Memos to the Left

PROGRESSIVE GOVERNANCE

The Politics of Growth, Stability and Reform

GLOBAL PROGRESS

policy network

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Introduction

Matt Browne, Olaf Cramme and Michael McTernan

There is now ample evidence that the narrow politics of austerity, championed by conservative and centre-right governments and parties across much of the industrialised world, is failing.

In many European countries, drastic spending cuts have driven the economy back into recession, further exacerbating public debts and deficits and creating divisive new distributional conflicts. The International Monetary Fund continually downgrades its global growth forecasts, and now acknowledges that it had underestimated the folly of collective belt tightening. A decisive resolution to the ongoing eurozone crisis still seems a long way off. With rising protests and anger against widespread job losses and declining living standards, the public is desperately looking for a change of course.

Unfortunately, while the global financial crisis exposed deep flaws in the existing neoliberal approach, it also uncovered the paucity of progressive economic alternatives. A mere rejection of austerity is no credible response – all the more if a classical "spend and borrow" reflex remains the predominant fall back option. This is the political reality.

To seize the moment and rebuff the growing tide of populism filling this vacuum, the progressive centre-left will need to leave its comfort zone. This publication of memos focuses on 3 pillars of progressive governance that need sustained attention, critical thinking and new ideas.

Firstly, the politics of growth, production and reform. Designing a sustainable new model for growth and future competitiveness is the foremost political challenge for progressive parties. On the one hand, there is a legitimate debate about the pace of fiscal consolidation which is taking place on both sides of the Atlantic; but, on the other hand, progressives neglect at their peril the need to simultaneously address the need for radical structural and supply-side reforms to put economies on a sustainable growth path. In too many corners, the terminology of "structural" and "supply side" reform is associated with neo-liberal discourse. This has to change as the centre-left sets about consolidating an agenda that promotes innovation and new drivers of growth, finds space for human capital investment to raise productive potential and furthers progressive regulation to protect consumers and alleviate widespread societal inequalities.

Secondly, lifting living standards and providing good jobs in an era of increasing global competition. The US experience can be seen as a signal to all developed western economies: on current trajectories, wage stagnation and the hollowing out of low- and medium-skilled jobs will be the future unless adequate policies are found that address the weakening of the link between gain and growth. Progressive governments need to have a clear sight of where the jobs of the future come from, especially in the service sector and emblematic areas which boost human capital like health, education and social care. Not all our faith can be placed in a manufacturing revival. The "lovely-lousy" jobs divide remains highly damaging to social mobility and social democrats have to get a grip on the difficult politics of wages and labour market reforms as the capacity for post-hoc redistribution through the welfare state is restrained.

Thirdly, equipping young people for the new economy and tackling youth unemployment. What social democrats have to say to the 'jobless generation' is central to ensuring a more sustainable and equitable future growth model. High levels of youth unemployment in most European countries and in the US have been an increasing source of the distrust in political parties and governments. On the one hand, the economic crisis has made entry into job markets more difficult for young people, and there is no prospect of a quick fix. On the other hand, rising global competitiveness, mobility and technological change demand more from both educational public institutions and individuals as young people begin their careers.

Yet policy alone will not be enough to reverse the current malaise. The populist challenge to progressive politics is not simply based on its simplistic world view, but also its more inclusive approach to politics. Traditional politics is faced by a legitimacy crisis, and as the barriers to entry to the democratic processes are lowered, we risk becoming a monument to the past rather than a movement for the future. To respond to the legitimacy crisis, and to defeat the populist challenge, progressive parties will need to change how they organise, campaign and communicate. They will need to re-engage at the local level, in local communities, and remember that politics is a contact sport. Beyond this, parties will need to become more open to collaboration with citizens, new social movements, and political competitors in the progressive camp who share their values.

This is tall order. Politics is in flux and democracy is under considerable stress. No easy blueprint exists for replacing an ideology and consensus which dominated the Western world for over 30 years. Progressives must work together in their attempt to work out a credible governing strategy as an alternative to the politics of austerity.

This Policy Network and the Center for American Progress publication, as well as our joint programme of work and international conferences, offers leading thinkers from both sides of the Atlantic a platform to shape our political programme and narrative for the decade to come. Our gratitude is to the authors for the clarity of their arguments and the rich vein of policy solutions they have put on the table.

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Section one

Beyond austerity

The politics of growth, production and reform

No return to ‘business as usual’ for European social democracy

Roger Liddle

The year after the banking crisis hit the City of London in 2008, the British newspapers were full of stories about how the champagne corks were popping to celebrate the world of finance’s return to ‘business as usual’. Their optimism proved premature even though their bonuses have continued to be paid. But the Left appears trapped in its own version of hoping against hope that ‘business as usual’ will return for the postwar social democratic model. That model was one of historic compromise with capitalism in which markets could be relied upon to deliver broadly based rising living standards and economic growth, and centre-left governments could then ‘tax and spend’ their way to a fairer society. This was the foundational governing principle of postwar social democracy, old and ‘new’. In the UK, New Labour in opposition proclaimed its rejection of the Old Labour version of ‘tax and spend’, but in office practiced a modernised variant as never before, aided by a golden decade of economic growth, in which levels of UK GDP had caught up relatively to France, Germany and the United States.

The precise nature of social democracy’s historic compromise differed in key respects from country to country, which is why the academic literature on ‘varieties of capitalism’ is so rich and vast and the detailed challenge for social democratic reformers varies from case to case. But all of the West’s models of redistributive market capitalism are in pretty poor shape. The crisis is most acute in southern Europe where the blockages to reform as a result of the Faustian pact between ‘crony capitalism’ and over-rigid labour markets contributed to lost competitiveness in the euro’s first decade, exacerbating the intensity of the sovereign debt crisis. Yet deep problems exist even amongst the most traditionally successful countries: in Germany wages have been badly squeezed, and for younger people on short term contracts with lower levels of skill, they have actually fallen; and in Sweden youth unemployment has emerged as an intractable social ill. Meanwhile, in the UK, as well as other leading established western democracies, the declining living standards of the so-called 'squeezed middle' are having a stark effect on the social fabric.

THE LEFT'S CREDIBILITY DEFICIT

If we are honest with ourselves, the Left across Europe has so far failed to come up with a credible answer to austerity. Our parties find this hard to comprehend. After all, shouldn't it be self-evident that voters should prefer a Left that desperately yearns for growth and jobs over a Right that treats austerity as a heaven sent opportunity to slash welfare and the size of the state? The electorate may not doubt the Left's good intentions, but they have a severe difficulty with the credibility of the Left's promises.

There is of course a self-reinforcing stupidity about the collective austerity under which Europe now lives, but where is social democracy's European plan for growth? What has happened to Francois Hollande's brave intentions which bolstered all our hopes a year ago? At a time when monetary policy appears 'maxed out', and many European economies appear caught in a classic 'liquidity trap', the Keynesian argument for a fiscal injection of demand through extra borrowing remains intellectually powerful. Ultimately it is only the return of growth that can fully solve the problems of too high deficits and debts. But the Keynesian response is beset with difficulties of its own. The most obvious is political. Any party activist senses the political vulnerability in the claim that 'the answer to too high borrowing is more borrowing': it is a hard sell on the doorstep. Nonetheless if it is right, we should find fresh, more appealing ways of arguing for it.

It all depends on the context. Let me use the case of the UK to demonstrate whether a Keynesian stimulus might or might not be feasible. In the 2010 UK general election Labour avoided disaster because, for all his faults, Gordon Brown (with weighty figures like Alastair Darling and Peter Mandelson in support) appeared a more trustworthy bet on the economy than David

Cameron and George Osborne: that explains why the Conservatives missed an open goal and failed to win an overall majority. The public sensed that in the circumstances of 2010 Labour was right to argue that a more measured approach to fiscal consolidation made sense. It would not have suffocated growth to the extent the Osborne plan has, as Ed Balls, the shadow Chancellor, rightly and courageously warned it would. However the direct result of the Coalition's huge policy misjudgement has been that growth has stalled and debts are mounting alarmingly, far more than originally forecast to an expected 86% of GDP by 2016. This is precious near the level at which, according to Reinhard and Rogoff's study into the history of financial crises[1], the risk of a loss of bond market confidence becomes a serious worry. For an incoming Labour government that will be a far bigger worry in 2015 than it ever was in 2010. A simplistic commitment to economic stimulus through borrowing more will frighten the public – and rightly so.

Another key difference is the international context. In 2009-10 the Labour government had successfully built a consensus in Europe to match the commitment of the incoming Obama administration in favour of a coordinated reflation in order to avert the risk of global depression. Labour was not attempting an impractical policy of 'nation state Keynesianism' – that failed in the mid-1970s and can easily become a recipe for sucking in imports in a highly integrated European economy. That situation has changed for the worse. In the United States there is deadlock in Congress on the budget and the implementation of spending cuts through 'sequestration'. The eurozone is in the grip of a disastrous collective austerity, with Mrs Merkel making the centrepiece of her campaign for re-election in Germany this year the achievement of a 'balanced budget'.

The context has changed for the worse. This is not a background against which nationally based Keynesian quick fixes look credible, either politically or economically. Instead, Labour's domestic attack on the Conservatives should be that the build up of debt under their stewardship to dangerous levels threatens Britain with a sterling crisis as the foreign investors who hold

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1 This Time is Different. Carmen Reinhardt and Kenneth Rogoff. Princeton University Press. 2009

a quarter of UK public debt, contemplate pulling their money out of Britain. The resulting devaluation of sterling will on the evidence so far do precious little to improve competitiveness, but the price of the Right's policy failure will be paid by hard working families in higher inflation and further squeezed living standards.

FIVE GIANT THREATS TO WELFARE AND SOCIAL MODELS

Social democracy should advance onto the high ground, even if it offers no immediate cheer and allows no easy electoral promises. We should speak for the national and European interest and attempt to build a new consensus across the political divide for the investment needed to build a new model for growth. In my view, the public senses deep down that we are in the midst of no ordinary recession, from which there will be no rapid bounce back and recovery. They are conscious of the shift in economic power to the East. They feel our societies have been living on borrowed time and money. They see that prospects for young people have dramatically narrowed, principally but not exclusively, for those whom the education and skill system has failed. They are pessimistic that for the first time their children can no longer expect to do better than their parents.

The public will listen to politicians who recognise that we are in a deep fix and who talk persuasively about the need to address the big long term challenges facing our societies. These structural challenges existed before the crisis broke. Austerity is both intensifying them and obscuring their long term seriousness. They are the five giants that loom over and threaten the future of our welfare state and social model.

Global competition

The entry into the global labour pool of the so-called emerging economies is extraordinarily rapid. The developed West has no alternative but to pursue a 'high' road to competitiveness based on knowledge and innovation. Yet Europe's record in education and skills, research and innovation is at best 'patchy', (and for all our success in winning Nobel prizes and scientific citations, particularly patchy in the UK) as is our ability to foster dynamic growing businesses that turn innovation into profitable commercial success.

Demography
The remarkable advances in life expectancy are not being matched by social reforms to make our welfare states sustainable. The rising costs of ageing are squeezing out the social investments necessary to raise employment participation, advance gender equality and facilitate the knowledge based growth model. The relative good times for many retirees of the post war baby boom are not matched by sufficient social support for young people and the successful nurturing of children. Difficult as it is politically, there has to be a new accommodation with the facts of demography and a rewriting of the intergenerational compact.

Migration
Globalisation means there will inevitably be more migration. Right wing populists are modern-day 'Canutes'. Ageing societies with falling indigenous birth rates need it. Europeans are proud of their many distinct cultural identities and reject an American model of assimilation, but social democrats must avoid being dragged into a populist 'bidding war' that we can never win. The social democratic responsibility is to define a model of successful social integration that balances rights and responsibilities, promotes equal opportunities and tackles social stresses as a result of unfair wage competition and shortages of affordable housing.

Climate change
The recession has temporarily displaced this existential challenge, but it has not gone away. The profound transition that needs to take place in our energy supplies, our economies and the way we live has barely begun.

Inequality
The gap is widening between the 'winners' and 'losers' from globalisation. A tiny minority scoop a larger share of rewards, while there is a crisis of living standards for the 'squeezed middle'.

It is 'whistling in the wind' to believe that a classical Keynesian stimulus – a tax cut here, an emergency jobs programme there – matches the seriousness of these structural challenges. Pulling the 'macro' levers can only return us to an old failing growth model. Still more damaging in this respect is the coalition government's latest attempt in the UK to create a stimulus without calling it a stimulus. Their new promise of an open-ended government guarantee for mortgages will only reinforce the old patterns of house price boom and debt financed consumption that have been so disastrously distorting for the UK economy.

SLAYING THE GIANTS OF OUR TIME

In truth we can only slay the giants of our times if we develop a new investment plan. What Europe requires is a massive programme of coordinated long term investments to tackle the structural challenges we face – in new transport and energy infrastructure, in research and skills, in building up strong companies with growth potential in sectors that enjoy comparative advantage, in bolstering weak regions, in social investments that address early years deprivation, in social housing in areas of rapidly expanding population. The present myopic focus on deficits and 'debt to GDP' ratios obscures the central question of whether or not debt is being incurred to finance consumption for today, or in investments that enhance our productive capacities for tomorrow and the decades ahead. An accountant would say we need to switch the focus from debts to what is happening to a nation's 'net assets' in terms of physical infrastructure, human capital and productive capacity. It is only by making a sharp and robust distinction between 'good debts' and 'bad debts' that social democrats gain the room for manoeuvre to 'borrow to invest'.

This investment-led route out of the crisis will not have political or market credibility unless it is accompanied by the imposition of ruthless fiscal discipline in spending areas that do not add directly to the nation's productive potential. This means sticking within the existing public finance envelope except for new projects and programmes that genuinely qualify on the 'net asset' criterion. Political parties should propose that each nation state's programme of additional supply-enhancing, long term investments should be verified independently, by bodies independent of the nation state, (the IMF, OECD, and European Commission all come to mind), according to commonly agreed criteria. That does not preclude a national government adopting fresh priorities in other fields such as health and welfare spending, but it does mean that any proposal for additional spending has to be financed by either a 'switch spend', or an identifiable increase in government revenues from closing tax loopholes, introducing new taxes (such as a 'mansion tax') or raising tax rates. The left should look again at issues such as hypothecation and the devolution of 'tax and spend' decisions to local level, in areas such as health.

