EUROPEAN CAPITALISM TODAY: BETWEEN THE *EURO* AND THE THIRD WAY

by GREG ALBO and ALAN ZUEGE

Since the late 1970s, Western Europe's Golden Age of economic growth has plainly ended. "Euro-pessimism," "euro-sclerosis," and "euro-stagnation" were just a few of the epitaphs written for Europe at the end of the twentieth century. Among the attempts to revive accumulation were neoliberal projects embracing market flexibility, government restraint, and hard currency in Britain and Germany, followed by the offensive against the "Dutch Disease" in the Netherlands and crusades for modernization in the Southern cone. Other attempts were the various social democratic projects to spread employment through reflation, public sector expansion and active adjustment policies, notably in Sweden under Palme and France under Mitterrand. None of these endeavors of the 1980s succeeded in restoring rapid growth.

The growing internationalization of economic relations set Europe on another course in the 1990s. The globalization of trade, investment, and particularly financial flows have linked Europe ever more tightly to the world economy. But economic globalization here takes a densely regional form, in the flows of capital within Europe. Regional or continental economic blocs are an integral element of world capitalism today. In Asia, there is the bloc held together loosely by Japanese subcontracting networks, and in North America, a preferential trading arrangement. In Europe, the regional bloc consists of more formal supranational institutions.

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Over the past forty years, the European Union (EU) has sought to consolidate a unified economy for Europe, culminating in the formation of a single market in January 1993 and a single currency in January 1999 (with the dissenting countries of Britain, Denmark, Greece, and Sweden likely to join in due course). The fifteen western states comprising the EU now constitute the largest zone of capitalist production in the world as measured by total GDP, surpassing the single country behemoths of the U.S. and Japan.[1] The EU remains a core of the world economy in terms of wealth (and population at some 370 million).[2] Per capita GDP in Europe is growing at a rate faster than most of the world, although, in contrast to the postwar period, it now lags behind the United States, which alone has escaped the financial turbulence of the 1990s.

Yet the growing interdependence and integration of the countries of the EU, however important, should not mask the diversity and uneven development of the national and regional political economies that compose it. The image of a single European market fails to capture the vast differences in economic position and class relations among regions like Reggio Calabria, Baden Württemberg, and Donegal. In this respect, the EU is very much an "imagined community," even apart from the general alienation citizens feel toward the central authority in Brussels.

The "European model of society" has been a defining myth both within European culture and beyond it. It evokes a capitalism more egalitarian and participatory than the polarized and insecure capitalism of North America. This conception has been embraced by European social democratic parties holding office in thirteen of the fifteen EU states (all but Ireland and Spain). Its project of a "progressive competitiveness" for Europe, which can be termed competitive corporatism, has several facets: "productivity pacts" between workers and companies at the firm level to establish mutual trust for co-operative work relations; forms of "associative democracy" such as works councils at the sectoral level for social negotiation and enhancing regional competitiveness; and policies of "social cohesion" at the national and supranational levels to parallel the economic cohesion of the single market.

The political expression of competitive corporatism (what Britain's Tony Blair calls the Third Way and Germany's Gerhard Schröder terms the *Neue Mitte*) and the continental architecture of the EU are central to the prospects of European capitalism at millennium's end. A new configuration appears to be on the horizon. But the historical obstacles, political dilemmas, and economic uncertainties involved in the restructuring of European capitalism are more serious than is generally acknowledged.

Economic Obstacles: Liberalization and the Single Market

Discussions of European capitalism and economic integration tend to be overwhelmingly descriptive and analytically shallow. A typical "functionalist" account suggests that the spread of market relations, which is a historical inevitability, has more or less automatically created corresponding political functions, from the original Common Market to the single currency today. This is, of course, the story favored by the European Commission and the backers of market liberalization.

Other approaches contain a dose of realism, emphasizing the role played by the high diplomacy of Jean Monnet and Jacques Delors in the advancement of inter-governmental institutions. But this element of realism is offset by much more idealism: the European Union in this story represents a heroic reform of sovereignty in an embryonic federalist "United States of Europe," as old divisions wither under the progressive impact of globalization.

European integration should instead be understood in its larger historical context. While capitalism emerges and reproduces its social relations in historically specific ways, its competitive processes lead to the geographic expansion of accumulation, and this changes the spatial configuration of the globe. As Harry Magdoff points out, both rivalry and interdependence are irreducible elements of world capitalism:

> While the expansion of capitalism has always presupposed and indeed required cooperation among its various national components ... there never has been a time when these same national components ceased to struggle each for its own preferment and advantage. Centrifugal and centripetal forces have always coexisted at the very core of the capitalist process, with sometimes one and sometimes another predominating.[3]

We can locate the formation of an economic bloc like the EU in this general process of capitalist expansion. First, there is a grouping of core capitalist states (Britain, France, and so on) centered around a hegemonic pole (Germany), with the competitive capacity to form a specific zone of accumulation. Beyond that, there is a cluster of weaker states (Portugal, Greece and Central Europe), with the whole bloc ordered by an internal economic and political hierarchy among the various national economies and nation-states. In other words, the Union, which combines integration with national organization, represents exactly the interplay of centrifugal and centripetal forces described by Magdoff, an interplay between transnational cooperation and national division.

The contentious issue of the internationalization of the European state comes into focus if we look at it in this light. The inter-state treaties that have formed EU institutions have not emerged above or apart from the national states and national bourgeoisies of Europe.

