confederation of German Trade Unions (DGB) (see below) that aims at paving the way for total factor productivity and the development of technology in all EU countries, is beneficial and practical. Supranational control of the type proposed by Blanchard can be achieved more easily if as many countries as possible belonging to the European Union or euro zone are able to keep their own balance of payments under control, if the imbalances that have to be adjusted from time to time are not too pronounced, and if production in countries with a trade deficit can be coordinated with that of countries with a surplus. In short, the policy of demand of which the Union is in urgent need must go hand in hand with quantitative and qualitative control of investment and production.

Clearly, all this requires enormous investment in productivity, innovation and knowledge so as to distribute competitive productive centres throughout the whole of Europe instead of concentrating them in Germany. It is of prime importance to develop these centres, not only to contribute to economic recovery, but also to prevent the European Union from being buried under irrational and unsustainable national and ideological narrow interests that would destroy it. Of equal importance is an alternation of trade surpluses, which would entail the dissemination of productivity and production in each EU country to meet national demands for new and hopefully more environment friendly products. These would then alternate in driving growth in Europe's internal market.

2 IG Metall Executive Board, *Change of Course for European Solidarity*, 9 October 2012, pp. 5–6.

Besides offering a means of »growth through investment and employment«, the DGB's Marshall Plan for Europe is also of prime importance for that reason. The German Trade Union Confederation (DGB) has proposed a »European Future Fund« created through a special one-off European wealth tax of 3 per cent on private assets in excess of €500,000. This fund would aim to create investment opportunities for currently uninvested assets estimated at €27,000 billion and issue New Deal bonds that would invest €260 billion annually in direct investments (€160 billion) and low-interest loans to private investors (€100 billion). Revenue from a financial transaction tax would be used to repay the bonds. The private investment thus generated would yield an annual total of €400 billion, »amounting to a further growth stimulus of over 3% of the EU's GDP in 2011«, that is to say, 11 million quality jobs in 10 years. The aim is to invest in reducing energy consumption and in the green economy and infrastructure, so that energy costs can be significantly reduced. There is also a plan to invest in a »new-style building trade« with the immediate creation of new jobs that will not consume new land but will renovate public buildings and brownfield sites. Schools and hospitals would be reequipped to reduce energy and water consumption, but the private construction sector should also benefit. The CGIL, Italy's left-wing trade union confederation, wholeheartedly welcomes the DGB proposal and has presented a similar plan, directed more towards stimulating national economic recovery. The CGIL plan and the more supranational DGB plan would be largely complementary.

By tackling the question of energy, the DGB plan (like that of CGIL) addresses an essential aspect of the socio-economic regression that began in the mid-seventies. In fact, in order to prevent demonization of wage growth and internal demand, the annual €300 billion savings on oil imports, and those relating to welfare infrastructures (such as the adaptation of dwellings to enable longer independent living for a growing elderly population) are absolutely crucial. A reduction in the management costs of welfare would enable us not only to not reduce, but even perhaps (especially if a new period of growth were to be triggered off) to increase services. These changes could counteract the excessive limitation of internal and wage demands begun in the 1970s to avert severe trade and budget imbalances. But, as we have seen above, a new regime of alternate wage growth would guarantee that all imbalances would be taken care of before it is too late. The reason is that the growth of internal demand taking place in a certain country would sooner or later be balanced by a corresponding and comparable growth in other Eu countries. For similar reasons, the threat of inflation would also be eliminated because wage increases would not come on top of rising energy prices, as occurred in the 1970s. Furthermore, with 11 million new jobs the cost of unemployment benefits would be reduced. It would be easier to argue against cuts in wages and welfare, and the path towards new, but recognisably social democratic policies, would once more be visible.

Conclusions: an EU based on traditional European left-wing principles

The measures and proposals put forward in this paper aim not only at reversing the economic crisis, but also at breaking up the vicious circle of hegemonic regression which, with financial speculation, job insecurity and the suppression of wage claims has for decades favoured the technocratic right wing and caused the loss of social democratic votes to abstention and populism. We are reminded of Bernstein, whose theory regarding the failure of capitalism to collapse, has wrongly and too often been interpreted as a passive acceptance of capitalism. In point of fact, he is valuable to us today in that he demonstrated how only a strong working class, not one that is increasingly being proletarianised, can help social democracy move forward. A working class that is »growing in numbers and in social power – not merely pushing forward, but upward as well, elevating its economic, ethical, and political standards and becoming increasingly capable of governing state and economy.«[3] In brief, Bernstein reminds us that although a gradual reform policy remains a mainstay, it is precisely for this reason that the impoverishment of workers is an unacceptable solution to the crisis. On the other hand, more labour and wage bargaining power also result in greater control of the economy – just as indicated in Blanchard's and the DGB's proposals.

The DGB Plan fits into a well-established culture that largely coincides with the tradition of European trade unions and social democracy prior to Blair's Third Way. As in the European trade union plan of 1979 – *Keynes Plus, A Participatory Economy* – this tradition aims at a renewal of Keynesian-style European left-wing trade unionism. Keynes »never went into the what, where, how and for whom of investments and economic growth. He implicitly assumed that the whole story was told by the costs and revenues of a company that made investments (…). We are now very much aware that investments and new production involve both benefits and costs which fall outside the profit and loss accounts of the investment company (…). Full employment in high priority production must become more the central issue rather than just the maximum possible increase in GDP.«. The aims of the »Keynes-plus« approach were similar to those in the DGB plan. Growth must aim at »improving work conditions; protecting both the natural and the social environment; promoting an equal distribution of the results of growth; economizing on the use of scarce resources, especially energy, and improving the quality of the end product«.[4]

Collecting savings in financial institutions that can steadily channel them into a new productive framework (instead of the random nature of capitalist quantity and quality) is another of the laudable endeavours of the European trade union and labour movement.

When Gramsci studied Fordist innovation, instead of proposing the closure of factories, he suggested not leaving the process of modernisation to the initiatives of Henry Ford and Giovanni Agnelli (founder of the Fiat company). In fact, in the years following the Second World War, European democratic socialism managed to do this: »(…) the Ford method is ›rational‹, that is, it should be generalized (…) a long process, during which a change must take place in social conditions (…) that cannot take place through ›coercion‹ alone but only by tempering compulsion (self-discipline) with persuasion, in the form of high wages, which offer the possibility of a better standard of living, or more exactly perhaps, the possibility of realizing a standard of living which is adequate to the new methods of production and work (…).«[5] Gramsci urged us not to passively accept a Fordist innovation (a kind of »passive revolution«) that would benefit only a few workers (working class aristocracies) and limited areas of a country, or in our case, of Europe. As we have seen, the »mercantilistic« competitiveness proposed by ordoliberalism for the whole continent benefits an ever-shrinking »working class élite«. In the end, neither growth nor generalized innovation can be perpetuated in this way. The labour movement and democratic left-wing parties must promote modernisation and extend it to the entire European labour market. Only in this way will they unite Europe, prevent the Union from dying and also make European economy more competitive.

[3] Eduard Bernstein, »Lecture Presented to the Student Association for Social Studies in Amsterdam«, in *Selected Writings of Eduard Bernstein*, ed. Manfred Steger (New Jersey: Humanities Press, 1996), p. 62, 77.
[4] ETUI, *Keynes Plus, A Participatory Economy* (Brussels: ETUI, 1979), pp. 40–41.
[5] Antonio Gramsci, *Americanism and Fordism: Quaderno 22* (Turin: Einaudi, 1975), p. 90.