In addition to an investment plan, social democrats have to confront head-on the reality that we have no alternative but to be ardent public service reformers. The structural challenges, particularly demography combined with the fiscal constraints make what was once a political choice in the late 1990s, now an inevitability. Our allies in the public service trade unions may not like this, but the last thing a party of the modern left can afford to be in the present conjuncture, is a defender of the welfare state status quo.

Furthermore, circumstances require that we argue for a new spirit of solidarity based on mutual responsibility in our societies. Romantic talk of recreating the post-war 'spirit of 45' is politically dangerous. We have lived through an age of extraordinary affluence: tough times make ordinary people desperate to hang on to what they've got and what they feel they deserve, what the political scientist Peter Hall has described as 'sauve qui peut' politics[2]. Middle income voters are far more worried about perceptions of welfare scroungers and migrants' 'benefit tourism' than they are about bankers' bonuses and millionaires' tax cuts, because it all feels more threatening and closer to home. Social democrats should be unashamedly pro-working people on middle incomes: for that is the only way a progressive consensus can be built. These are not what are conventionally understood in European parlance as the 'middle classes'. In the UK the median pre-tax income is less than £22k a year. In this context the proposal by the LSE Growth Commission for a new measure of living standards for the median earner as an alternative to the traditional focus on GDP has considerable attractions[3]. It would be an accurate measure

2 See Hall,Peter."Political renewal in the post-crisis landscape",in "Progressive Politics After the Crash: Governing from the Left", I.B Tauris, forthcoming 2013
3 LSE Growth Commission op. cit. Page 33.

of whether the dividends of economic growth are being spread to the broad base of society. And it could help convince voters that the Left's vision of fairness is not to raise up people at the bottom by levelling down the middle.

Social democracy can no longer make easy promises of higher personal living standards. But by facing up to the profound structural challenges facing our societies we can both win back political respect and put our economies on a path to a new more sustainable economic and social model. The new politics of production calls for social democrats, armed with a credible plan, to make themselves the undisputed champions of investment in our economic and social future.

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A forward looking agenda for growth and reform

John D. Podesta

The austerity agenda of the right has failed, even on its own terms. The lessons from a prolonged period of economic contraction are now clear; nations cannot prosper, balance budgets, or pay down their debts if they don't work to create jobs and above all strive to foster a strong, broad and vibrant middle class. The biggest problem facing young Americans and young Europeans today is not the future burden of debt – it is the weak job market, which is preventing too many young people from getting started on their lives and careers.

For progressives to seize the upper hand politically, and pursue a forward looking agenda that takes us beyond austerity, we must respond to three challenges affecting progressive politics across the globe: first, we face an economic challenge that can only be resolved through aggressive policies to rebuild our economies through a growth strategy that reaches working people and strengthens the middle class; second, we have a political challenge that can only be overcome by beating the right wing parties and populists in parliaments, polling booths, and the public square. This political challenge requires both an unyielding commitment to winning the battle of ideas and the adoption of the most innovative and sophisticated organising and communicating techniques at our disposal; finally, and perhaps most profoundly, we have a credibility challenge that divides citizens from government and which requires us to relentlessly commit to reform of the government with a relentless focus on results.

1. Progressives must be pro-growth and pro-reform

When it comes to the economy, it is not enough for progressives to simply be anti-austerity. We must also be pro-growth and pro-reform. While the public may accept that short-term stimulus is needed during times of economic stagnation to protect jobs and support growth, progressive parties will only be given permission to use this tool if we also have a credible programme for structural economic and government reform.

We know that public investment in schools, healthcare, research and development, and physical infrastructure helps build human capital and lay the groundwork for private-sector investment. In concrete policy terms, progressives should consider a broad sweep of initiatives to help drive a new growth strategy including: establishing infrastructure banks or bonds (in Europe possibly at the EU level) to allow states and local governments to help finance critical projects that boost competitiveness and economic growth, and lower the risk rating of these projects, thereby making it easier to leverage private capital into them; improving access to capital for small and medium sized enterprises at preferential rates, and creating more apprenticeships to encourage and support more skilled workers entering into the industrial workforce; supporting the transition to a new energy economy by promoting programmes to improve the energy efficiency of homes and commercial property, establishing energy efficiency standards for all household products and vehicles, and investing in and subsidising research and development in clean energy production, distribution and storage; implementing a social investment agenda to improve the quality and accessibility of education in future economic sectors; expanding pre-school education for the young and training for current workers; and, reforming the tax code to ensure that it is progressive, revenue enhancing, efficient, simple and pragmatic.

2. Political and institutional reform is an essential component

An economic agenda that invests in the middle class is only part of the answer. Progressives must continue to hold and advance the mantle of political reform as the party that embraces government-led approaches to change. Many of today's institutions are undergoing a crisis of legitimacy in the eyes of the public. While the public is right to be disappointed in the recent performance of many of these institutions, their fears also stem from a self-interested, 30-year campaign undertaken by conservatives to undermine public support for the role of government.

The economic crisis has magnified this legitimacy crisis, making our citizens rightfully angry at government's failures and exceptionally susceptible to the right-wing rhetoric that exaggerates their fears. Today, the right offers an activist agenda for radical reconstruction, one that resonates with those who feel government is too slow, inefficient and bloated. While the right wants to "reform" government by breaking it up and tearing it down, the failure of progressives to promote a reform agenda leaves us open to caricature and attack.

Progressives must believe in results. We have asked our citizens repeatedly to take more responsibility for bettering their lives. In turn, we must now take greater responsibility for the way government works. Progressives then, need to forward a reform agenda that emphasises the protection of "growth oriented" public finances – such as investment in human capital, infrastructure, innovation and research and development; eliminates or reforms misguided spending programmes; boosts government productivity by streamlining management and strengthening operational supports; and builds a foundation for smarter decision-making by enhancing performance assessment and transparency.

3. Embrace data driven government

In an era when there are less disposable resources available, distinguishing between monies invested in future assets (human, technological and physical) from those committed to short term spending becomes ever more critical, as does monitoring to ensure public monies are being used effectively and efficiently. Using metrics, then, to track the performance of public services and the effectiveness of policy reforms is now an indispensable tool. If progressives can embrace data driven campaigning, they should be able to embrace data driven governing too. Data will not only help us prove that money is being well spent, it will also help us evaluate which experiments and innovations are working, allowing them to be disseminated across the system.

4. Stasis and inertia will widen the political space for populism

The persistent strength of the conservative movement and the growing challenge of populism in the developed economies illustrates that progressives cannot simply wait in the wings for conditions to turn, and publics to turn to us. By embracing a new progressive growth strategy, we can strengthen our appeal to new cohorts of voters and lay the foundations for a revival of our middle class. However, if we fail to embrace and elevate reform of government and politics, we will leave ourselves opens to populist attacks from the right, left and centre.

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Prospering through innovation economics

Robert D. Atkinson

Europe faces a quandary. The difficult fiscal straits most European nations face precludes "Keynesian" stimulus policies to spur demand. Yet austerity is a recipe for stagnation, even decline. But without austerity, budget deficits threaten the trust in financial institutions.

Europe has gotten itself into this conundrum because of three problems: firstly, Europeans work too few hours, in part because of generous welfare and pension systems; secondly, European global competitiveness, especially for western and southern European nations, has faltered; and, finally, European productivity growth, especially in non-traded sectors, lagged behind other nations, including the United States. Solving Europe's fiscal problems will ultimately require addressing these problems. To do that, European progressives require new approach to economic governance.

1. Embrace "innovation economics"

If there is a guiding economic philosophy for European progressives it is Neo-Keynesian economics, which is based on the notion that the market largely takes care of growth and that it is governments' job to ensure full employment (in part through generous government spending), limit market excesses, and ensure a fairer distribution of the fruits of capitalism. However, while Keynesian economics may have been suited to the realities of the postwar European economy when growth generally took care of itself and European business faced little international competition, today it is a fundamentally flawed guide to economic policy.

European progressives need to instead embrace "innovation economics," which is based on the premise that markets acting alone will under-produce innovation, productivity and competitiveness and that smart government policies are needed to help companies maximise innovation, productivity, and global competitiveness. Helping companies does not mean helping the wealthy. Progressives can and should ensure that taxation and spending are progressive. But European governments need to provide stronger incentives for companies to invest in new equipment, software, R&D and workforce training. Doing so will drive higher productivity (and in turn higher wages), rapid innovation (so that consumers benefit from new products and services), and greater competitiveness (so that firms can grow and employ Europeans).

2. Embrace Schumpeter

Perhaps the greatest 20th century economist was Joseph Schumpeter. Unlike Keynes, Schumpeter put innovation first and in doing so articulated the idea that capitalist economies advance on the basis of "creative destruction." Yet, while Schumpeter may have been European (Austrian), too few European policymakers are Schumpeterians.

In other words, when most European leaders refer to innovation, they mean tech-based industries, not the constant transformation of an economy and its institutions, including public institutions. Real innovation is disruptive, often painful, but almost always good. Unless Europe can accept that innovation and productivity entail plant closures and job losses and also embraces, rather than resists or regulates, new technologies and business models with uncertain social or environmental impacts, it is not likely that Europe will be able to keep up in the race for global innovation advantage. One way to do this is to embrace the Nordic flexicurity (a combined term for "flexible security"). Flexicurity is based on the reality that employment security is decreasing. To help workers manage, they will need new kinds of security – not to help them stay at a particular job, but to help them effectively transition into new employment through viable skills.

3. Embrace high productivity in all sectors

Without robust productivity growth, Europe will find it even more difficult to afford its generous welfare states. Raising productivity is a challenge for Europe, particularly in the non-traded service sectors. Between 1999 and 2009, the productivity of European services industries lagged significantly behind the United States: German services sector productivity grew at just 65 per cent the US rate; France at half; and Italy at just 15 per cent. This is a recipe for stagnation.

One reason for America's advantage is its firms invest more in information and communication technologies and get more "bang for the buck" from those investments. There is a greater willingness and ability among US firms to use ICT to fundamentally reengineer work and business models.

4. Embrace work

Compared to many other nations, Europeans work less. To be sure, long vacations are nice, but 35 hour work weeks and early retirement are simply a cost that Europe can no longer afford, not if it wants to be able to be fiscally solvent while also expanding key public investments in areas like research, infrastructure and skills. The French notion that cutting the work week from 40 to 35 hours was based on a fallacious notion that workers would not cut back spending. The notion that some workers can retire at age 57 or 58 (my age) and get a partial state pension simply means that either workers will consume less or the state will invest less. By addressing reasonable entitlement reforms now, progressives can ensure that Europe will be able to invest in its future.

5. Embrace an anti-mercantilist alliance with America

If the European economy is to thrive all of its economies, including France, Italy, Spain, and the UK, will have to be globally competitive. One reason they are not is because many nations, especially China, but also increasingly its copycat followers, such as India and Brazil, are engaging systemic "innovation mercantilism". Practices like turning a blind eye to intellectual property theft, discriminating against foreign companies, requiring foreign companies to transfer technology in exchange for market access, massive subsidies and protections to state-owned enterprises, discriminatory standards, restrictive government procurement and of course currency manipulation and high tariffs are the core of their development strategies.

These beggar-thy-neighbor policies seek to attract or to grow the very industries (advanced manufacturing and services) in which Europe has a competitive advantage. Unfortunately the WTO and other international organisations have proven themselves unwilling and unable to confront this threat. As such it is up to Europe and the United States to form a new partnership dedicated to rolling back innovation mercantilism and helping these nations find a different and less destructive path to development. This should start with an EU-US trade agreement, but should go beyond that to European and US leaders insisting that its time other nations play by the rules.

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A three step approach to eurozone recovery

Gustav A. Horn

The present approach to overcome the crisis of the eurozone has failed. To establish a different strategy the reasons for this failure have to be understood properly. First of all, the complex interdependent nature of the crisis has not been addressed appropriately. There were three different crises appearing in a sequence. It started with the financial market crisis triggering the Great Recession. That was followed by the already looming crisis of the eurozone originating from unsustainable differences in inflation rates. Those were rooted in differences of competitiveness and an incomplete institutional structure to deal with a current account crisis. When financial agents became aware of this, a crisis of confidence followed. It all ended up in a steep increase of public debt leading to the public debt crisis.

The approach which presently dominates is to tackle these crises with different speed levels in reverse order of their appearance. The highest speed is attached to the public debt crisis, which is represented by the austerity approach; the lowest speed is reserved for the financial market crisis, by means of slow regulatory progress. This cannot work. With still unstable financial markets and weak global economic activity, neither the internal euro area crisis nor the public debt crisis will be resolved. What is needed against this backdrop is an intelligent mix of demand and supply side politics.

1. The order of crisis management has to be changed

First of all, financial markets have to be stabilised and transmission mechanisms to the real economy have to be mended. Secondly, the euro area economies have to be stimulated. Thirdly, the public debt burden has to be reduced. With stable financial markets, financial institutions will be ready again to borrow money to the private sector at reasonable rates. This will enhance private investment and consumption. This is one major contribution to increase economic activity in the euro area. But – as second priority – member states should stimulate the euro area economy directly. To be very efficient a co-coordinated approach should be taken. Calculations show that the impact (multiplier effect) could be doubled compared with isolated action by single member countries. Finally, with higher economic activity the public debt burden should be reduced.