Instead, they have arisen out of internal transformations in these states themselves, in response to the contradictions inherent in the internationalization and concentration of capitalist production.[4]

Postwar Capitalism and the European Community

The task of reconstruction after the war faced enormous complexities. Each individual state had its own particular challenges of rebuilding physical plant, containing rebellious labor movements, stabilizing the monetary conditions for both investment and consumption, and rebuilding international trade circuits. The first postwar years were indeed unstable. Defeated Germany was still in chaos, and Italy found itself in an inflationary spiral caused by deficit and liquidity problems. Similarly, the countries of occupation and even victorious Britain suffered under enormous strains in their attempts to revive industrial production. One of the main constraints was their balance of payments. As expansion ensued in 1946-1947, imports soon drained the limited reserves of individual countries, potentially cutting short the recovery just as it was starting. European capitalists were also exporting huge pools of capital to the U.S. to avoid their own domestic political and economic uncertainty. Capital controls were adopted in Europe, as allowed by the Bretton Woods protocols. But they were not supported by parallel U.S. measures, since its postwar design called for a free dollar as the key currency.

It was clear that the "European capitalist class was in far too precarious a position, both economically and politically, to cut an independent path of development."[5] Stabilizing the nation-states of Europe and establishing a new international economic order had to go hand in hand. The 1947 Marshall Plan was designed to assist both: U.S. capital exports and aid were to supply international means of payment for U.S. machinery and manufacturing exports to rebuild Europe, and to provide the liquidity essential to the regulatory framework of Bretton Woods. The Plan also had the intent—and certainly the consequence—of bringing European capitalism firmly into the orbit of U.S. hegemony, as part of the Western Alliance outside the Soviet sphere.

These measures did not bring about economic recovery, as the levels of assistance were far too low for that. What the Marshall Plan did achieve was to provide crucial financing to ease the European payments crisis. The European Payments Union of 1950 evolved out of these measures to become the first pan-European institution of economic coordination, and in many ways developed in parallel with the liberal orthodoxy espoused by the Bank of International Settlements.

International means of payment were scarce, and this meant that a division of labor internal to European capitalism was essential for sustaining long-term accumulation. A certain complementarity of national capitalisms developed. Germany supplied capital goods and, in turn, purchased manufactures from the rest; while agricultural production and protection for European food sufficiency were shared.

Equally important was the capacity of Germany (and to a lesser degree France and Italy) not only to develop its own internal market, but, through its export-oriented growth, to claim an increased share of world exports. At the outset of the boom, Germany's initial competitive advantage derived from relatively low labor costs, resulting from the destruction of the labor movement and skilled labor surpluses, together with the rebuilding of fixed capital stock as infrastructure and the expansion of existing plant. This sustained a virtuous cycle of high investment, increasing competitive capacity, and export growth. In the favorable demand conditions of the boom, the share of Germany's exports in manufacturing output tripled between 1950 and 1974.[6]

In this way, Germany's export surpluses lubricated European demand and helped fuel a boom across the continent, while Germany remained fixated on productivity advancement to maintain export competitiveness as its currency strengthened in the process of economic "catch-up" with the United States. In postwar Europe, economic growth accelerated from the 1940s, reaching an annual average rate of over 5 percent by the 1960s.

The pace and complementarity of accumulation in the major countries of Europe during the boom reinforced economic co-operation. The European Coal and Steel Community of 1951, for example, supported rationalization and modest planning in these sectors among the Benelux countries, Italy, France, and Germany. But the Treaty of Rome of 1957, which formed the European Economic Community (EEC) among the first six, was something else. In narrow terms, the Common Market was simply a customs free zone, a common external tariff, and a common agricultural policy.[7] The original political strategists of Europe—Adenauer, Hallstein, Monnet, Schuman, Spaak, all drawn from the ruling elites of France and Germany—thought that the effects of the treaties dealing with specific issues would spill over into others. Monnet in particular hoped that integration might eventually be consummated in both a monetary union and a political federation that would encompass much of Europe. A free trade agreement alone would not have required a supranational commission, a Court of Justice, and a nominal parliament, which were all parts of the Treaty. These EEC institutions reflected the multiple geopolitical agendas of France, Germany and the United States, which found common ground in erecting a stable capitalist framework that would span Western Europe.

The other shared principles, which continue to animate the EU to this day, were the laissez-faire objectives of expanding the international circuits of commerce through the four freedoms: the freedoms to move goods, services, people and capital. In the words of the Treaty: "any aid ... which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between member States, be deemed incompatible with the Common Market."

While overseeing trade relations internal to European capitalism (and increasingly external trade as well), the EEC remained a strictly inter-state affair insofar as each member retained a veto on vital issues. Industrial relations systems, social policy, and even macro-economic coordination were determined at the national level. French statism, Dutch concertation, German co-determination, and the other forms of postwar economic coordination relied upon their own institutional resources and their own negotiations between the "social partners" over incomes policies to sustain competitiveness amidst the growing internationalization of European capital.

The impact of the Common Market was enormous. In its first twelve years of operation through to the late 1960s, internal trade increased 630 percent and the import penetration of manufactures tripled, bringing intra-EEC trade to a level approaching 60 percent of members' trade.[8] Trade liberalization and integration became the order of the day. Once the process started, it was difficult for any country of Western Europe to be entirely excluded. Pressure for additional inclusions began to build through the 1960s, with the EEC eventually adding Britain, Denmark, and Ireland in 1973. A parallel European Free Trade Association (EFTA) was formed among the outer group of Europe, with ties to the EEC in a wider European economic area.

