

WOLFGANG SCHOLZ:

European Social Policy: An Interim Assessment

The European project is under pressure. One indicator often overlooked in this context is the miserable state of Europe's social policies. This article points to the high de facto variance, among European countries, of relative and absolute social spending levels, and postulates that spending differences between countries *within* Europe are becoming wider than existing or foreseeable differences between the EU-27 average, on the one hand, and the United States, South Korea, or Thailand, on the other.

Missing its chance on the fall of communism to further develop its tried and tested concept of the Social State, Europe instead experimented with its social systems on the basis of a new socio-economic paradigm. The outcome has been neither economically nor socially satisfactory, however, and, as a result, social policy has lost legitimacy and support.

An intra-European benefit equalization system is proposed as one possible measure to address this unacceptable situation: depending on its design, the costs of such a system would be very low or at least kept within manageable limits.

However, a revival of European income policies must be complemented by further measures. The »reforms« of the 1990s and 2000s will undoubtedly lead to a future of old-age poverty for many European citizens; these prospects are aggravated by the current (2008/2009) financial crisis, which could result in long-term depression of returns on private wealth, including private pension funds. It is urgent, therefore, that improvements in social benefits, with a minimum pension guarantee, be put back on Europe's political agenda.

BJÖRN HACKER:

**Social Policy in Central and Eastern Europe:
Different Reform Strategies with Liberal Undertones**

Despite their common Socialist heritage in terms of welfare, the 10 Central and Eastern European countries (CEE countries) that joined the European Union in

2004 and 2007 have followed different paths in shaping and reforming their social policies. High levels of provision had to be abandoned due to economic turbulence and restructuring measures in the early 1990s. The narrowing of entitlement by means of higher contribution periods and an increased retirement age represent common reform steps in the old-age pension systems of all CEE countries. In a second phase, only Slovenia and the Czech Republic have followed the path of gradual reform; the other eight CEE countries have implemented radical liberal policies by eliminating many redistributive elements in the pension formula and by converting pay-as-you-go schemes into multi-pillar models with compulsory funded components. The CEE countries have met the need to modernize their health care systems by introducing new cost-efficient organization and accounting structures. Because of the infrastructural deficits, high adjustment costs, and low revenues of most public health care insurance systems, funding is shifting more and more directly to the patients. Except in Slovenia and the Czech Republic, out-of-pocket-payments constitute a high share of total health care expenditure in all CEE countries, thereby eroding the principle of universal health care provision and paving the way for more market-driven private insurance solutions. Nevertheless, health care provision in most CEE countries is still comprehensive and contains many elements inherited from the Socialist past. This is not true of unemployment insurance, however, which had to be newly established after 1989. Major cuts in benefits and a move from passive to active labor market policies are in line with similar reforms in Western European countries. Although liberal undertones are clearly discernible when analyzing the transformation process in CEE countries' welfare systems, different reform paths have been chosen. Western European welfare states were used as reference models, but no single example applies to all sectors of social security. The avoidance of oversimplification and generalization makes it possible to reframe the debate on alternative ways towards a European Social Model.

MICHAEL EHRKE:

Global Crisis on Europe's Periphery. Is the Illusion of Convergence Breaking Down?

The countries of Central and South-Eastern Europe have been particularly hard hit by the global financial crisis, regardless of the degree of their integration in European and global markets, their resource wealth and the prevailing currency regime. To blame instead are specific vulnerabilities arising from the transformation process, which are reflected in the high balance of payments deficits of all the countries of the region. The »growth with imbalances« of recent years, which was characterized by high and increasing export surpluses, especially in Germany, and equally high – in relation to GNP – deficits in the countries of the eastern periphery,

has proved unsustainable. These deficits on the periphery were concealed by the massive availability of foreign credit, whose growth went hand in hand with the denationalization of local banking systems. Since the globalization of financial markets in Central and South-Eastern Europe was more one-sided and more continuous than in other developing regions, the risks accompanying financial globalization were also more pronounced. Foreign banks were – as it turns out – more prepared to take risks in seeking to exploit interest rate and exchange rate differences than local banks were. With their credits denominated in foreign currency they financed, first and foremost, the consumption of the local middle classes, without bothering to check the capacity of the borrowers and borrowing national economies to service the debts they had taken on or to generate a sufficient volume of foreign currency. The credit risks – in particular, the exchange rate risk – were offloaded onto the borrowers.

But just as the foreign banks were willing to grant generous loans without checking the creditworthiness of their customers so were the local middle classes willing to take on debt in foreign currency. To blame in this instance was a »catch-up factor,« in other words, a convergence of material living standards within Europe which was considered to be automatic or a moral entitlement. The disappointment of the corresponding expectations could have political consequences, which could undermine the success of the celebrated integration of the former communist Eastern and South-Eastern periphery in Europe.