2. Re-regulate and stabilise financial markets fast

There are many proposals already on the table. In the light of the preceding arguments their implementation should be speeded up. There are at least two game changing decisions that should be taken. Firstly, an institutional separation of banks and investment banks has to be achieved. That would diminish the risks for banks which are necessary to keep a stable financial system. They should have some public protection, since they produce the public good of financial stability, whereas investment banks should have none. The second game changing move would be to establish EU-wide legal provisions on how to deal with banks that are in a state of emergency. After the case of Cyprus the following rules should be applied in the future. Public finances should stop being affected by the bail-out of banks. Therefore a private "bail-in" is required. It should be applied in the following order. First shareholders, then bond holders and finally savings account holders with accounts worth than €100 000 should be targeted. All those with less than this amount should be protected. If these bail-ins are not sufficient to stabilize banks, only then should states overtake banks by devising an appropriate debt – equity swap.

3. Limited fiscal expansion in surplus countries

Under present circumstances of high public indebtedness it seems almost impossible that fiscal policy can make a contribution in this respect. In addition to that, there are legal restrictions like a debt brake in Germany and the Fiscal Compact that limit the financial leeway for governments. Nevertheless there are possibilities and there is the necessity for a fundamental realignment within the eurozone. This requires countries with a current account surplus to have higher wage and price increases than the eurozone average and those with a deficit a lower one. Fiscal policy can help to achieve that by being rather expansionary in surplus countries and restrictive in deficit countries. Observing legal restrictions, one way to achieve this is using the balanced budget multiplier. It means taxes – preferably those with a minor impact on business activity like wealth taxes – should be raised. The revenues should be used to increase spending temporarily. The positive impact of higher spending dominates the negative impact of higher taxes. The overall effect will be mildly expansionary.

4. Stimulate through proactive income policies in all countries

Under these circumstances, the bulk of the necessary realignment cannot be achieved by fiscal policy. Therefore income policies must be used. Wage rises should be above eurozone average for some time in surplus countries and below average in deficit countries. The former stimulates domestic demand in surplus countries that start to import more. Consequently exports also from deficits country will rise showing an expansionary impact there. In order to achieve these goals economic policy must interfere in labour markets. In surplus countries a rise – or in the case of Germany the introduction of – minimum wages would be helpful. This would increase the bargaining power especially of low wage earners. In general, higher wage agreements should be encouraged in these countries. In deficit countries, on the other hand, a certain wage restraint is necessary.

But there are limits. Nominal cuts are not advisable since they destabilize actual incomes and expectations to a dramatic extent. In this case people cut their expenditure significantly and lose confidence in future development. This makes a recovery very difficult. Therefore the most radical measure taken should be a negotiated wage pact that ensures nominally constant wages for an agreed period of time. Then, the increase of productivity fully serves to improve competitiveness. In addition, a very strict competitiveness policy is necessary to ensure that the wage restraint spills over into price movements. The combination of higher prices and wage rises in surplus countries and lower ones in deficit countries will in the end lead to the necessary realignment.

5. Make use of a European Debt Redemption Fund

In order to increase confidence in the sustainability of the debt burden a European Debt Redemption Fund should be established to stimulate and reduce public debt. This proposal has already been made by many others. However, some important differences to these ideas are suggested here. On the one hand, it is good idea that this fund takes over the all public debt above the 60 % margin, financed by eurobonds guaranteed by all member states according to their GDP share. On the other hand, the servicing of debt should be different from those suggested by others to date. A member state is only allowed to participate if it formally commits to service the debt by handing a certain percentage point of a specific tax revenue over to the fund. Preferably this should be a share of the income tax, which is very sensible to business cycle fluctuations. Concretely, the public debt would be reduced to a larger extent in good times than in bad times. By such a procedure, confidence in the sustainability of the debt burden will be raised. That leads to lower interest rates in highly indebted countries, whilst stimulating the economy at the same time.

6. Reduce the debt burden by fixing predetermined expenditure paths

To ensure that the public debt is reduced in the future, governments should announce at the ECFIN Council a predetermined level of expenditure for the whole legislative period that would lead to a reduced debt burden given present tax laws and average growth rates. As soon as taxes are increased, expenditure can be higher. If taxes are lowered, they must be lower too. If the economy is in a recession, expenditure should be allowed to rise as well. If the economy is in a boom, it should go down. Governments should be obliged to announce such a path as long as the debt ratio is above 60% of GDP.

With this bundle of measures, first financial markets would be stabilised, then the economy stimulated and only after that the debt burden reduced. This may turnout to be a lengthy process, but fast successes are simply not possible given the very severe nature of the present crisis.

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The new politics of production

Will Marshall

It's easy enough to get progressives to agree that austerity is not the answer to the malaise that pervades the transatlantic world. What's hard is to forge consensus around a new vision for reviving the west's economic dynamism. One reason is that the policies necessary to put the United States and Europe back on a high-growth path will disrupt old arrangements and social bargains forged and defended by centre-left parties.

Progressives nonetheless need a new growth narrative, and it must begin with an accurate diagnosis of our core economic dilemma. Many US liberals believe it is weak economic demand, and call for more government spending to stimulate consumption. That's the standard Keynesian remedy, but it's insufficient at best because it doesn't deal with the US economy's structural weaknesses: lagging investment and innovation; eroding mid-level jobs and stagnant wages; a dearth of workers with technical skills; and, unsustainable budget and trade deficits. None of these problems can be fixed by boosting consumption.

What if progressives made expanding production rather than consumption the organising principle of their economic policy? What if they tackled the imperatives of economic investment, innovation and wealth creation with the same passion they normally reserve for fairness and wealth distribution? Stronger economic growth by itself may not be sufficient to reverse the disturbing rise of economic inequality. But it is the necessary precondition for progressive success in getting people back to work, lifting the middle class, allaying class friction and nativism, and restoring the allure of market democracy.

Here, from an American perspective, are some key steps toward a progressive politics of production:

1. Recognise that slow growth is the fundamental problem

Between 2001 and 2012, the US economy turned in its worst economic performance since before World War II. Annual growth rates averaged just 1.6 per cent (and were lackluster even before the recession and financial crisis hit). The situation in Europe, of course, is far worse: growth in the eurozone was negative (0.4 per cent) last year, and unemployment topped 11 per cent. The transatlantic economies simply aren't growing fast enough to create jobs for all who need work, finance the social benefits they've promised, and sustain their high living standards. They've resorted instead to heavy borrowing, and so are mired in a dreary politics of debt and fiscal retrenchment.

2. Shift resources from consumption to investment

More than 40 per cent of the US budget goes to three social insurance programmes: Medicare, Medicaid and Social Security. Automatic, formula-driven spending on health and retirement benefits will double by mid-century as the baby boomers surge into retirement. Such "mandatory" outlays have drastically narrowed Congressional discretion and relentlessly squeezed out domestic spending, now just 14 per cent of the budget and falling. That means less money to modernise America's ageing infrastructure, plug gaps in our education and worker training systems, and nurture science and technology – not to mention protecting the environment, ensuring public safety and helping people escape poverty. In short, the promises made by politicians long retired or dead are constraining the government's fiscal flexibility and capacity to grapple with today's challenges. Instead of imagining that they can evade this dilemma solely by taxing the rich, progressives need to take welfare spending off auto-pilot and shift resources from present consumption to investments that will make our people and businesses more productive in the future.

3. Cut health costs by boosting productivity

Although medical inflation has slowed over the past three years, public health spending is still on a collision course with demographics. Yet many Democrats have dug in their heels against reforms that would "bend down" the health cost curve. This confronts progressives with a Hobson's Choice: either borrow more to cover the yawning gap between contributions and benefits, or raise taxes on working families. Instead, they ought to trim benefits for affluent retirees, and be open to ways to spur competition among providers to offer higher quality and more efficient care. Over the long term, however, the key to restraining overall US health spending – now 17 per cent of the economy – is raising medical productivity. This will require more technological innovation, not less as many budget analysts assume.

4. Embrace pro-growth tax reform

Given that the rich have reaped the lion's share of US economic gains, it's no wonder that progressives want them to pay more in taxes. Rather than focus exclusively on fairness, however they ought to view tax policy as an instrument for spurring productive investment and growth. Since new enterprises contribute disproportionately to net job creation, for example, it makes sense to lower taxes on business start-ups. More broadly, progressives should champion reform of America's perverse corporate tax code. Its high top rate (35 per cent) leads US companies to shift income abroad, depriving the Treasury of revenue and leaving \$1.7 billion in earnings stranded abroad that could otherwise be invested at home. And the code is riddled with loopholes and special breaks that steer companies toward activities that are tax-favoured rather than toward those that can make them more productive and competitive.

5. Enable the "data-driven economy"

Data-driven activities – the production, distribution and use of digital information of all kinds – have become the leading edge of economic innovation and growth in the United States. Since the smart phone was introduced in 2007, the nascent "App" sector has created more than 500,000 jobs. Fueled by major private investment in mobile broadband, mobile commerce doubled in 2012 to \$25 billion, about 11 per cent of all e-commerce sales. Europe is also getting a big economic boost from digital commerce. Roberto Masiero of Think!, an innovation-oriented thinktank in Milan, estimates that the Internet economy added almost 500 billion euros to eurozone growth in 2010, equivalent to 4.1 percent of Europe's GDP.

Now "big data" processing and the integration of IT into healthcare, education and energy are poised to spark big gains in productivity – if regulators don't get in the way. In the United States, for example, regulators persist in applying top-down rules governing telephony to the new medium of broadband communication. And while Europe-wide regulation is a positive step forward, many analysts worry that the EU's forthcoming data protection regulation could hobble homegrown innovation and disadvantage US companies. Progressives on both sides of the Atlantic should work toward harmonising rules that promote more, not less, data-driven trade and that strike a sensible balance between economic innovation and important values like privacy and data security.

6. Don't give up on manufacturing

While hugely important, the broadband revolution alone won't deliver the balanced growth and mid-level jobs western societies need to rebuild the middle class. Rather than concede the permanent loss of manufacturing jobs to offshoring, progressives should develop new strategies aimed at "import recapture." Thanks to a confluence of factors – rising wages in China, the shale gas boom and recognition that advanced manufacturing requires that design and engineering not be separated from production – major US companies are beginning to "onshore" production. Germany and the Nordic countries have shown that high-wage economies can remain competitive in manufacturing by emphasising premium quality, advanced techniques and intensive workforce training regimes. While we shouldn't expect dramatic leaps in manufacturing employment, even modest increases will have knock-off effects on employment in related activities. Progressives can't reverse the impact of globalisation, but we can rebalance it in favour of domestic production.

7. Lower state-imposed obstacles to growth

US conservatives never fail to affix the epithet "job killing" before the word "regulation." This is empirically false and ignores the essential role that regulation plays in making markets work and keeping powerful actors honest. Still, it's a mistake for progressives to defend regulations as reflexively as conservatives attack them. Between these extremes there is ample room for common-sense efforts to improve the regulatory climate for growth. PPI's work, for example, has shown that the accumulated weight of old rules imposes large compliance and opportunity costs on firms, especially small and medium-sized enterprises. The problem isn't that governments keep writing new rules, but that they have no mechanism for rescinding old ones. What's needed are institutional innovations – like PPI's idea for a "Regulatory Improvement Commission" that would periodically prune or modify old rules. By championing regulatory improvement, progressives would underscore their commitment to growth as well as their resolve to reform, not just expand, the public sector.

Omitted from this list are other crucial elements of a progressive high-growth strategy, including better education and training systems, skills-based immigration reform, tougher trade enforcement and energy innovation. But it illustrates the magnitude of the policy changes required to get America and Europe out of their slow-growth rut. Rapid innovation and growth are disruptive, and these changes will blur old partisan lines and discomfit old political allies. But the payoff – a surge of innovation and production across the transatlantic, and the chance to restore shared prosperity – is surely worth the risk.

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Remodelling the state for economic growth

Kitty Ussher

The pressures on public finances will not go away; there is no "beyond austerity". The state, quite simply, has insufficient resources to achieve what needs to be done. To reform, therefore, we need to develop a functional, instrumentalist view of the market, shaping it to achieve progressive ends.

In Britain, the combined effects of ageing, a massive increase in demand for health services, falling oil revenues and international tax competition mean that further permanent tax rises and/or spending cuts will be needed of around 3 per cent of GDP from 2017-18 just to stop things spiralling out of control. This is over and above the ongoing need to retrench the public finances back to a sensible position following the recent recession.

The right instinctively responds to this pressure by cutting services; for the left, this is our chance to use it as an opportunity to remodel the state in a way that not only focuses resources more effectively but enables more people to live their lives to the full.

1. The best way out is to raise the long-term growth rate

Mathematically, the way to do that is to maximise the number of people in work, and simultaneously the quality of those jobs. Job quality, in turn, is strongly linked to levels of skills, and also to pay. Every sinew of government should be directed to maximising all of these. It immediately follows that there should be no barriers of any kind for parents or carers who want to work more, there should be new and aggressive labour market interventions for people of all ages who are made redundant or experience health problems. Life-long learning should be the norm, and routes in and out of self-employment should be better understood and supported as part of the journey of working life. Government should not be afraid to ruthlessly target the lower-paid and unemployed with bespoke training, opportunities and ladders up: after all, we know who these people are. In fact, that is probably the best thing any government could ever do.

2. Saving and insurance are very good things

Life has its ups and downs. It is in the government's interests to help people to get through the tough times with as little collateral damage as possible. This is where shaping markets comes in. Contribution-based state-backed insurance is important, but so much better if taxpayers do not need to intervene because people have made their own provision. Think how the private pension market has developed over the last twenty years - from a niche product for the wealthy to the creation of a state-backed mass opt-out system - and apply that to other forms of saving and insurance. There is scope for utility-style regulated markets providing insurance against unemployment or ill-health, alongside tax-incentivised long-term saving within wider families for particular events, such as training, childcare or housing. In social security at least, the old Fabian notion that we gain as a society if we are all covered by the same (state) system is a waste of precious resources.

3. It's time to deal with end-of-life care

We don't like talking about this, but the truth is that when asked, two thirds of people say they would like to die at home surrounded by loved ones, whereas in reality they die in hospital undergoing increasingly expensive and complicated treatments. In the UK around a fifth of NHS spending goes on end-of-life care yet 40 per cent of people who die in hospital die of conditions that the medics cannot beat. This is so hard to confront, not least because you cannot always tell before the event what care is "end of life", but these facts have to at least prompt the question of whether we have got the balance right certainly between acute and palliative health interventions, which may free up discussions about health and other spending.