There were other consequences too. The EEC sought to strengthen the interests of European capitalists against those of the U.S. in fora such as the GATT rounds of the 1960s. This helped edge Britain toward Europe and reinforced French diplomatic pressures for a more independent stance by Europe, especially under de Gaulle—though never to the point of threatening U.S. hegemony or the growing interdependence of trade and investment between Europe and the United States. The real source of rivalry, however, was in the erosion of North America's absolute competitive advantage, when the competitiveness of European capital began to benefit from the economies of scale as the European market widened and deepened in the EEC.

Stagnation and the European Union

Despite the common market, the economic crisis of the 1970s quickly ended the postwar boom and crippled European capitalism. Average growth rates in GDP after 1974 for the advanced capitalist countries were cut in half. The extent of the slowdown was greatest in Japan and least in the U.S., but stagnation was most persistent in the European economy, which fell even further in the 1980s. European unemployment rates more than doubled, from just below a continental average of 4 percent in the 1960s to just under 9 percent in the first part of the 1980s. Finally, the momentum of Europe's economic catch-up with the United States slowed in both productivity and output levels. European competitiveness stagnated as a result, especially as the *D-mark* appreciated under the pressure of German surpluses and American deficits with the end of Bretton Woods.

National responses to the economic downturn varied widely. Germany, for example, was dominated by the monetary orthodoxy of the Bundesbank which kept the *D-mark* strong. As long as productivity kept advancing, unit costs stayed low and exports remained stable. But the slump brought a decline in world trade growth, on which the German model depended heavily, and this caused a precipitous fall in exports in the mid-1970s, which in turn resulted in weaker profits, low growth, and high unemployment. As long as Europe's postwar locomotive was stalled, euro-stagnation was hard to avoid.

Sweden, in contrast, adopted competitive devaluation and employment-enhancing tax and labor market policies into the 1980s to sustain export-oriented growth and low unemployment. Britain took a different tack. It charged into neoliberal orthodoxy under Thatcher in 1979 (although Germany had already pushed Labour in this direction during the sterling crisis of 1976). The assault on public finances and labor market structures began, and a low tax-low wage policy mix was added to European competition. Italy's governments were paralyzed as inflation shot up to almost 17 percent and its unemployment rate began a long climb. The dictatorships in Southern Europe were ended, and stagnation spread to these countries too.

With European states adopting divergent competitive strategies through the 1970s and 1980s, pan-European institutions reached a desperate impasse. The crisis in the alignment of European currencies was one aspect of this. After the collapse of Bretton Woods, first the "snake" (an arrangement to limit fluctuations among EEC currencies) and then the European Monetary System (EMS) were set up to peg the exchange rates of national currencies with the support of the central banks. This proved to be a difficult business. Countries with weak competitive capacities and currencies, like the Irish *punt*, the Danish *krone* and the Italian *lira*, continually faced payments and currency crises. British sterling was ousted from the peg almost immediately in 1972. In contrast, countries attempting to reflate, such as France in the early 1980s, narrowed the breathing space for expansion they could have gained from devaluation by attempting instead to keep their target exchange rates.

Undervalued at first, only the D-mark and the Dutch *guilder* strengthened. By the 1980s, Europe had clearly become a D-mark zone, its rhythms in large part determined by German competitive capacity and monetary policy. With the rejection of French calls for Community-wide capital controls, the direction of monetary co-operation in Europe by the late 1980s headed towards monetarist stabilization under the hegemony of the Bundesbank.

The reassertion of competitive rivalries within Europe frustrated further efforts of integration despite extensive plans for economic and monetary union laid out at the 1969 Hague Summit. The new protectionism proliferated in the forms of voluntary export restraints and marketing arrangements between the EEC and the rest of the world. Measures such as non-tariff barriers and industrial subsidies increased even inside Europe to the extent that intra-EEC trade actually stagnated throughout the 1970s, although total trade increased. Bickering continued interminably over internal governance, funding, and the newly established regional cohesion funds.

Proposals for an active industrial policy were raised at various points from the 1960s to the 1980s, but were rejected. The EEC Industry Commissioner warned that "the industrial activism of certain member states ... has become a veritable challenge to the Community."[9] Despite the oil shocks of the 1970s, even a common European energy policy could not be achieved. Thatcher's privatization plans, however, were quickly endorsed by the Commission. The infamous butter mountains created by agricultural policy richly symbolized the incapacity of European institutions in the face of the internal rivalries among its national states.

The durability of economic slowdown has marked a new phase of European capitalism. GDP growth in Europe has consistently been the lowest of the three regional blocs since the 1980s, averaging below 3 percent even during the recovery of the second half of the 1990s. While unemployment remains comparatively low in Japan, and has come down in the U.S. during the 1990s, labor reserves in Europe have continued to grow. Unemployment rates have lingered above 10 percent since the 1980s, continuing to climb despite demographic stagnation. Some economies like those of Finland, France, and Spain have been unemployment disasters, while others have had modest success but have watched their labor reserves take other forms, such as involuntary part-time work or low participation rates.