JONAS GRÄTZ: **Energy Relations with Russia and Gas Market Liberalization**

The relationship between Russia and the European Union is a much debated topic, especially when it comes to energy. This is not surprising, since energy flows and their management have been the subject of political contestation at least since the 1970s and energy resources constitute the bulk of Russian exports to the EU. What is more, Russia has taken a completely different trajectory from the one expected by the West in the 2000s and is currently led by an elite that is trying to resurrect it as a relevant pole in a multipolar order. These Russian rulers see energy resources as a pivotal lever in this struggle for power, especially since they are in a situation in which other vital means are in short supply.

In this context, actors in the EU are confronted with the question of how best to react to this mixture of state-led economics and power politics. So far, the reactions have been disparate. The EU tried to integrate Russia into the liberal governance framework of the Energy Charter Treaty, but was not successful. However, this failure was due not only to Russian reluctance, but also – and perhaps even more so – to the internal divisions that pervade the EU: big member states and

corporations are pursuing their own agendas and trying to make bilateral deals with Gazprom. This has helped to further strengthen the current institutional configuration in the Russian oil and gas sector and has diminished the need for Russia to agree to the framework proposed by the EU. Currently, the prospects of an agreement being reached at international level are bleak, as Russia has refused to join not only the Energy Charter Treaty, but also the WTO, another regulatory framework which could govern energy trading.

The experience of unproductive disunity and corresponding lack of success in dealing with Russia at international level suggest a change of tack, concentrating first on »community building« at the EU level. The completion of the internal energy market would not only reduce the vulnerability of individual member states to gas supplies from Russia, but also lead to greater unity with regard to Russia. In the end, this could have positive repercussions for rules in the Russian market as well.

MARC SAXER:

Performance Matters – Challenges for the Democratic Model and Democracy Promotion

The transition problems facing young democracies have shaken the conviction of many that democracy is conducive to economic development and stability. The poor performance of young democratic systems tends to delegitimize democratization processes among the population and to offer authoritarian elites, who can point to the recent apparent successes of authoritarian development models, an opportunity to roll back democratic developments. Furthermore, Western promoters of democracy have been discredited by the excesses of the »war on terror«, but also by the double standards of some Western governments in a number of partner countries. At the same time, the emergence of new actors, such as China, restricts the options open to Western efforts to promote democratization by deploying incentives and sanctions as means of generating external pressure.

While established approaches and instruments may continue to claim validity, in the medium term democracy promoters are likely to find themselves in a difficult environment. It is, therefore, imperative that those intent on promoting democracy make optimal use of their own potentials and focus the available resources. One useful method may be the development of tailor-made approaches based on sub-strategies for countries exhibiting similar patterns (clusters). Cluster strategies can stimulate and foster fundamental strategy debates by operationalizing the results of transformation research, serving to set priorities, and developing specific mixes of instruments derived from concrete cluster conditions.

Democracy promotion must seek to strengthen confidence in the democratic model's ability to perform and step up its efforts to highlight, by discursive means,

the model's long-term benefits. In this connection, the model of social democracy has proven to be a comparative advantage: aiming to realize economic and social rights, it caters to the expectations of citizens in developing countries.

HANS-JÜRGEN BIELING:

**»Private before State«? On the Development
of Political Ideal Models of the Role of the State**

Political ideal models shape the public perception and interpretation of concrete events and developments. At the same time, they are themselves the product of relations and conflicts in society. This applies not least to ideal models of the role of the state, which, in situations of radical societal change and crisis, are constantly called into question and redefined. In order to understand the transformation of ideal models it is helpful in political discourse to distinguish between different levels or »floors«: the coherent designs of influential intellectuals; their public reception and political implementation; and the everyday consciousness of the general public. The success and staying power of ideal models are decisively dependent on the extent to which these levels of discourse complement one another. In crises and periods of radical change this ceases to be the case, so that old ideal models are superseded by new competitors.

The transformation of ideal models of the state over the past few decades can be reconstructed as follows. First, by the end of the 1960s the ideal model of the »Keynesian welfare state« had crystallized in the developed capitalist societies. Increasingly called into question in the course of the 1970s and 1980s it paved the way for the ideal model of the »lean competitive state.« Success with the attendant goal of »rolling back the state« with regard to the economy and society was limited, however, owing to a number of factors, including institutional and political resistance and the costs of social crisis. In many countries, the process of rolling back the state only really got going when the ideal models of the »activating state« and the »guarantor state« came to the fore, promising to rein in rampant privatization and competition to some extent by means of social regulation.