4. It's all about assets

We've been hung up on income disparities for the last hundred years, for understandable reasons. However, it is actually far more illuminating to talk about assets: physical assets like housing ownership; financial assets like savings and insurance; human assets like education, strong relationships and emotional resilience. That's what makes the difference to people's state of mind, attitudes to the state and being able to cope with difficulty. Recognising this leads to a tumble of policy conclusions, from shared equity and mutual ownership solutions, to explicit recognition of the willingness of loved ones to support each other, to the mainstreaming of mental health services.

5. Economic credibility

Re-engineering requires upfront investment. In some areas, the investment (or insurance premiums) can be paid for jointly by all those who benefit, efficiently aligning incentives. In others, those who gain financially can pay back when those gains are realised. Where possible, long-term market growth should be harnessed to build assets for individuals and families. However, in order to be heard, the left needs to have economic credibility. To paraphrase the late Philip Gould, Tony Blair's long-time pollster, the economics thing needs to be put in a separate box and dealt with so that we can get on with the real work. One way to do this would be to commit to being Keynesian in good times as well as in bad, for example by running structural budget surpluses when growth is above trend, or perhaps the state contributing to a sovereign fund that stands ready to invest in human capital if unemployment starts to rise.

In summary, we need to deal with the politics by fixing the macroeconomic position and then better target the resources we have to raise the capacity of people.

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Adapting to the globalising learning economy paradigm

Bengt-Åke Lundvall

There are great opportunities for centre-left coalitions to develop a strategy that responds much better to the triple crisis of unemployment, global warming and financial instability than that presently offered by neoliberal political forces. However, this requires rethinking and action at three levels: first, at the national level there is a need for a 'new New Deal' with a green dimension; second, there is a need to rethink the political and financial architecture of Europe; third, there is a need to combine those national and regional efforts with radical global governance innovations.

The agenda proposed here does not focus upon the current debate between supply side economics and Keynesian policies, but we do see a need for a Green Keynesianism aiming at stimulating investment rather than private consumption. There is nothing in the history of capitalism that indicates that labour markets will spontaneously create jobs for all those who want to work. At the core of the strategy is institutional change and activist policies to stimulate investment in knowledge and in green technologies.

1. Move from the knowledge-based economy to the globalising learning economy paradigm

The globalising learning economy is an economy where globalisation, deregulation and new technologies together result in a high rate of change that requires knowledge based responses in terms of rapid adaptation and innovation. This concept differs from 'the knowledge-based economy' because in the learning economy knowledge becomes obsolete much more quickly than before and the capacity to learn is crucial for the success of nations, enterprises and individuals.

2. A 'new New Deal' for skills

A 'new New Deal' for skills is needed to bridge the divide between labour market insiders and outsiders. There is an inherent contradiction in the learning economy. On the one hand, it thrives in societies with broad participation in processes of technical and organisational change. This we find in egalitarian societies with high levels of trust. On the other hand, there is a tendency toward polarisation in the labour market. This is why governments should aim at increasing the learning capacity and learning opportunities of low skilled workers. Another implication is to make sure that both young people and adults get access to (life-long) vocational training. It is not sufficient to stimulate R&D and academic training. The efficiency of labour markets should be assessed in terms of how far they support learning and skill upgrading. Education should aim at maximising one's capacity to learn.

3. Invest in sustainable production and consumption

Investment and innovation need to be driven towards sustainable production and consumption patterns. It is now widely recognised that the current direction of growth is not sustainable. Regulations and incentives for investment in new infrastructure, green technologies and recycling need to be combined with efforts in education and research to make the economy move toward sustainable growth. Such a transformation, while reducing the rate of growth in material consumption, will not slow down the pace of change. Successful learning economies with broad participatory approaches to organisational and technical change are conducive to a broad acceptance of more sustainable patterns of consumption.

4. Adopt a North-South European 'Marshall Plan'

A European 'Marshall Plan' from the North to the South should be designed. The European crisis is not over yet and the euro crisis continues to undermine the world economy. Radically new approaches that try to retain the original intentions of the European project (more social cohesion in Europe) need to be considered. One option would be to establish a temporary divide of the eurozone into a Northern and a Southern zone with devaluation of the Southern currency by 30-50%. Over a period (set at a maximum of 10 years?) the Northern partners would engage in a 'Marshall plan' aimed at upgrading the capacity of the Southern partners to cope with the globalising learning economy. A key would be to combine flexicurity in labor markets with open and well balanced education systems giving full attention to vocational training.

5. Stronger global governance is urgently needed

Stronger global governance is needed to avoid downward-looking competitiveness strategies. The financial crisis has resulted in new national and transnational regulations of financial markets. However, what has been achieved so far is not sufficient. Polity remains subordinate to financial markets and there are no guarantees that the next upswing will not end in a new financial break-down. Given the global character of financial operations there is a need for new institutions and new rules of the game at the global level. National and regional efforts to move to low-carbon growth strategies are difficult to realise when the focus is on 'the competitiveness' of the nation and the region. Growth and job creation strategies need to become sustainable and competitiveness strategies need to be transformed into positive sum games. If Europe and the US could agree on minimum levels of corporate tax, environmental standards and working conditions they could together gradually impose such standards world-wide. Agreement between Europe and the US on moving toward taxing CO_2 and financial speculation would be a great step forward.

6. Learn from Chinese leadership

Moving away from pro-market ideologies, policymakers in the US and Europe can learn three things from Chinese leadership: The first refers to the consequent effort to promote investment in knowledge. The second is the (much too late but now very strong) effort to invest in green technologies. The third and most important is the pragmatism and policy learning characterising Chinese leaders. They make use of planning, regulation and markets according to whichever seems to work best and they are ready to correct original directions on the basis of experience. Hence, what is needed in Europe and the US is neither big government nor a state that sees its job to fix occasional market failures, but rather a 'learning entrepreneurial state'. This includes a readiness to sacrifice national sovereignty when the alternative is global disaster.

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Social-ecology: A way forward for social democracy

Éloi Laurent

We are entering a world where environmental emergencies will be a permanent setting. If a political and social discourse does not domesticate this pervasive threat, we face two significant adverse consequences: firstly, the environmental movement will be reduced to a "party of the catastrophe" disseminating unbearable anxiety without offering solutions perceived as practicable by a majority of citizens; secondly, the new and major social issues that ecological crises entail will be left to fester unanswered as politicians disastrously strand themselves in short-term strategies and policies.

An important aim of policymakers should thus be to incorporate and politicise ecological problems and crises, showing how environmental issues are truly social problems that should be governed as such. In sum, as long as the connection between environmental issues and social concerns is not made clear, most notably the link between ecological crises and power and income inequality, the former will be likened by most citizens to distant foreign policy problems while they are actually very much part of citizens daily lives.

A new emphasis on *socio-ecological* transition can allow us to articulate the link between environmental and social issues, especially in the middle of a "crisis" where their illusory trade-off seems so real.

1. Address the worrying gap in socio-ecological knowledge

The first general insight from the socio-ecological approach is very simple: we don't know what we should know in order to solve our ecological crises. We should thus invest much more in socio-ecological knowledge, that is in learning how to reform our social systems (which depend on attitudes and behaviours) to preserve our natural life-support system.

2. Social inequalities are important drivers of ecological crises

The second, analytical insight from the socio-ecological approach is that social inequalities are important drivers of ecological crises: they enable increased ecological profligacy by the richest in society, they also increase demand for economic growth amoung the rest of the population and hamper the ability to organise effectively to preserve our natural capital. Growing inequality both increases the ability of the rich (individuals or countries) to transfer environmental costs to the poor (e.g. the location of toxic waste facilities) and forces the poor to shorten their time horizon and deplete their long term well-being. However, the reverse is also true: ecological crises create new forms of inequality. Structural "environmental inequalities" (for instance the unequal exposure to climate change impact) are emerging in developed countries and developing countries alike, and they will literally explode in the future if left un-addressed.

3. Environmental justice is a vital battleground

Environmental conditions define well-being via health and thus the environment must be a new social justice battleground for social democracy. The basic input of "environmental justice" is that a public policy arsenal or welfare state aiming at social fairness which does not take into account environmental conditions would fail in a critical way.

Many practical policy solutions derive from the socio-ecological framework:

4. Develop the "green economy", not "green growth"

Progressive should grow eco-industries, promote green jobs and green existing jobs . Studies show that 80 per cent of Co2 emissions in OECD countries arise from sectors representing less than 10 per cent of total employment. There is thus considerable room throughout Europe to create badly needed jobs while reducing greenhouse gas emissions. But matching skills are key; and in short supply at the moment. Why not create a "European Institute for the Green Economy" to develop them and re-start Europe by investing in the socio-ecological transition?

5. Decouple human development from its environmental impact

EU member states should invest more in energy and material productivity while maintaining their historic commitment to social justice. The EU is actually the only region in the world which is able to humanly develop (income, education and health) while lowering its domestic environmental impact. But it must pay greater attention to its impact elsewhere and reduce its "material deficit" with the rest of the world.

6. Design and disseminate new development indicators in the spirit of the Stiglitz-Sen-Fitoussi Commission

This is a vital step to change behaviours and attitudes by altering the perception of collective success and more generally social value. Initiatives on policy-oriented well-being and sustainability indicators (such as the UN new sustainable human development index) should flourish at the European, national and local level.

7. Build a genuine socio-ecological welfare state

Progressives need to address structural environmental inequalities and develop socio-ecological policies to prevent crises in the future (through tax, urban planning, transports, etc.). One obvious necessity is to shift the burden of taxation from goods (income, labour) to bads (pollutions, degradations). We are far from it: environmental taxes only represented 6 per cent of total taxation in the EU in 2012.

8. Ignoring a socio-ecological tranistion is extremily perilous

It is important that there is a renewed focus on the social-ecological approach. For too long the link between environmental concerns and social issues has not been articulated and the problems which arise from this have been ignored. By refocusing on policies such as those outlined above it is possible to bring about more sustainable economic growth and to adapt to the changing eco-system around us. This requires action on behalf of policymakers to reaffirm that ecological problems are indeed socially created and democratically solvable.

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Taking a long-term view of industrial strategy

George Cox

The key challenge facing the developed economies is not yet being addressed. Whilst getting out of recession understandably dominates the economic and political debate throughout most of Europe, there is a more enduring issue which receives scant attention: the need for a long-term view of industrial strategy.

The UK faces a problem, not dissimilar to that faced by the majority of the longer-established advanced economies. That is how to earn a living in the highly competitive fast-changing world of the 21st century. The UK has seen many of its high labour-content, relatively low-skilled industries move to other parts of the world with lower wage economies. At the time, this was thought to be acceptable, indeed even desirable, while it was assumed that these would be replaced by new industries. That, however, is proving to be both an arrogant and a complacent assumption. The fast-developing economies in Asia and elsewhere have understandably no ambition to be the world's suppliers of low-grade labour and are investing massively in education, skills, research and high-tech industries. For a period the old economies have the advantage of positive reputations in areas such as their creative industries, their historic position and certain well-established brands, but it would be foolish to assume that these were permanent assets immune from competition.

1. The global outlook is far from bleak

The world's economy will expand massively over the rest of this century and even in the short term the fast expanding new economies will themselves create huge new markets. There is no shortage of opportunity, but the fundamental challenge for the UK (and others) is how to compete in a world where other nations are building vigorous and innovative new industries. This applies to both manufacturing and services, and to every sector there within.

2. There is a need for a national industrial strategy

For an industrialised country to enjoy economic success in the modern world it requires: A stable economic environment; a climate that encourages enterprise and entrepreneurship; a highly skilled and flexible workforce; strong investment in research; access to capital for both starting and continuously developing companies; an effective regulatory environment; and a modern infrastructure for areas such as transport and (especially) communications.

Each of these is essential, but even together they are not sufficient. They need to be targeted towards sectors and industries where a particular nation can be most successful. This cannot be achieved without a clear national strategy.

3. Short-termism is a key weakness

What is needed is not some one-off "national plan" or series of initiatives, but the continuing pursuit of co-ordinated objectives shared between industry, business, commerce, trade unions and education. Addressing short-termism has to become part of a long-term process, not a matter of disjointed initiatives. It needs to engage all the different stakeholders. It needs to bring together different government departments. It needs to take account of the fact that world-leading companies do not exist in isolation; that they are dependent on supply chains; and that they form part of and emerge from geographic clusters within an industry. Industrial strategy therefore requires a regional dimension. Only government can pull all these interests together.

4. Government is a major driver of short-termism

The problem is that government is, by its nature, short term. Elected for a maximum of five years, it would be unnatural if an overriding concern did not soon focus on getting re-elected. That is not a cynical comment. There is little point in having convictions about changing the world if one is not going to be in office to bring it about. Moreover, the electorate is short term in its thinking – or at least that appears to be the assumption. The conventional wisdom is that there are no votes in the long term.

The situation is compounded by the fact that many ministerial roles are held for a very short period, with greater reward for – and certainly less risk in – making announcements rather than seeing anything through. Most long-term decisions involve up-front investment and, whatever the chosen path, provoke opposition, sometimes out of genuine concern, sometimes out of political opportunism. This is particularly true when it comes to aspects of national infrastructure. Why face the hostility and cost when the benefits are to be felt not just by another individual but possibly by another party?

As a result, decisions on major issues such as energy policy or transport infrastructure get shunted back from one administration to the next, until impending crisis forces action.

5. Equity markets are not encouraging long-term investment

The problem of short-termism is compounded by the fact that many assume that an efficient market economy will itself bring about the emergence of businesses that are equipped for long-term success; government only has to ensure a stable economic and regulatory environment, and the right businesses will flourish. That is naive. Efficient markets are a key to success, but they are only one element of that success. Indeed, one of the current problems is that the major capital markets have become significant re-enforcers of short-termism. They operate largely as secondary markets, trading shares at very high volumes, whilst raising little by way of new investment in the companies concerned.