The relaunching of economic integration cannot be seen apart from the impasse of European capitalism and the wider process of globalization. It has become more difficult, for instance, for states dependent upon the core economies of Europe to remain outside. The entrance of Greece in 1981 and Portugal and Spain in 1986 was linked to the expanded role of semi-peripheral regions as lower-cost production zones (especially for German companies) and new markets internal to the bloc. The competitive imperatives to secure important markets for trade and international investments in unstable world conditions contributed to the widening of the market that brought Austria, Finland, and Sweden into the EU in 1995. A similar logic of interdependence applies to the EU embrace of Eastern Europe—a key objective of Germany—and the consolidation of capitalism there. It was the economic impasse that provided the political space for Jacques Delors as Community President to launch both the single market and single currency projects that now underpin the configuration of European capitalism.

The most important market-deepening initiative was the Single European Act of 1987, which targeted 1992 for the completion of the single market. The 1992 project further liberalized internal trade by harmonizing regulation and technical standards, abolishing non-tariff barriers, quotas, and other border controls on goods and services, and ending all controls on capital movements inside Europe. This was, in large part, a consequence of the interpenetration of European multinationals and the desire to consolidate these markets for international competition.

The non-liberalization measures of 1992, such as the Social Charter, were more symbolic than substantive. The technology policy proposed by the EU remains little more than an outline because of its lack of resources and cooperation from member states, with funds consistently denied to the EU even for trans-European public works projects.

Without such instruments to equalize development, Germany's massive trade surplus with the rest of the EU continued, especially as single market rationalization bolstered its engineering, vehicles, and chemical sectors. The process of economic integration, however contentious and unstable, was driven forward while political and social integration encountered persistent and powerful opposition. The uneven structure of the single market meant European capitalism was still little more than a fragile unity of its many and diverse parts, held together by the emerging architecture of the single market.

The Maastricht Treaty of 1992 and the *Euro* common currency were to become the pillars of the new European order. The EMS already represented a degree of currency convergence and a limitation on the use of competitive devaluations. The abolition of all exchange controls over capital movements in the single market reinforced currency convergence. Financial liberalization was all part, as even Delors expressly stated, of giving European financial centers the opportunity to be among the most important in the world.[10]

The Maastricht "convergence criteria" for entrance to the monetary union were stringent and reflected Germany's dominance over the process. Interest and inflation rates had to be within a narrow range, and fiscal policy had to meet targets of 3 percent of GDP for budgetary deficits and 60 percent of GDP for public debt. The perceived inability of Denmark, Italy, and Spain to meet the criteria fuelled speculative currency crises which swiftly kicked them, along with Britain, out of the EMS.

Since then monetary union has compelled even more stringent austerity. Italy, for example, made immense efforts, for much of the 1990s, to meet the targets at the expense of widening regional divisions and the lowest rate of growth in the EU. But all eleven EU members taking up the *Euro* (and also the other four) have been forced to undertake the same course. At summits in Dublin in 1996 and Amsterdam in 1997, a Growth and Stability Pact confirmed the convergence criteria and, under German pressure, their continuing application into the next century.

The establishment of the European Central Bank (ECB) on January 1, 1999, gives new institutional force to Europe's path of austerity and liberalization. Since its launch, ECB President Wim Duisenberg has vigorously pushed a policy of fiscal restraint and an inflation target below 2 percent. In this way, the ECB perpetuates and strengthens the role previously played by the Bundesbank, enforcing restrictive macroeconomic policy "free" from the constraints of political accountability. The ECB has squarely challenged even mildly expansionary policies, especially as the *Euro* has yet to be warmly embraced by currency markets or taken up as a substitute reserve currency in place of the dollar.

Even modest interest cuts, like those proposed by German Finance Minister Oskar Lafontaine in early 1999, have provoked the wrath of the ECB. This confrontation, and the subsequent departure of Lafontaine from his position amidst mounting resistance to his moderate left views, symbolize the dilemmas of the new European order. The continental architecture that has emerged out of the boom and crisis of postwar European capitalism, of which the ECB is a defining element, represents a crucial political challenge confronting European social democracy.

Political Dilemmas: The Repositioning of Social Democracy

The restructuring and deepening integration of European capitalism set the stage for a parallel transformation in the political project of social democracy. In the halcyon days of the postwar period, social democracy flourished in a climate of rapid growth, rising wages, and an expanding state. The institutional patterns differed between the expansive welfare states of Sweden and, later, Austria, where social democracy governed, and the more modest provisions of Italy and France, where it did not. But they all developed institutionalized bargaining structures and redistributional policies to aid the less advantaged, whether the unemployed or entire regions.

These patterns were never as stable as their defenders claimed, even in the best of times, but the slowdown of accumulation and intensification of competition in the crisis of the 1970s escalated tensions to new levels. National labor movements responded differently to these changes: some assumed a defensive posture, while others developed more creative and radical approaches. The outcome of strategies in one context were closely watched and frequently interpreted as lessons in another. The pivotal cases of France, Sweden, and Germany were particularly important. They would test the continuing viability of social democratic strategies of the postwar period—national Keynesianism and corporatism—under the strain of new challenges from both left and right.

National Reformism Unravelled

In the 1980s, the Keynesian orthodoxy which reigned across postwar European social democracy was severely shaken by what many took to be the lesson of the Mitterrand experience in France. Building on the momentum of working class militancy and a precarious alliance between Communists and Social Democrats through the Common Program of the 1970s, the French left espoused a sweeping strategy of state expansion, redistribution, and large-scale nationalization. When a Socialist government elected in 1981 embarked on a watered down version of the Program in a period of economic recession, it encountered fierce resistance from domestic and international capital, resulting in massive outflows of money and investment. The government beat a hasty retreat and imposed austerity after 1982, devaluing the franc, increasing taxes, and de-indexing wages.