In due course, these two ideal models have also come in for intense criticism. On the one hand, because political realities have meant that the promises they entailed have not been kept, and on the other hand, because in the face of the global economic and financial crisis not only state regulation, but also state intervention is once again required. What that means in practice is sharply contested in the public debate. While market-liberal and conservative actors afford the state the role of »protector against catastrophe« in the current crisis, the arguments marshaled by the more socially and environmentally inclined point in the direction of a »democratic social investment state.«

UWE BECKER:

Innovation and Competitiveness: A Field of Sloppy Thinking

The publication of new international rankings on R&D spending generally leads to a chorus of voices, ranging from media commentators to interest groups, calling on governments and companies to raise their R&D spending. Such spending is supposed to be necessary to improve a country's innovative capacity and competitiveness. However, input does not necessarily say much about output, a fact that is well illustrated by the American health care system. What we do see in the field of R&D, innovation, and competitiveness is that some big-spending countries are very innovative in terms of inventions, patents, and their application, but also that they are joined in their success by lower-spending countries. Some other big spenders, by contrast, are less innovative and some poor spenders, as well as poor innovators – such as Italy – manage to be fairly competitive by relying on their specializations in the international division of labour. It is problematic, therefore, to assume a linear relationship between R&D spending, innovation, and competitiveness, or, more generally, performance. Within the framework of global competition, R&D has become very important, but it has to be put into context, particularly in terms of whether or not such spending is effective. We must also acknowledge that the global economy is increasingly dominated by multinational companies and national R&D figures risk losing relevance. Furthermore, there is no evidence to support liberal superiority in innovation, as often claimed by neoliberal economists. The US economy is innovative, but other highly liberal economies, such as those of Australia, Canada, and New Zealand, are innovation laggards, while the relatively successful United Kingdom is a mediocre innovator and some considerably less liberal economies in Europe and East Asia – such as top-spending Finland, Japan, and Sweden, but also Germany – appear to be strong innovators. Moreover, they are very competitive, if competitiveness is understood as a country's capacity to host and facilitate a relatively large number of innovative companies and to be able to export goods and services primarily because of their quality and product/price relationship.

HENRI VOGT:

Between Pragmatism and »Moralism«:

On Finnish and Scandinavian Internationalisms

The Nordic countries – Denmark, Finland, Iceland, Norway and Sweden – have played a significant role in many areas of international affairs; indeed, much more significant than one might expect purely on the basis of their size. Their role as mediators in international crises, the outstanding successes of their welfare systems in the age of globalization, and their well-developed forms of regional co-

operation have all garnered a great deal of attention far beyond their borders. Perhaps equally important is the fact that this world attention has also become part of national self-understandings in the region, creating a strong sense of Nordic exceptionalism. In this article I try to trace the origins of this internationally minded exceptionalism and to make sense of its national variations.

At least four factors deserve mention in any attempt to understand the emergence of Nordic internationalism and its current (re-)construction. First, the Nordic countries form a geographically and culturally distinct area with a historically evolved sense of regional unity. This distinctiveness has created a context in which a strong and successful national identity-building process was possible. Remarkably, the different forms of regional cooperation – since the 1950s conducted primarily under the Nordic Council – have in no way undermined these strong national identities, but have merely added another dimension; »national« and »international« have not been contradictory categories in the Nordic countries. Second, the political landscape of these countries has been dominated by a social democratic welfare system, often referred to as the »Swedish model.« In the 1960s, this system took a universalistic turn: the model was good enough to be exported to other parts of the world. Third, partly as a result of this, international solidarity has been very high on the agenda of the Nordic countries. They have been very active, for example, in global environmental policy and are among the most generous donors of development aid. The fourth point is closely related to the third: peace-building efforts have become almost a Nordic trademark. Former President of Finland Martti Ahtisaari's Nobel Peace Prize in 2008 is the most recent recognition of this.

There are also significant differences between these countries' internationalisms, however. The different foreign policy traditions of Finland and Sweden are particularly noteworthy here. Sweden has been very outspoken in its internationalist attitude and, traditionally, has been willing to sharply criticize others on the world political stage, often on the basis of a clear moral, norm-based stance; one might even say that Sweden has acted as a *Moralnation*. By contrast, Finland has followed a much more careful – or pragmatic – strategy in its relations with other actors; it has been a »physician« rather than a »judge.« This is clearly a legacy of the Cold War era, in which Finland tried to find its own niche between the Soviet and Western political hemispheres. A comparison of the foreign policy discourses of the two countries – for example, in the case of the Russia-Georgia crisis in summer 2008 – clearly shows that, even today, the differences are highly significant.