Quoted companies are required to report quarterly. As a consequence the achievement of short-term results dominates any consideration of building - and investing - for the long term. This objective gets reflected in the financial incentive systems for the business executives concerned, ensuring that short-termism is embedded in the corporate culture. No one involved in the process is acting irrationally or immorally. It is a systemic issue which can only be addressed by changing the rules of the game to give greater incentive for long-term investment in businesses: an issue which only a government concerned for the long term can address.

In the 21st century existing industries are going to change and new industries are going to emerge. No nation is going to succeed by fortuitous outcome of economic circumstances and market forces. What is needed is a strategic approach for the pursuit of long-term growth. This has nothing to do with 'picking winners' or getting involved with the way companies are run. It has everything to do with creating a structure from which winners emerge. Government – regardless of political persuasion – needs to focus much more on how wealth is to be created, not just on how it should be distributed.

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The case for fiscal councils

Simon Wren-Lewis

Austerity in the midst of a recession when monetary policy has lost much of its power is macroeconomic illiteracy. While the adoption of austerity measures by right wing governments can be explained in terms of hidden motives, it is less understandable why opposition to austerity on the mainstream centre-left is often absent or muted. One possible reason is deficit bias: the tendency by governments of every political complexion to allow government debt to rise in the longer term. While governments have been able to 'get away' with' this bias in the past, this is no longer possible in an environment where some countries are facing financing crises so that the political focus is on the budget deficit. As a result, any politician that advocates additional borrowing in the current conjuncture is seen as irresponsible.

From a macroeconomic point of view this situation is disastrous, as the current recessions in the euro area and the UK show. So how do we bridge the gap between what is economically sensible and what is politically possible? One possible way forward is to strengthen the role of independent fiscal institutions – sometimes called fiscal councils. Fiscal councils can encourage a more rational approach to macroeconomic fiscal policy.

1. Countercyclical fiscal policy is important in two particular situations

The first is for individual countries in a monetary union, which do not have their own monetary policy. The second is where monetary policy has become ineffective because of a liquidity trap: interest rates have hit the zero lower bound. When these situations do not apply, then there are good reasons for leaving short run macroeconomic stabilisation in the hands of monetary policy.

2. Using fiscal policy in a countercyclical manner

The importance of using fiscal policy in a countercyclical manner within a monetary union was demonstrated by what happened to the eurozone periphery in the years before the financial crisis. For a number of reasons these countries experienced unsustainable economic booms, leading to reckless behaviour by financial institutions and a growing deterioration in competitiveness. These booms should have been aggressively counteracted by very tight fiscal policy, but this did not happen because the EU's Stability and Growth Pact focused on deficits rather than overall macroeconomic conditions.

3. In a liquidity trap, conventional monetary policy loses its power and predictability

Experience in the US and UK shows that unconventional monetary policy (mainly Quantitative Easing), while useful, is far from a complete substitute. As a result, it is necessary to use expansionary fiscal policies to do what monetary policy can no longer do, which is bring recessions to an end. Pursuing pro-cyclical fiscal policy ('austerity') in this situation will deepen the recession and delay any recovery.

4. These are not controversial propositions

These propositions are what economic students are taught at the undergraduate and graduate level in nearly all universities. Of course economics is a discipline where you will always be able to find notable economists who take a contrary view, but in this case they are in a small minority. Predictions of 'expansionary austerity' have proved hopelessly wrong.

5. Deficit bias remains a serious long run problem

In the 30 years before the financial crisis, government debt in the OECD almost doubled as a share of GDP, and there was no macroeconomic justification for this trend. Higher government debt has clear long term costs:

it can discourage private investment, it increases the need for distortionary taxation, and it redistributes income away from future generations.

6. The macroeconomic implications are clear

Government debt should be reduced in good times, but not during a liquidity trap recession. Within a currency union, government debt should also be reduced in good times (there should be large government surpluses), but not in bad times.

7. Unfortunately political incentives produce precisely the opposite pattern

In good times, few pay much attention to budget deficits (in part because they are small as a direct result of the good times), and so politicians who try to cut spending or raise taxes during those periods risk losing popularity. In contrast, in bad times the focus is on rising budget deficits (partly because they tend to rise naturally in a downturn), particularly if some countries are having financing problems because they have borrowed in a currency they cannot print. In these times, arguments that borrowing should increase appear irresponsible.

8. The case for fiscal councils

In situations where politics produces perverse economic outcomes, there is a clear case for some form of delegation. This has been well understood in the case of monetary policy, which accounts for the growing movement towards independent central banks. Delegation in the case of fiscal policy is less easy, because detailed fiscal decisions (about the tax and spending mix) should clearly remain under democratic control. However in the last decade many countries have established independent 'fiscal councils' that can provide information and advice on aggregate fiscal policy.

9. Fiscal councils can complement fiscal rules

Most fiscal councils operate alongside fiscal rules. Fiscal rules on their own tend to be ineffective, because they are either too simple to allow for important special cases like liquidity traps, or they are sufficiently complicated that they can be circumvented by politicians, either consciously or through over optimism. Fiscal councils can sanction deviations from simple rules when these special cases apply, and they can be a check on government manipulation or over optimism.

10. Fiscal councils represent good politics

Fiscal councils can help good politicians do what they would like to do. They can give credibility to governments that recognise the importance of countercyclical fiscal policy when monetary policy is unable to stabilise the economy. They can help expose political opponents who promise tax cuts or additional spending in good times that will in effect be paid for by future generations. In the current context, they can help expose the damage done by untimely austerity.

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Spurring growth in an era of constraints

Menzie Chinn

For over four years, the economies of the eurozone, the UK, US and Japan have been mired in a slow and hesitating recovery from the deepest recession since the Great Depression. In the beginning, policymakers responded aggressively to both the illiquidity and insolvency problems in the financial system, and the collapse in aggregate demand. However, in many instances, efforts to stimulate the economy were too soon withdrawn, or severely curtailed, despite the enormous amount of slack in these economies. In the United States, Republicans stalled any substantial increments to the 2009 stimulus legislation; in the eurozone, the absence of a centralised fiscal authority prevented an effective response to the sovereign debt problems that arose in the periphery countries. Can we stimulate growth at a time when traditional macro-economic management tools are restricted because of seemingly unsustainable national deficits?

I believe it is possible to accelerate growth in these hard-hit economies, now that the nostrums of expansionary fiscal contraction have been discredited, except all but the most ideologically blindered. But doing so requires making some difficult choices. The first step is to realise that countries that have their own currency have considerably more latitude in terms of sovereign debt borrowing than the countries of the eurozone periphery, and those that borrow in their own currency – such as the United States, the UK, and Japan – have more latitude in terms of the amount of government debt that can be accumulated without worry of a sovereign debt crisis. Finally, countries that run current account surpluses yet again have the ability to borrow greater amounts without repercussions. In other words, a considerable number of countries have the ability to repair their economies more quickly. All that is needed is the political will.

Given that key developed countries outside of the eurozone (and several within) have some "fiscal space" – that is room to accumulate additional debt – what should be done? In my view, policymakers need to undertake the following measures: Implement conditional inflation targeting; expand fiscal stimulus by way of the balanced budget multiplier; spend smartly.

1. Conditional inflation targeting

The advanced economies have been undergoing a prolonged process of debt deleveraging, by way of default and reduced household consumption spending. The way to get private sector agents to accelerate spending is to increase the rate of inflation. As Jeffry Frieden and I have argued, this task can be accomplished by committing to conditional inflation targeting, wherein the monetary authority commits to a higher inflation target than the conventional 2% until such time as economic activity re-attains normal levels. In the United States, the Federal Reserve has done something like this, while Japan is moving to a higher inflation target than previously in place. However, the eurozone and the UK remain recalcitrant, and so much remains to be done.

Why would higher inflation result in faster growth? In conventional macroeconomic models, higher inflation with interest rates at near zero leads to negative real interest rates, which tend to spur borrowing. Further, under these conditions, inflation-adjusted debt loads will be eroded over time. If asset prices (house values, stock prices) rise along with inflation, then collateral constraints will be loosened, and lending will resume. As lending and borrowing rises, more rapid growth will resume, shaving the debt-to-GDP ratio.

2. Exploiting the balanced budget multiplier

For countries that face tight constraints on sovereign borrowing, it is still possible to spur the economy with fiscal policy. As long as tax revenues rise with spending, dollar for dollar (or euro for euro), then increases in spending will increases aggregate demand, while not worsening the budget deficit. In fact, this approach is more likely to reduce the pace of debt accumulation than the austerity approach implemented in, for instance, Greece.

In fact, over the longer term, spending of this sort will likely more than pay for itself, particularly when government borrowing costs are near zero. Brad DeLong and Larry Summers have recently shown that insofar as expansionary fiscal policies mitigate long term unemployment and sustain higher levels of capital investment, potential GDP (and hence output) will be higher than in the counterfactual of fiscal retrenchment.

3. Spending smartly

In order to maximize the benefits of the expenditure of scarce resources, it's clear that not any government spending will do. Rather one has to think of both the demand side and supply side effects. For instance, spending on defense might have a high multiplier for aggregate demand, the long term effects are likely to be minimal. On the other hand, spending on infrastructure and education, if wisely done, can provide a much needed long term boost to output. In the United States, it's well known that infrastructure – roads, railways, bridges, inland waterways, and water distribution and treatment systems – are all in a poor state, meriting a rating of D+ from the nation's civil engineering society. Unfortunately, the allocation of infrastructure spending has not always been aimed at its most productive uses. The idea of a national infrastructure bank (more accurately a fund), if implemented effectively, can help attain that objective. Proposals in the United States envision a government owned corporation that would analyze projects and leverage private resources to fund investments that localities and states would find difficult to finance.

While underinvestment in infrastructure is a well known problem in the United States, it is also an issue in economies that thus far have done relatively well, including Germany. That leads back to the possibility of government-led growth, emanating from the countries within the eurozone that do not face constraints on government borrowing and spending.

Taken together, these measures do not constitute a panacea for the ills besetting the advanced economies. However, they do constitute a feasible pathway toward the resumption of sustainable growth.

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Let Europe arise

Anna Diamantopoulou

Southern Europe is burning. This crisis has turned out to be the great catalyst exposing the national ills of the prevailing political and banking systems. Conventions were overthrown and political establishments dismantled; yet, Europe seems to be on hold, or in slow motion at best, waiting for the German elections. In the meantime, a toxic environment is breeding and European cohesion is eroding.[1]

1. Europe is on the edge of a disturbing political conflict

We are experiencing an intensifying crisis of orientation that may become a fertile ground for conflict. The EU, an unprecedented and unique political formation, has succeeded in turning historical enemies into friends. The European landscape, however, is rapidly getting distorted. If things continue unabated, we may be witnessing a reversal of these friendships, becoming enemies again, nation vs. nation, north vs. south, the periphery vs. the centre.

2. A "call to arms" for a renewed Europe

Staunch believers of the European ideal – that more Europe is the only solution for prosperity, safety and well-being in the new world order – cannot afford to remain silent and passive. Urgently, and with no delay, pro-Europeans need to embark on a continent-wide effort, transcending countries, political parties, civil society organisations, professionals, academics, and entrepreneurs to create pan-European bottom-up pressure and providing strong political legitimacy for change. Yet, to be able to rally, mobilise all powers and to rise to the challenge we need to go back to our roots: the EU is in vital need of

1 The title "Let Europe Arise" comes from W. Churchill: *"Speech to the academic youth", University of Zurich, 1946*

a demos, a critical mass of popular support. A demos that would empower the EU's leaders to proceed with solid and acceptable proposals towards genuine integration. Otherwise, Europe will inevitably dissolve under the pressure of a widespread social clash.

3. We need to articulate a new European *raison d'être*

A new comprehensive, attractive and convincing narrative is needed that European citizens, collectively and individually, will embrace and adopt. Our collective cause needs form and shape with elements every citizen can identify with and connect to. This might draw on the following:

4. Global strength in unity: a new geopolitical role for Europe

By 2050 Europe will comprise only 7 per cent of the world population down from 20 per cent in the 1950s. As Helmut Schmidt, former chancellor of West Germany, points out: "No European nation will account for more than 1 per cent out of the world's population". Europe's GDP will only be 10 per cent of world production, down from 30 per cent in the 1950s. With changing demographics, energy needs and supply, and shifting world power from the west to the east, one can easily imagine how each European State will look on its own a few decades from now. To quote J.C. Junker, former head of the Eurogroup, "A united Europe is our continent's only chance to avoid falling off the world's radar".

5. From the elites to the people: the legitimacy of democracy

It is imperative that our emphasis should be on democratic legitimacy and accountability both at a European and at a national level. Three important issues: 1) A recent Eurobarometer poll (2012) found that more than half of Europeans (68%) feel that their voice does not count in Europe. Citizens feel that decisions that influence their lives are taken from a distant bureaucracy accountable to nobody. 2) Management of the crisis has revealed the feebleness of EU institutions – having been *de facto* relegated to the sidelines. Ultimate decision-making at the EU level has bypassed institutions and landed in the hands of the most powerful EU countries, or more precisely, a single country. The model of Europe governed and dominated by a single central power is not viable to say the least. The approach, tactics and methods used are turning Germany into an isolated giant while at the same time tensions and conflicts among people, institutions and countries are rapidly growing. 3) Finally, drastic changes are required to reform institutional structures making them accountable for implementing and monitoring policies and reforms; that is to go beyond the current practice of report- and recommendation- making for the EU Bureaucracy.

6. Fundamental values precede finances: economic justice for all

Europe is a global player and should set rules in the financial sector. Citizens rightly ask why "troubled" banks should be bailed-out at the expense of European citizens, yet the prevailing punitive approach falls on those less responsible for the crisis. Why should banks be financed by loans given to troubled EU countries by the ECB and the IMF when responsibility for repayment of those loans is placed upon the citizens of those countries? Why did EU institutions not fulfill their constitutional oversight obligations? A strong banking union with deposit insurance, and the tax on financial transactions currently under discussion would be positive steps in this direction. A narrative including those policies can ally European citizens fears. Concerted action for growth, economic justice and hope along with political responsibility are needed instead of the current finger pointing toward presumed sinner countries, punishment, fear and austerity.