The Mitterrand "U-Turn" came to symbolize the passing of Keynesianism in one country as an effective basis for full employment strategy, exposing its limits in an increasingly integrated and stagnant global economy. But the roots of the turnaround in France, as elsewhere, were political as much as economic.[11]

The French case illustrates both sides of the complex process which has transformed the European political landscape for social democracy. In the midst of stagnation and internationalization, national capitalist classes were no longer willing to strike a cross-class redistributional bargain for full employment. The political offensive by capitalists, however, equally provoked social democratic leaders to ward off more radical challenges from within the movement. The repositioning of European social democracy was not just a rethinking of strategies to cope with economic internationalization. It also represented a shift in traditional political alliances and party structures.

The political legacy of the Mitterrand regime was to engineer a transfer of electoral support from the Communist to the Socialist Party, and a shift within the Socialist Party away from its remaining radical and popular roots towards a fundamental accommodation with capitalism. The project of "modernizing" the French left transformed the party into an increasingly bureaucratic and centralized electoral machine. The language of class and the "old-style" politics of state economic planning were abandoned in favor of a new ideology and the hegemony of policies that equated the "national good" with the competitiveness of domestic capital. The objectives of the welfare state were even reinterpreted to mean facilitating a flexible and productive workforce.

The defeat of the radical national alternative, moreover, consolidated growing support in France for a reformist pan-European strategy. This was represented clearly in the figure of Delors, who, as Finance Minister during the U-Turn, was instrumental in both subduing the left in Mitterrand's cabinet and laying the political foundation for a social democratic project of European integration.

This story of the defeat of left responses to a disintegrating postwar order at the hands of an internationalizing capitalist class and a modernizing social democratic elite was not unique to France. It bears a remarkable resemblance to the fate of the Labour new left in Britain, along with a number of other radical challenges, such as the Portuguese Revolution in the 1970s and even the initial Socialist government in Greece in the 1980s.

But even far less radical corporatist strategies embodied in the Scandinavian and Rhenish "models," so central to European left thinking in the 1980s and 1990s, have revealed irreparable cracks in their own foundations, under the combined pressure of a leaner capitalism and a meaner social democracy. The apparent resilience of these institutions of economic coordination and shopfloor productivity, as distinct from the French *dirigiste* statist and British liberal market traditions, was seen to lie in their capacity to contain the effects of the economic crisis on employment and exports. It was not long, however, before the spreading crisis began to undermine even the historic compromises at the heart of European corporatism.

Sweden gained its reputation as the leading model of European social democracy through a combination of Keynesian demand management, cheap credit policies for industry, active labor market policy, a comprehensive welfare state, and centralized bargaining to maintain relative income equality and rising productivity in the export sector.[12] But the economic downturn placed new strains on Sweden's collective bargaining institutions as its rates of accumulation and productivity faltered. Employment growth became increasingly dependent on public sector expansion, and continued full employment contingent on workers shouldering the burden. As in France, industrial militancy initially took a radical direction, culminating in the 1970s "Meidner Plan" which set out measures gradually to socialize capital. Sweden's business community and bourgeois parties campaigned vigorously against the scheme, contributing to the Social Democrats' defeat at the polls in 1976 for the first time in forty years.

Although they returned to power in 1982, only a diluted form of the Meidner scheme was introduced, and economic policy returned to high taxes in order to redistribute employment to the public sector. The position of organized labor within the Social Democratic party was permanently altered in the course of the struggle as trade union influence over the direction of party policy decreased. In the wider context of intensifying European competition and integration, Swedish capital stepped up demands for concessions from its workers and rejected traditional bargaining structures. Rather than negotiate with unions centrally, employers sought to decentralize bargaining and to link wages and working conditions more closely to local rates of productivity. Swedish capitalists also moved investment off-shore at an accelerating pace, with the level of foreign direct investment nearly tripling in the last half of the 1980s.

Under these conditions, Swedish trade unions could no longer sustain wage solidarity and have since struggled to form a new strategic response to the changed economic and political circumstances. In contrast, the Social Democratic party continued along its new political course, liberalizing capital controls, abandoning full employment, and embracing European integration as a necessary component for repositioning social democracy.

Corporatist institutions in Germany, which persisted through Kohl's neoliberal policies, have faced similar historical challenges. The German system of co-determination at first proved crucial to sustaining export-led development through the economic slowdown. The system of sectoral bargaining kept wages from over-shooting productivity, while at the same time it continued to supply the skilled workers who underpinned the productivity of German manufacturing. The effects of low investment, weak innovation, and international price competition in producing stagnation have exposed the limits of the much-vaunted model of high skilled, high waged, export-based manufacturing. With the encroachment of Japanese lean production at home and intensifying competition abroad, German capitalists too have demanded increased workplace flexibility and more decentralized bargaining. And German firms have shifted production abroad at an alarming rate. This has been a critical factor in European integration.[13]

Viewed in the light of slowed growth and mass unemployment in the 1990s, Swedish and German corporatisms lose much of their luster as models for social democratic strategy. Like national Keynesian reflation, they too have been banished from the social democratic arsenal. This has predictably led to the "discovery" of new models—most notably the more "flexible" systems of Austria, Denmark, and the Netherlands—consistent with a lowering of social democratic expectations in an increasingly unfavorable climate. But the defensiveness of national social democratic governments and movements has contributed in no small part to the shift in left priorities to European-level strategies, on the one hand, and the forming of new competitive corporatist social pacts, on the other.