7. Fairness and opportunity for all: equitably shared growth

The European periphery has entered recession, core economies are slowing down and so is the European economy as a whole. A fiscal stimulus comprised of three principal pillars is needed to ignite a solid recovery: a) Investment in pan-European infrastructure networks, [transportation, energy, telecommunications], b) The transformation of the ECB into a real Central Bank [with all associated functions and powers] and c) A true EU Budget. A growth instrument based on European resources, not merely country contributions totaling 1% of Europe's GDP. A budget allocated according to real needs to smooth inequalities and promote cohesion. Europe has both the mechanisms and the stature to rise against the global financial system's unjust and hazardous practices. A well-defined economic justice agenda may be the center-left's last existential opportunity.

8. Rallying around a peace project

Unmistakably, the EU's greatest achievement is peace. We have lived for six decades in peace; how certain are we that this is not the beginning of an armless "war"? Nothing should be taken for granted. A peace project is founded on the notion of mutual respect and a sense of belonging to a wider family with its own discreet identity and common rules. It is true that we have not done enough to actively build a common European identity. A European identity not competing with but complementing and strengthening further sovereign national identities. A European identity deeply rooted in our common inheritance and based on all those shared values and principles we all espouse: freedom, democracy, respect, justice, tolerance and solidarity as referred to both in the EU Treaties and in our respective constitutions.

9. Europe is in grave and present danger

The time is now to regenerate Europe with a unifying new narrative, make the leap towards real integration and transform Europe into a real community, a federation of nation states. The time is now to eliminate once and for all any risk of dismantling the most noble and genuine accomplishment of Europe's political history. The time is now to avert the likelihood of twenty-seven populist and ultra-nationalist parties (scapegoating Europe and saying "no" to everything European) dominating the upcoming 2014 European Parliament elections.

As we stand on the verge of greater integration or dissolution, it is fitting to recall J. Monnet's (incidentally, where is France?) ingenious statement: *"crises are the big federators of history".* People tend to set aside their differences and work together when facing a grave, clear and present danger. Don't we all see it by now?

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Section two

Lifting living standards in an era of global competition

Jobs, wages and security

How to achieve shared prosperity even if wages aren't rising

Lane Kenworthy

Many of the rich countries, when they return to reasonably robust economic growth, will face two potential obstacles to shared prosperity. One is a shortage of jobs. The other is stagnant (or falling) wages for those in the lower half.

The quantity of jobs is easier to solve, as there is considerable scope for expansion of employment in helping-caring services. These jobs will be valuable to society; we will benefit from having more people educate children, keep us healthy and care for us when we are ill, and give us personalised assistance in transitioning from school to work, switching from one type of work to another in middle age, improving our family life, transitioning into retirement, flourishing during retirement years, and much more. There will be plenty of demand for these services. As we get richer, most of us are happy to outsource tasks that we lack the expertise and/or time to perform ourselves. And we will likely be able to afford them as the cost of food, manufactured items, and possibly also energy falls.[1]

But some of these jobs, maybe many of them, will be low paying. Moreover, an array of economic shifts coupled with likely weakening of unions and collective bargaining may cause pay for workers in the lower half to stagnate or even decrease.

The potential result: a replication of the American experience since the 1970s, featuring decoupling between growth of the economy and growth

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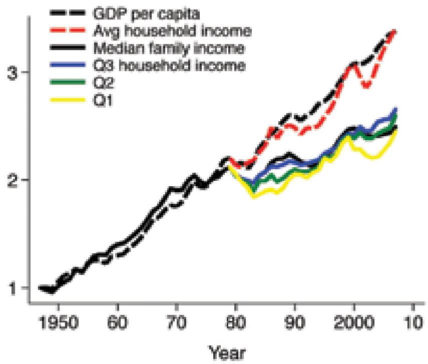
1 William J. Baumol, *The Cost Disease,* Yale University Press, 2012.

of household incomes for those in the middle and below (see figure 1). The economy will grow, but little of the gain will trickle down to the bottom half.



Each series is displayed as an index set to equal 1 in 1947. Q1, Q2, and Q3 are the first (lowest), second, and third quintiles of the income distribution. Inflation adjustment for each series is via the CPI-U-RS. Data sources: Bureau of Economic Analysis; Census Bureau; Congressional Budget Office.

Figure 1. Economic growth and household income growth in the United States, 1947-79 versus 1979-2007

We could see signs of this even before the 2008-09 economic crash. In Germany and Canada, real wages in the middle and below were flat in the 1990s and 2000s despite reasonably strong economic growth, and the same was true in the UK from 2003 to 2007.[2] In many of the affluent countries for which we have reliable data, since the 1970s earnings have not increased at all among households in the bottom 25 per cent and they have risen slowly among households in the next 25 per cent (those between the 25th and 50th percentiles).[3]

What can we do to ensure that the incomes and living standards of lower-half households more closely track growth of the economy?

STRATEGIES UNLIKELY TO WORK

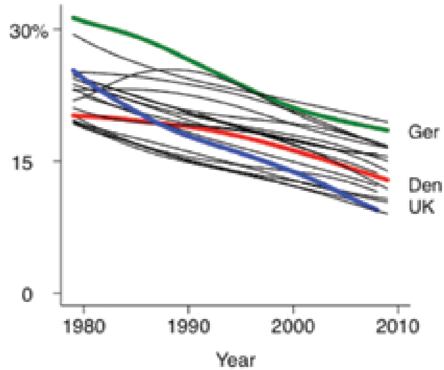
Let me begin with three strategies that are traditional favourites of the left but probably aren't up to the task.

2 Jess Bailey, Joe Coward, and Matthew Whittaker, "Painful Separation: An International Study of the Weakening Relationship between Economic Growth and the Pay of Ordinary Workers," Commission on Living Standards, Resolution Foundation, 2011.

3 Lane Kenworthy, Progress for the Poor, Oxford University Press, 2011; Kenworthy, "When Does Economic Growth Benefit People on Low-to-Middle Incomes – and Why?" Commission on Living Standards, Resolution Foundation, 2011.

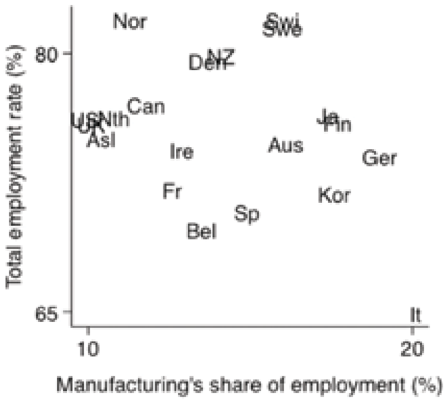
Reindustrialise

For persons with limited education, a job in manufacturing is one of the few paths to decent and rising pay. Protecting existing manufacturing jobs, bringing back lost ones, and creating new ones is a perennial aim of the left. But possibilities here are limited. As figure 2 shows, manufacturing's share of employment has been shrinking steadily in all rich nations. (I've highlighted Denmark, Germany, and the UK in this and several later charts, purely for illustrative purposes.) There are no exceptions. Even South Korea, which didn't industrialise until the 1970s and 1980s, has joined the downward march.



Manufacturing employment as a share of total employment. 21 countries. The lines are loess curves. Average in 1979: 23%. Average in 2007: 15%. Data source: OECD.

Figure 2. Manufacturing's share of employment



Employment rate: employed persons as a share of the population age 25-64. Data source: OECD.

Figure 3. Manufacturing employment and total employment, 2007

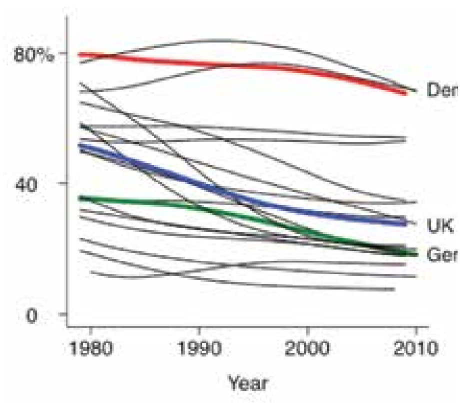
Like in agriculture, this employment decline is due partly to automation. It owes also, of course, to opportunities for low-cost production in poorer nations. Neither is likely to abate. Two decades from now, manufacturing jobs will have shrunk to less than 10 per cent of employment in most affluent countries.

This is a problem for wages and wage growth, but it is not necessarily an obstacle to high employment. Looking across the rich countries, there is no tendency for those with a larger share of employment in manufacturing to have a higher employment rate, as figure 3 indicates.

Strengthen collective bargaining

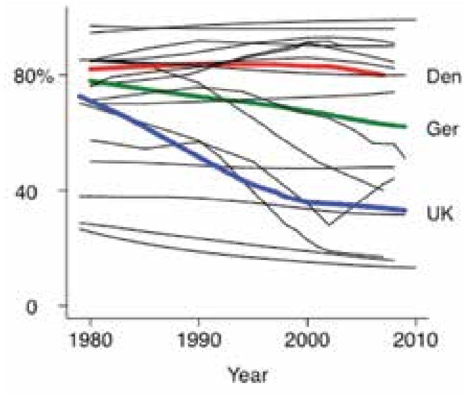
Strong labour unions can blunt the downward pressure on wages. For several decades following World War 2, unions ensured that firms passed a healthy portion of profit growth on to employees in the form of pay increases, and that has continued in the countries where unions remain strong.

But as figure 4 shows, unionisation has been falling in most affluent nations. Only five now have rates above 40 per cent, and four of those (Belgium, Denmark, Finland, and Sweden) are countries in which access to unemployment insurance is tied to union membership.



Union members as a share of all employees. 20 countries. The lines are loess curves. Data source: Jelle Visser, "ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention, and Social Pacts," version 3, 2011, Amsterdam Institute for Advanced Labour Studies, series ud.

Figure 4. Unionisation



Share of employees with wages determined by collective agreements. 20 countries. The lines are loess curves. Data source: Jelle Visser, "ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention, and Social Pacts," version 3, 2011, Amsterdam Institute for Advanced Labour Studies, series adjcov.

Figure 5. Collective bargaining coverage

Figure 5 shows that despite the near-universal decline in unionisation, collective bargaining coverage has held up in many nations. Will it continue to hold up? That's difficult to predict, but the German experience is worrisome. It's a non-Anglo country with a long history of successful pattern bargaining, yet collective agreement coverage has fallen by about 20 percentage points.

Even if there is no further reduction in bargaining coverage going forward, in all but a handful of the rich countries 20 per cent or more of the employed already are outside the reach of collective agreements. And in half of the countries it's 40 per cent or more. That's a lot of people facing the prospect of no sustained wage improvement.

Tighten the labour market

Full employment can help push wages up even in an otherwise inhospitable market and institutional context. Indeed, in the United States, an unemployment rate around 4 per cent was the key to the past generation's one brief period of nontrivial wage growth – the late 1990s. But monetary authorities aren't likely to cooperate, particularly given that monetary accommodation is widely thought to have contributed to the housing bubble and bust that precipitated the 2008 economic crash.

MORE PROMISING ROUTES TO LIFT LIVING STANDARDS

Here are four strategies I see as more promising routes to shared prosperity in the new economic context.

Educate

Schooling is not a cure-all. It can't guarantee high employment, rising wages, broadly shared prosperity, or any other element of a good society. But it helps. The better we do with education, the larger the share of the population who will be able to work in decent-paying analytical professional jobs.[4]

Public services

Public goods, services, spaces, and mandated free time – from childcare to roads and bridges to health care to holidays and vacations and paid parental leave – increase the sphere of consumption for which the cost to households is zero or minimal. They lift the living standards of households directly and free up income for purchasing other goods and services. Their addition to material well-being doesn't show up in income statistics, but it's real nonetheless.

Universal early education would be a particularly fruitful path to pursue. Denmark and Sweden point the way forward. Danish and Swedish parents can take a paid year off work following the birth of a child. After that, parents can put the child in a public or cooperative early education centre. Early education teachers get training and pay comparable to elementary school teachers. Parents pay a fee, but the cost is capped at around 10% of a household's income.

Early education has three benefits. First, it facilitates employment of parents, especially mothers, thereby boosting family incomes. In a context of flat or declining wages, adding employment hours is the only way for families to increase their earnings.

Second, early education helps parents balance work and family, which is a quality-of-life improvement in and of itself.

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4 Lane Kenworthy, "Two and a Half Cheers for Education," pp. 111-123 in *After the Third Way: The Future of Social Democracy in Europe,* edited by Olaf Cramme and Patrick Diamond, a Policy Network book, I.B. Tauris, 2012.

Third, early education enhances capabilities, particularly for those from less advantaged homes. In the Nordic countries, the influence of parents' education, income, and parenting practices on their children's cognitive abilities, likelihood of completing high school and college, and labour market success is weaker than elsewhere. Evidence increasingly suggests that the early years are the most important ones for developing cognitive and noncognitive skills, so the Nordic countries' success in equalising opportunity very likely owes partly, perhaps largely, to early education.[5]

A statutory minimum wage that rises with prices

If union decline continues and collective bargaining coverage follows suit, a statutory minimum wage will be needed to secure a decent wage floor. To ensure that the floor rises, the statutory minimum should be tied (indexed) to prices and also periodically adjusted upward in real terms.

Though vital, a wage floor is of limited help to many. Its main effect is to compress the bottom of the wage distribution rather than to push up wages for everyone in the lower half.[6]

Decoupling insurance

I recommend a government programme that can compensate for stagnant wages in a context of robust economic growth – insurance against decoupling, if you will.[7] Countries that already have an employment-conditional earnings subsidy (Earned Income Tax Credit, Universal Credit, etc.) could build on that. The ideal, in my view, would be to make receipt conditional on earnings, give it to everyone with earnings rather than only to those with low income, tax it for households with relatively high income, and index it to average

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5 James J. Heckman, "Schools, Skills, and Synapses," NBER Working Paper 14064, 2008; Christopher Ruhm and Jane Waldfogel, "Long-Term Effects of Early Childcare and Education," IZA Discussion Paper 6149, 2011; John Ermisch, Markus Jäntti, and Timothy Smeeding, eds., *From Parents to Children: The Intergenerational Transmission of Advantage,* Russell Sage Foundation, 2012; Gøsta Esping-Andersen and Sandra Wagner, "Asymmetries in the Opportunity Structure: Intergenerational Mobility Trends in Europe," *Research in Social Stratification and Mobility* 30: 473-487, 2012.

6 For a useful illustration, see figure 4.12 in Resolution Foundation Commission on Living Standards, *Gaining from Growth,* 2012.

7 Robert Shiller's "inequality insurance" proposal is similar in spirit. See Shiller, *The New Financial Order,* Princeton University Press, 2003, ch. 11. See also Robert B. Reich, Aftershock, Knopf, 2010.

compensation (or perhaps GDP per capita). This would ensure that when the economy grows, household incomes do too.

Some will ask why taxpayers rather than employers should bear the cost of ensuring that household incomes rise. It's an understandable sentiment. But consider how we think about health insurance, pensions, unemployment insurance, and sickness/disability insurance. Like income, these contribute to economic security and material well-being. In all affluent nations, they are financed at least partly by taxes or social contributions. Few object to the fact that firms aren't the sole funders.

Why propose a new (or expanded) government social programme at a moment when economic conditions and political sentiment in many countries militate in favour of spending cuts? First, this is a strategy for the medium- and long-run. Second, the logic of public policy as a mechanism to insure against risk remains as compelling as ever. If we want shared prosperity and if markets and institutions no longer can provide it, offering a simple public insurance remedy such as this can be both smart policy and smart politics.

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Combining competitiveness, growth and solidarity

Torben Iversen

It is a widespread view, also on the left, that globalisation has undermined the capacity of governments to pursue egalitarian policies, and that such policies must be sacrificed to promote economic growth. This is a major misconception. In fact, there are compelling reasons to believe that globalisation strengthens the nation state and its capacity to pursue redistributive policies, and that egalitarian labour markets and public investment in education can further competitiveness and growth. This suggests wide scope for a centre-left agenda, but there are two major obstacles: macroeconomic austerity and the capture of political power by labour market insiders. The centre-left has to offer solutions that lean against both of these threats. In the current European context this would involve large north-south transfers coupled with supply-side reforms, especially in southern Europe. Neither will be easy to accomplish politically, but the alternative is worse.

In the following memo I develop these points by first suggesting why globalisation promotes national autonomy and why policies that promote equality can be growth-enhancing. I then outline the two main threats to a centre-left agenda and suggest how both can best be addressed at the European level.[1]

1. Globalisation strengthens the nation state's ability to steer economic development

A widespread view on the left is that globalisation undermines the capacity of the nation state to regulate the economy and redistribute. The exact

1 My account is based on recent research in political economy; especially work I have done with David Soskice at the London School of Economics over the past decade or so.

opposite is true: *globalisation enhances national autonomy*. Advanced economies are built on heavy investments in technology, knowledge, and physical infrastructure that closely bind together firms, skilled workers, and governments. These assets are *co-specific* in the sense that the value of one investment depends critically on the presence of other investments, and they are *location-specific* in the sense that they are geographically rooted. This explains the prosperity of modern cities and the regional agglomerations of innovative firms, and it also explains why the most advanced companies and production processes are largely confined to rich countries despite ample opportunities to move such production to low-wage countries. Instead of a race to the bottom, investments that rely on co-specific assets seek out complementary factors abroad, and globalisation therefore raises the stock of location co-specific assets. This process rewards those with high skills while it tends to exclude those with low skills, thereby generating more inequality, but it also empowers governments to compensate losers through redistribution and taxation. Rising inequality is ultimately a political, not an economic, problem.

2. Equality can promote competitiveness

A fact that is surprising to many is that countries with compressed wages and large welfare states, mostly found in northern Europe, are spectacularly successful exporters. In 2010 Germany's share of world trade, for example, was virtually the same as the highly unequal United States; a small country like the Netherlands exported nearly half the total of the United States, and Scandinavia is not far behind. Northern Europe has also increased its competitive edge over time measured by their share of world exports relative to the United States. There is compelling evidence that this success is explained in large part by a combination of labour market institutions that prevent skilled wages in the export-oriented sectors from rising too fast while governments invest heavily in education and training. This combination fuels the expansion of the advanced, export-oriented sectors while promoting egalitarian goals at the same time. It is not always sufficient to fully offset the inegalitarian pressures of technological change and globalisation, but modern capitalism does not limit the capacity of centre-left governments to compensate losers. The protection of workers in low-skill sectors is not part of the institutional framework of advanced capitalism, and since these markets tends to be concentrated in mostly sheltered low-productivity services, globalisation matters little.

3. The danger of dualism and vested interests capturing the social-democratic agenda

Centre-left policies that promote education, integrated labour markets, and broad social protection also tend to entrench support for such policies among the middle classes. When advanced sectors are expanding, and when risks are broadly shared between different segments of the labour force, pro-welfare policies tend to engender wide support. But when unions, the professions and governments become dominated by insiders, there is a danger that labour markets become segmented and unequal, which in turn undermines support for redistribution, public education, and active labour market policies. Insiders have no interest in cutting their wages to price in newly trained workers, and they have no interest in public investment in training. Since they also tend to be secure, insiders also do not favour broad social protection. Instead they push for social policies that further protect their employment, tie benefits to earnings, and shield employers from product market competition. This can have the appearance of a centre-left agenda, but it is in fact a recipe for dualism and economic decline. Southern Europe exhibits very strong tendencies towards this kind of dualism, and there are some troubling signs in northern Europe as well. From this perspective the crisis of the southern European euro countries is not simply a sovereign debt crisis; it is also a growth and competitiveness crisis resulting from insider power.

4. The danger of wage restraint in the current context

In northern Europe the main problem is macroeconomic austerity. Wages in these countries are set through collective bargaining, with the internationally-oriented, high-productivity sector playing the role as wage leader. Because wage-setters in this sector are large and pace-setting, they anticipate the fiscal and monetary policies of government and the European Central Bank. To induce restraint these policies have been, and must be, non-accommodating. As long as the gains in export markets are sufficiently large such policies help pull economies out of recession, but the depth and global reach of the financial crisis has made export-led recovery impossible and trapped Europe in a macroeconomic high unemployment (dis-) equilibrium. The macroeconomic problem is perpetuated by the severe austerity imposed on southern Europe, which is itself a function of the incapacity of the south to compete effectively with the north. There is a need for expansionary policies, but they are not possible at the national level.

5. A new pan-European compromise rather than a collapse?

If Europe is not to descend into a morass of Japanese-style austerity, while at the same time promoting competitiveness, the centre-left must look for a European-level solution. There are two dimensions to such a solution, neither of which can work in isolation. One is additional and major debt restructuring in the south involving significant northern European transfers to bring down interest rates and spur consumption. The other is deep structural reforms of labour and product markets in southern Europe to restore competiveness and to bolster investor confidence that southern Europe can remain inside the eurozone. Coupling debt restructuring with structural reform is also necessary for political reasons because northern electorates will not simply subsidise southern insiders, and southern insiders will not accept deep reforms without extensive help from the north. In effect, there is a dire need for a European-wide compromise between insiders and outsiders that only the centre-left can credibly offer. The alternative is perpetual austerity and a very likely collapse of the euro. The centre-left everywhere, not just in the eurozone members, have a strong interest in preventing this.

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Creating a system of well-being warning lamps

Anke Hassel

In May 2013 the German Parliament will vote on a report drafted by a Parliamentary Inquiry Committee entitled "Growth, Wellbeing and Quality of Life". After the Sarkozy Expert Commission headed by Joseph Stiglitz with the help of Armatya Sen and Jean-Paul Fitoussi in 2009, the policy initiative by the British government of David Cameron to measure Happiness, and the OECD Better Life Index, the German Parliamentary Inquiry Committee represents another initiative geared towards redefining the relationship between economic growth and wellbeing. All these initiatives assume that the fixation of policymakers with GDP and growth could and should be overcome by highlighting other aspects that make the lives of millions of citizens happier as well as making their lifestyles more sustainable. At the same time, they all face the reality that the financial crisis has left governments with only one route out of indebtedness: to focus on economic growth.

A Parliamentary Inquiry Committee (Enquetekommission) is a standard tool in the German policy process to address long-term policy issues. Made up of equal shares of members of parliament and experts, seats in the committee are distributed according to the strength of the parties in parliament. The author of this memo had the privilege to be nominated by the German Social Democrats to join the expert side over the last six months. The committee members draft a report based on scientific evidence.

It would be an exaggeration to say the results of the German Parliamentary Committee are overwhelming. On key questions, the report contains substantively different assessments both on the challenges and the solutions to future economic development. In particular the committee was split over the question of whether low levels of economic growth are a blessing, a curse or simply a fact. Some parts of the committee embrace the coming policy agenda on sustainability through the frame of business as usual, whilst some anticipate the necessity and reality of fundamental transformations in our market economies. Needless to say the public have so far reacted disappointedly to the quarrels of the committee.

However, there are some laudable aspects in the committee's work that should be acknowledged:

1. The measurement of well-being

Rather than focusing on individual wellbeing, the committee proposes 10 indicators that jointly reflect the wellbeing of a nation and its effects on the globe. Indicators include economic growth, inequality, employment levels, education, as well as indebtedness, greenhouse gas emissions, nitrogen and bio-diversity. Annual changes in these measures indicate development for the better or worse. Even though the combination of these 10 indicators does not follow a strict formula and could be complemented by a number of others, they cover basic economic, social and environmental aspects of basic sustainability concerns.

2. Rising inequality is now seen as a prime policy concern in Germany across all parties

The level of income inequality is taken as key economic indicator next to economic growth. The importance of containing further trends of inequality in income and wealth and to develop better statistics for analysing wealth inequality was shared by the committee as a whole.

3. Driving on the edge: A new system of well-being "warning lamps"

Well-being Indicators are accompanied by warning lamps, in particular the development of wealth inequality. While income inequality will be measured and published alongside with other indicators on an annual basis, the development of wealth inequality will be displayed as a warning signal, which lights up if wealth inequality worsens. In Germany, the top 10 per cent of the population own about 60 per cent of net wealth. Regular reporting on wealth inequality presupposes better research and up-to-date data on the distribution of wealth. If taken seriously policy measures to combat wealth and income inequality would considerably shape government action. No party in parliament objected to this.

More warning lamps are also proposed to light up in other areas. These are speculative bubbles in credit markets, stock-prices and real estate, indebtedness of private households, life-expectancy as well as the use of nitrogen and bio-diversity. In the thinking of the committee, running the country resembles the cockpit of a car: warning lamps will light up to indicate that action is needed. Indicators and warning lamps will be published in an annual report to the government which has to respond to its findings in parliament. A physical display of indicators and warning lights will be installed in or around parliament.

4. Regulating financial markets is a key prerequisite to future economic sustainability

Regulating financial markets was of central concern of the Committee for heading towards sustainable in contrast to bubble-driven growth. Consumer policies, lifestyle and work, the importance of public infrastructure for sustainable consumption was also highlighted. Sustainable work includes lowering stress-levels at work as well as gender balanced working hours. Nuggets of thought provoking policy proposals and problem analysis can be found in almost areas of the report, but they are often buried under about 1000 pages of analysis.

5. Squaring low-growth, inequality and sustainability

As party systems continue to disintegrate and coalition governments are the norm across Europe, preparing a policy consensus based on long-term challenges across party boundaries is significant for policy agreements. Germany is heading towards a federal election in September 2013. Reports by parliamentary inquiry committees are no coalition treaty. However, intense cross-party discussions and negotiations frame longterm policy debates. The discussions in the committee show that there is a clear majority among parliamentarians that sees the future of Germany as a process of squaring the effects of low growth with redressing inequality and greenhouse gas emissions through a mixture of technological progress and lifestyle changes.

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Saving capitalism with a new Fordism

Michael Lind

The Great Recession has discredited neoliberalism, which combined conservative optimism about deregulated markets with progressive support for education and the safety net. The present crisis arose from the toxic interaction of mercantilism among the rising economies, particularly in China and other export-oriented East Asian countries, with post-Fordism in the advanced developed economies, particularly the US. Developing economies need a transition to traditional Fordism, so that their workers can afford the goods they make. In the advanced economies, the transition has to be from post-Fordism to a new Fordism in the service sector, so that their workers can afford the services they provide.

The following briefly explains how we arrived at the current juncture before looking at what needs to be done to save capitalism.

1. The problem of bubble and glut

Before World War II, unreformed industrial capitalism suffered from a "bubble and glut economy" characterised by asset bubbles and trade wars. Because the rich are less likely to spend additional income on goods and services than on speculation, excessive concentrations of income and wealth exacerbated asset bubbles in real estate and the stock market. Mercantilism – the policy of subsidising high-value-added exports while importing chiefly raw materials – led to trade wars among industrial countries. Mercantilism also encouraged colonialism, because conquered countries could be coerced into buying the mercantilist nation's manufactured goods while supplying it with raw materials and low-value-added products.

After World War II, the architects of the liberal capitalist order sought to eliminate the bubble-and-glut economy by combining international rules against mercantilist trade strategies with domestic "Fordism", named after the American automobile manufacturer Henry Ford who paid his workers enough to allow them to purchase the cars they made. At the national level, Fordism took the form of a high-wage, high-demand economy. Pre-war proletarians were turned into post-war middle classes, by a combination of universal institutions (social insurance and, in some cases, minimum wages) and sectoral institutions (industrial worker unions and family farm subsidies). At the global level, the equivalent of Fordism was the expectation that industrial nations would both export and import high-value-added goods and services. The Bretton Woods financial system of fixed exchange rates discouraged the mercantilist strategy of competitive devaluations. The General Agreement on Trade and Tariffs (GATT) discouraged another mercantilist strategy, protective tariffs.