Social Europe: Globalization with a Human Face?

The left project for a "Social Europe" to parallel economic integration has a long heritage of modest attempts to equalize development, coordinate economic policies, and expand labor adjustment programs. But since the late 1980s, the terms of discussion have changed, as social democracy has repositioned itself and the social reform agenda embraced by the Commission under Delors has been widened. For much of the European left today, Social Europe offers the possibility of creating political space for class compromise at the regional level, at a time when globalization seems to be restricting the scope for reformist politics on the national plane. Euro-Keynesians and Euro-corporatists alike imagine that European integration can constitute a progressive form of globalization.

The strategy envisages reforms on several fronts: improving labor, social, and environmental standards through international agreements; enhancing the labor and community representation within transnational institutions; and using reflationary policies, orchestrated by a supranational body or managed through coordinated macroeconomic expansion, in order to advance employment and welfare. An agenda of social reform could be consolidated within Europe, the argument goes, by generalizing and extending elements of existing (though threatened) national models. At the same time, nurturing Europe's competitive advantage in industrial innovation, a skilled workforce, and quality products is supposed to bring success in global markets, creating a progressive countervailing force to regional blocs of liberal capitalism and lean production.

The evidence on "social integration" in Europe tells a different story—and by now, the evidence is ample. The vision of a Social Europe was taken up, to varying degrees, by several Social Democratic, moderate Christian Democratic, and Green parties across the continent. It gathered further support among labor, environmental and other movements, and found a strong institutional voice inside the European Commission itself.[14] Concrete proposals to develop the social dimension in earlier stages of the integration process met with little success. And since then, even after efforts were stepped up in the 1980s, advance in the fields of social, labor and industrial policy has been limited.

With employment, wage, and regional disparities substantially higher than in the United States, the EU's centralized budget of less than 1.5 percent of EU-wide GDP has crippled its capacity to pursue significant redistributive or stimulative measures.[15] The Social Charter and similar initiatives to extend labor and social standards have also gone nowhere, severely weakened by the emphasis they place on variability, minimalism, and subsidiarity—in other words, provisions that permit low standards in individual states to take precedence over any higher standards the EU could impose.

The promotion of "social dialogue" between federations of employers, unions, and public enterprises at the sectoral and supra-sectoral European level has been ineffective in the absence of strong associations at the highest level of the Union, the enforcement of collective agreements, or a meaningful role for labor in policy-making. And after over a decade of failed negotiations, the limited European Works Councils Directive that was finally adopted by the Council of Ministers in 1994 provides only for minimal entitlements to information, for little over 10 percent of employees in the EU.[16] Even the EC's "progressive competitiveness" initiatives aimed at boosting industrial capacity and employment through public investment in social and technological infrastructure—such as the ESPRIT, Eureka, and European Space Agency programs— have barely got off the ground.

The left Europeanist faith that the Social Europe project can win substantial benefits for labor by overcoming the "impotence" of the contemporary nation-state is misplaced in two respects. First, pinning their hopes on what are largely symbolic gains, Europhiles are remarkably naive about the overall direction of integration in the current period.[17] But the competitive logic of the EU's present configuration, reinforced by its restrictive macroeconomic climate and persistent national rivalries, maintains a relentless downward pressure on wages and social costs, which piecemeal reforms will do little to reverse. As one observer accurately concludes: "whatever unions may have gained from the EC—training schemes, works councils, health and safety legislation—they have lost through EC sponsored deflation and deregulation."[18]

The architects of Maastricht, from European industrial interests to the representatives of the central banks and finance ministries, were certainly concerned about the imperiled social and labor standards of Western Europe. But they were not concerned about protecting those standards from the mounting pressures of the world market. On the contrary, their concern was, and remains, to intensify and channel those pressures to overcome social opposition to the dismantling of welfare states and centralized bargaining. High levels of social protection were deemed "an obstacle to labor flexibility and international competition." But since the outcome of a direct challenge to established gains was politically uncertain and costly (especially for left governments), a "strategy of relying on market forces to exert pressure on domestic political actors to restructure the national welfare state, and the subsequent harmonization via market force... was considered [politically] appealing."[19] The dynamics of EU competition and integration thus serve as the "impersonal" mechanism by which governments and labor movements are "disciplined" in the restructuring of European capitalism.

The second weakness of the left pan-European position is its assumption that the nation-state is powerless and that therefore strategy can and should be diverted to the supranational level. Advocates of this position fail to acknowledge that what looks like powerlessness is in large part the result of deliberate political restructuring, that the internationalization of the state plays an important role in promoting global accumulation and securing the political conditions for its reproduction, and that the state is a crucial terrain of class struggle over the globalization process. In the revealing words of one observer commenting on Italy's participation in Maastricht:

> ...the objectives set in the Treaty that weakened national state capacity were accepted by the Italian government precisely because they would *strengthen* the decision-making capacities within the state. ...If Italy wants to be part of the economic and monetary union, it needs to change the terms of state intervention in the economy, and in order to do that, national state structures must have the capacity to set policy objectives and pursue them autonomous from social and political constraints ... to remove partisan, ideological and political considerations.[20]

While it is deeply enmeshed in these global economic and political dynamics, the neoliberal construction of Europe is no mere reflection of them. The particular nature of the European project is a product of both history and design. The legacy of uneven development and national diversity has been especially significant in structuring the different interests of participants in that project. The relative integration of British capital in international circuits, the vast disparities in productivity and wages between South and North, and the great diversity of industrial relations regimes pull the EU-zone in different and conflicting directions.

Centrifugal tensions have constrained the formation of a supranational state. "The EC was always a head without a body, relying on the nation-state to make its final decision, supply its revenue, defend its territory and administer and enforce its laws."[21] Europe's weak and divided center, lacking the necessary fiscal, regulatory, and political capacity, is ill equipped to meet the colossal task required of it in the social democratic vision of Europe. Divided by ideological and other differences and historically rooted in national institutions, organized labor is currently too weak to win major concessions from capital at a supranational level. Meanwhile organized business, having gone some distance in undermining national compromises, is strategically uninterested in tying its own hands at the European level.

The variable geometry of European integration in the 1990s reinforced the processes of liberalization and stagnation that continue to constrain Social Europe. With only 10 percent of the EU's total output exported, competitive rivalries internal to European capitalism between the relatively low cost regions of the Mediterranean and the high wage-high productivity areas of Northern Europe have inevitably intensified. Barring a massive increase in the funds for EU social and regional cohesion to equalize the vast differences in European development, each national state (and even region) is left to look after its own external balance and employment situation. The EU's budget remains a pittance compared to national states; its capacities and instruments for redistributional social policy or interventionist industrial policy are all but absent, and its political legitimacy remains negligible.

Clearly developments internal to the European bloc have tended, therefore, to undermine redistributional policies at the national level without the parallel development of a European model of society at the supranational level. Indeed, the liberalization logic of EU institutions—before and especially after 1992—opposes such a development. The Council of Europe, in which the heads of government meet, has shown little capacity for finding a new direction for economic coordination. Since the Luxembourg Summit in 1997, they have called for more expansionary economic policy to ease unemployment, but they have equally urged firm adherence to the Stability Pact, despite the soft economic conditions that have prevailed through the 1990s in Europe and the deflationary international context intensified by the Asian crisis.

"Third Ways" to Stagnation

The failure of the Social Europe project and the reinforcement of competitive austerity under Maastricht increases the pressure for new responses at the national level. In the postwar period, positive adjustment strategies were used to rationalize production and aid employment. But traditional strategies confront significant obstacles in Europe today. The single market places new constraints on industrial policy, and the single currency rules out devaluation. Fear of capital flight and loss of competitive position limits fiscal and tax policies, apart from tax cuts to induce investment.

One remaining option for employment policy is to move toward flexible labor markets and improved competitiveness in the hope that lowering labor costs will increase exports and add employment. In the context of a single market with restricted demand, limited labor mobility, and uneven levels of productivity, competitive pressures inevitably push in this direction in both high and low wage zones. Less developed areas tend to reproduce their competitive weakness, while more developed regions tighten the noose of stagnation.

Since integration, and even before, there have been attempts to explore these national alternatives to Keynesianism and corporatism. The British and Dutch models of labor market flexibility have either weakened trade unions or massively increased part-time work. Socialist governments in Spain and France, as elsewhere, adopted variations of competitive corporatism strategies in the 1980s, opening sectors to external markets while initiating supply side measures to boost productivity, and using social and labor market policies to encourage redeployment. In Spain, "social pacts" also assisted national adjustment by bringing wage increases below the rate of inflation. Ad hoc, national-level agreements of this sort have proliferated throughout Southern and Eastern Europe through the 1980s and 1990s, negotiated by the "social partners" either to help meet Maastricht convergence criteria or to improve international competitiveness.

The competitive corporatism that has arisen in response to European stagnation and integration has become the particular European means to intensify work, facilitate rapid adjustment, or shift income shares from labor to capital. The Third Way of Blair's Britain, D'Alema's Italy, or Schröder's Germany, for all the noble words about the problems of "social exclusion" in national communities and the promise of international economic coordination through the EU, has yet to mark a new departure for either European capitalism or socialism.

Conclusion: European Capitalism Today

The stagnation that has come to characterize the European continental bloc is deeply rooted. Germany, as the most competitive country within Europe (and after unification in 1990 the dominant economic power by far), illustrates the point. Its labor productivity growth has remained flat over the last decade, but to maintain export position German employers have cut costs and invested extensively in foreign manufacturing capacity. Domestic austerity encouraged by the Bundesbank further holds back demand, supporting liberalization and investment strategies that intensify European and international competition while overall growth in Germany stagnates.

European-wide trade figures indicate the same complexities. Intra-EU trade growth has been increasing, but the overall trade position of Europe in the world continues to slide even while Europe continues to earn a substantial surplus on its current account balance. In other words, Europe uses the world as an outlet for its goods, but the competitive configuration inside Europe reproduces the stagnation and instability of world capitalism. The convergence criteria of the monetary union and the monetarist dogmas of the ECB add their own contribution to the problems of the European economy. The distinctive logic of European integration, in both its liberalization objectives and the resulting intra-EU competition, can also be implicated. Such is the state of European capitalism.

The state of European socialism is little better. Two decades of internal conflict and political accommodation to the forces of neoliberalism and globalization disclose the impasse of European social democracy. Its strategies over the last two decades to defend the achievements of the national welfare state or to recreate them at the European level are in disarray, contributing to a deep programmatic confusion from which the European left has yet to recover. Their recent electoral fortunes signify less the successful reinvention of reformist politics than the growing desires of the European working classes—as witnessed by the mass strikes in France, Greece, and elsewhere against Maastricht—to escape from the grip of neoliberal austerity.

But political leaders and intellectuals of the left are still chasing after a "big idea" capable of securing them a durable political base and a role in the future course of European capitalism. The latest is the idea of following a globalizing capital to the supranational level of the EU in the hope of restoring social democracy. There is very little in the development of the EU that inspires confidence in this project. The emptiness of the efforts by European social democratic parties to develop a Third Way—so often defined less by what it is than by what it is not—only reveals how much they have moved in the direction of accommodating capitalism and provide no solid foundation for socialist renewal. The long-term repositioning of social democracy, however, leaves open acres of space for the European left to forge a political project. Hints of such a political formation can be seen in the mass strikes against neoliberalism, in the protest against NATO's diastrous intervention in the Balkans, the Green Left caucuses in the Nordic countries, and in some of the reformed Communist Parties. The hopes for an alternative to European capitalism and for an egalitarian European politics reside here, if anywhere.

NOTES

1. The Union leaves out only Iceland, Norway, and Switzerland, with many Central European countries, such as Poland and Hungary, part of an enlarged area falling within the compass of the EU.
2. Only Greece and Portugal fall outside the World Bank's high income countries, while the rest of Western Europe (external to the EU) are easily within.
3. Harry Magdoff, "Globalization-To What End?," in Ralph Miliband and Leo Panitch, eds., *Socialist Register 1992* (London: Merlin, 1992), p. 45. This article was also printed as a Monthly Review Press pamphlet in 1992, and parts of it appeared in *Monthly Review*, vol.43, nos. 9 and 10 (February and March 1992).

4. This point was made by Ernest Mandel, "International Capitalism and Supranationality," in Ralph Miliband and John Saville, eds., *Socialist Register 1967* (London: Merlin, 1967).
5. Philip Armstrong, Andrew Glyn, and John Harrison, *Capitalism Since 1945* (Oxford: Blackwell, 1991), p. 70.
6. Robert Brenner, "The Economics of Global Turbulence," *New Left Review*, no. 229, 1998, p. 69.
7. The discussion of the EU and its history draws on: Stuart Holland, *Uncommon Market: Capital, Class and Power in the European Community* (London: Macmillan, 1980); George Ross, *Jacques Delors and European Integration* (New York: Oxford University Press, 1995); and Loukas Tsoukalis, *The New European Economy Revisited: The Politics and Economics of Integration* (Oxford: Oxford University Press, 1997).
8. Bernard Moss and Jonathan Michie, eds., *The Single European Currency in National Perspective: A Community in Crisis?* (London: Macmillan, 1998), p. 11; and Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998), p. 40.
9. Quoted in Tsoukalis, *The New European Economy Revisited*, p. 30.
10. Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca: Cornell University Press, 1994), p. 161.
11. Daniel Singer, *Is Socialism Doomed?: The Meaning of Mitterrand* (New York: Oxford University Press, 1988); George Ross and Jane Jenson, "France: Triumph or Tragedy," in Perry Anderson and Patrick Camiller, eds., *Mapping the West European Left* (London: Verso, 1994).
12. Jonas Pontusson, "Sweden: After the Golden Age," in *Mapping the West European Left*; Torben Iversen, "The Choices for Scandinavian Social Democracy in Comparative Perspective," *Oxford Review of Economic Policy*, vol. 14, no. 1, 1998.
13. Foreign direct investment climbed from around ten billion to more than thirty billion *marks* between 1985 and 1990. See Brenner, "The Economics of Global Turbulence," p. 229. See also Birgit Mahnkopf, "Between the Devil and the Deep Blue Sea: The German Model Under the Pressure of Globalisation," in Leo Panitch and Colin Leys, eds., *Socialist Register 1999* (London: Merlin, 1999).
14. Liesbet Hooghe annd Gary Marks, "The Making of a Polity: The Struggle over European Integration," in Herbert Kitschelt, et al., eds., *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, 1999), pp. 86-91; Wolfgang Streeck, "From Market Making to State Building? Reflections on the Political Economy of European Social Policy," in Stephen Liebfried and Paul Pierson, eds., *European Social Policy: Between Fragmentation and Integration* (Washington: The Brookings Institute, 1995).
15. Andy Robinson, "Why 'Employability' Won't Make EMU Work," in *The Single European Currency*, p. 196.
16. Andrew Martin, "EMU and Wage Bargaining: The Americanization of the European Labor Market?," Center for European Studies, Harvard University, September 1998, p. 23.
17. See, for example, Hooghe and Marks, "The Making of a Polity."
18. Bernard Moss, "Is the European Community Politically Neutral? The Free Market Agenda," in *The Single European Currency*, p. 161.
19. Andrew Martin, "EMU and Wage Bargaining," p. 32, citing an interview study of participants in the EMU process.
20. Vincent della Sala, "Hollowing Out and Hardening the State: European Integration and the Italian Economy," *West European Politics*, vol. 20, no. 1, 1997, p. 29, emphases added. For efforts to theorize this process, see Leo Panitch, "Globalisation and the State," in Ralph Miliband and Leo Panitch, eds., *Socialist Register 1994* (London: Merlin, 1994) and Stephen Gill, "The Emerging World Order and European Change," in Ralph Miliband and Leo Panitch, eds., *Socialist Register 1992* (London: Merlin, 1992).
21. Moss, "The Single European Currency," p. 12.