2. The rise of post-Fordism

In the late twentieth century, Fordism gave way to post-Fordism in the developed nations and pre-Fordism in industrialising countries. In advanced economies, post-Fordism has been characterised by increasing inequality of income and wealth. Thanks to technology-driven productivity growth, agriculture and manufacturing have shed labour to the growing non-traded domestic service sector, generally lower-paid and less unionised. In some countries, including the US, post-Fordism was worsened by policy changes, including a government-business assault on labour unions, a declining minimum wage, deindustrialisation caused by outsourcing rather than productivity growth, and large-scale, low-wage immigration.

At the global level, the old pre-1945 bubble and glut economy has been resurrected in a new form. In the more liberal economies like the US and UK, rentiers in the overgrown financial sector captured many of the gains from growth and used their windfalls to speculate in stocks and real estate assets. In more mercantilist economies like China, Japan and Germany, government policy directly or indirectly steered capital toward over-investment in infrastructure and industries, resulting in gluts, dumping and retaliation by their trading partners. The system, dependent on private consumer debt, collapsed following the financial panic of 2008.

3. Saving capitalism with a new Fordism

What is needed now is a shift from post-Fordism to service sector Fordism in developed countries, and a shift to old-fashioned Fordism in developing countries. The new Fordism must focus on service sector workers. Thanks to automation, factory workers will soon account for as small a percentage of the workforce in advanced economies as farmers already do. While the old Fordism focused on production workers in factory and farm, the next Fordism must focus on service sector workers. Health aides and hospitality workers, for example, should have access to the services they provide, through the market or tax-supported public services. Many service sector jobs being created in advanced economies pay poorly and require only limited education and on-the-job training. Creating service sector Fordism at the national level will require direct labor market interventions, not just the investments in education that were over-emphasised by yesterday's neoliberals.

The repertory of labour market interventions from which policymakers can choose, in order to boost most service sector workers into a new middle class, includes greater service sector unionisation, reformed wages and hours laws, minimum wages, wage subsidies, tax cuts for low-and middle-income workers, and the direct or indirect socialisation of necessities like health care, education and housing. Taxes, including those that support social insurance, could be shifted to some degree from payroll taxes on labor to taxes on high incomes, property, consumption and financial and resource rents.

4. Old-fashioned production sector Fordism is still a strategy for developing nations

While the developed economies need to adopt service sector Fordism, the developing nations should adopt old-fashioned production sector Fordism, raising wages for their industrial workers and farmers and expanding their undeveloped service sectors, including public social insurance and welfare.

5. At the global level, new rules are needed to protect a liberal trading order from new forms of mercantilism

Unlike the old mercantilism, which used protective tariffs and sought to corner world markets in finished goods, the new mercantilism seeks to use currency manipulation, subsidies and other techniques other than tariffs to capture high-value-added parts of global supply chains rather than to capture entire industries. The rules of world trade need to penalise countries that practice the new mercantilism, while permitting all major economies and regions to maintain minimal shares in high-value-added parts of global supply chains.

In the twentieth century, Fordism in the production sector rescued capitalism from the bubble and glut economy created by inequality and mercantilism. In the twenty-first century, a new service sector Fordism in the developed economies along with old-fashioned Fordism in the developing economies is needed to rescue capitalism once again.

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Growing the economy from the middle out

Heather Boushey

Over the past forty years, the United States has seen a rapid and sustained rise in income inequality, as wages failed to keep pace with productivity gains. The consequence has been a substantial hollowing out of the middle class. Like a modern-day version of the "ghost of Christmas yet to come," this is a warning of what can happen to an economy and to the people of a nation as a result of a reckless economic journey. However, like the warning delivered in Dickens' novel, it doesn't have to be this way. There are a number of steps that can be taken to avoid another lost decade in the United States, which also apply more broadly to European progressives.

In order to reverse this fate – or avoid it altogether – we need to reject the failed economic model of recent times. The supply-side, trickle down narrative is based on a set of unproven assumptions about how the economy works and there is a growing body of economic evidence that inequality has a negative effect on the strength and stability of the economy writ large. For decades, we have been told that growth would result if we left firms alone; if we reduce the costs faced by firms, through lower taxes and limited regulation, then they will have more funds available for investment and they will hire more workers and the economy will grow. Yet, this hasn't turned out to be the case. Low taxes, at least in the US case, have not been associated with better economic outcomes. Instead, they have been associated with lower and less stable growth, alongside high inequality and a lost decade for America's middle class.

1. Growth that is not shared is unsustainable

The imperative for this generation of policymakers is therefore to focus on growing the economy from the middle out. This is the conclusion of a growing body of economic research.[1] While there isn't one perfect, econometrically unimpeachable paper that proves that the economy grows from the middle out, the abundance of research suggests that the strength and size of the middle has a strong effect on the all the key factors that propel an economy forward. In the end, growth that is not shared is unsustainable.

2. The strength of the middle class matters

There are four key areas where the strength of the middle class and the level of inequality affect economic growth and stability: firstly, a strong middle class promotes the development of human capital and a well-educated population; secondly, a strong middle class creates a stable source of demand for goods and services; thirdly, a strong middle class incubates the next generation of entrepreneurs; and finally, a strong middle class supports inclusive political and economic institutions, which underpin economic growth. From this list, a range of policies can be recommend that US policymakers should focus on, including:[2]

3. Lower the costs of college

Incentivise colleges to limit the net price of college to 15 per cent of a family's income and require colleges to provide consumer information via college "nutrition" labels,[3] which provide a set of comparable data on costs for students and their families, and graduates' outcomes. Offer no-interest federal student loans[4] to families with incomes up to $150,000 and make income-based repayment[5] plans the default option for federal student loans.

4. Reduce costs and barriers to job training

Invest $2 billion annually in apprenticeship training programmes to help develop an additional 1 million skilled workers. Guarantee workers the right

1 Heather Boushey and Adam Hersh, *Middle Class Series: The American Middle Class, Income Inequality, and the Strength of Our Economy,* (Centre for American Progress May 17, 2012).

2 This list comes from a report put together by CAP's Director of the American Worker Project, David Madland. See: David Madland, *Making Our Middle Class Stronger* (Center for American Progress, August 1, 2012).

3 Julie Margetta Morgan and Gadi Dechter, *Improving the College Scorecard Using Student Feedback to Create an Effective Disclosure,* (Center for American Progress, December 2, 2012).

4 Anne Johnson and Tobin Van Ostern, *It's Our Interest: The Need to Reduce Student Loan Interest Rates,* (Center for American Progress, February 13, 2013).

5 Sarah Ayres, *10 Models for Student-Loan Repayment,* (Center for American Progress, March 22, 2013).

to request time off from work to train and improve their skills and create a flexible Pell Grant for adult workers to enroll in career training.

5. Raise workplace standards

Congress should offer grants to regional inclusive capitalism centres that support private-sector business in adopting practices such as profit and gain-sharing, broad-based stock options, worker cooperatives, and solid base-wages and benefits. They could also raise their own federal contracting standards and pass laws that limit the deductibility of executive pay and end tax incentives for offshoring jobs. Congress should set the minimum wage at half the average wage and protect workers' owed wages and their right to unionise.

6. Reduce the costs of getting sick or losing a job

In addition to implementing and protecting the Affordable Care Act, all workers should have the right to earn paid sick days. Congress must also reform our nation's unemployment insurance system by incentivising states to raise and harmonise their eligibility and benefit levels and shore up and forward-fund their trust funds in times of economic prosperity.

7. Make it possible for workers to also be caregivers for children and elderly parents

Enact a federal paid family and medical leave insurance programme that provides up to 12 weeks paid leave to workers who have or adopt a child, need to care for a sick relative, or need to take time to recover from an illness themselves. Increase investment in preschool programmes like Head Start and provide matching grants to states to encourage them to improve the quality and financing of their own programmes. Congress should also raise the income threshold at which the child and dependent care tax credit is phased out from $15,000 to $85,000 p/a.

8. Boost retirement security

Create a collective defined contribution retirement plan and open the Thrift Savings Plan [the 401(k) retirement plan for federal employees] to the public.

Requiring automatic enrollment in one of these two plans, or in an individual's existing 401(k), would also boost participation and increase savings.

9. Stabilise the costs of housing

Establish a large-scale refinancing initiative to help creditworthy homeowners with little home equity to take advantage of today's historically low interest rates. Do this by streamlining existing refinancing programmes and establishing a new programme for borrowers who are ineligible for federal support today. Support a program to rehabilitate and rent[6] out government-owned foreclosed homes and another that uses "shared appreciation"[7] to help underwater homeowners stay in their homes through mortgage principal reductions.

10. Reduce energy and transportation costs

Appropriate additional funding to the Commodities Future Trading Commission[8] so that it might regulate oil speculation and better enforce these and other market safeguards that help reduce price volatility. Reinstate incentives for employers to offer greater transit benefits for workers who choose to car-pool or take mass transit to work. Create a clean energy standard that requires 35 percent of America's energy needs to be met by renewable energy by 2035 and create a new retrofit financing fund for single and multi-family homes.

11. Create middle-class jobs

Rehire the nearly half a million teachers laid off in the Great Recession and invest an additional $129 billion over the next decade in American infrastructure[9] to boost employment in construction and make us more globally competitive. Enact and promote job sharing policies[10] that reduce and spread out work hours but keep pay constant and workers employed.

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6 Alon Cohen, Jordan Eizenga, John Griffith, Bracken Hendricks, and Adam James, *Rehab-to-Rent Can Help Hard-Hit Communities and Our Economy: What to Consider When Converting Vacant Foreclosed Homes into Affordable, Energy Efficient Rentals,* (Center for American Progress, January 24, 2012).

7 John Griffith and Jordan Eizenga, *Sharing the Pain and Gain in the Housing Market How Fannie Mae and Freddie Mac Can Prevent Foreclosures and Protect Taxpayers by Combining Principal Reductions with "Shared Appreciation",* (Center for American Progress, March 29, 2012).

8 Michael Ettlinger and Adam Hersh, *There Are Foolish Things to Defund in the Federal Budget And Then There Are Really Foolish Things to Defund,* (Center for American Progress, February 4, 2011).

9 Donna Cooper, *Meeting the Infrastructure Imperative: An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation's Infrastructure,* (Center for American Progress, February 16, 2012).

It is not too late to avoid another lost decade. While this policy agenda identifies specific steps that US policymakers can take, the strains on the middle class in Europe are similar and policies that pursue these core objectives will serve them too. The economic evidence supports the idea that we can grow the economy from the middle out. Recognising this – and rejecting the failed supply side, trickle down model – is more likely to lead to the kind of happy ending that includes strong and shared economic prosperity.

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10 Matt Separa, *Stabilizing Employment and the Economy Even During Tough Times Work-Sharing Provision in Payroll Tax Extension Will Support Workers, Businesses, and the Economy during Recessions,* (Center for American Progress, March 21, 2012).

Re-engaging in workplace politics

Frans Becker

At the beginning of 2013 the Wiardi Beckman Foundation, a Dutch social democratic thinktank, published more than 50 personal stories of a cross-section of employees in the Netherlands. In this book about the 'concealed politics of our daily lives', members of the WBS-staff interviewed teachers, nurses, businessmen, cleaning women and many others about their anxieties, their hopes and their dreams. We were anxious to learn about the background of public discontent in our country: where it comes from and how we could start dealing with it. One of the overwhelming conclusions was how far day-to-day politics and the daily experiences of ordinary people have been driven apart.

It painted a picture of mutual alienation that is not very comforting for social democracy. People expressed the lack of grip they experienced in shaping their lives outside their private sphere – and that's exactly why they retreated to family, home, friends. They couldn't even think of politics as a partner positioned to help them regain a grip on their circumstances or future. A second, and equally pressing issue, that was revealed in the interviews was the discontent and the lack of joy or the frustration people experienced in their jobs. The quality of the workplace and labour relations turned out to be one of the main themes of the book. This memo shares the main insights from this Dutch experience.

1. Re-engage in workplace politics

Social democratic politics has to reconnect to the daily work experience of ordinary people and mobilise people behind a better workplace agenda. We interviewed an employee of a firm of cleaners, who had exactly 90 seconds to clean a classroom in a school. The erosion of a decent living standard, the over-flexibility, the lack of co-determination at the workplace, deteriorating working conditions: they are the result of trends in labour relations in the past decades. Flexible contracting plays a significant part in driving these trends. They have become part of the present economic crisis: they generate insecurity, deep into the middle classes. A further risk shift is part and parcel of the dominant policy regime. A decent living standard and good work have not only been highly valued in the humanist-socialist tradition. Broader research findings underline the significance of the workplace, not only for the well-being and self esteem of the employed but for enterprise, productivity and innovation as well.

2. Push back against the financialistion of workplaces

The short-sighted impulses of finance need to be tamed while employees' interests and responsibility need to be revisited. Pushing back the 'financialisation' of our economy is a first and necessary step in a counter-crisis strategy. We are well aware that the origins of the crisis are to be found in our financial system: the size, the risks taken, the lack of control and regulation, the dissemination to all corners of our society. We still have a long way to go in order to make our financial sector the servant of our real economy again. But financialisation is also an essential characteristic of our corporations, where shareholder value is dominating corporate strategy, and mergers, take-overs and restructuring have served shareholders and CEO's, but have not created extra social or economic value. 'Cash is king', was a saying that one of our interviewees used to summarise his feelings. What is needed is a corporate governance model that takes other stakeholders' interests into account, focusing on the continuity of the firm, and giving employees a say in case of merger, take-over or restructuring.

3. A better working environment will produce results

Better jobs and an improved working environment are good for people and innovation. If you work in a nursing home, you simply don't have time for a talk with your patients, but you do have detailed prescriptions on how much time you may spend on each and every action you undertake, reporting them on a minute-to-minute list. Craftsmanship and good work are not only under pressure in the private, but also in the (semi) public sector. Public ethos is undermined by up-scaling, new management fashions, contracting, and semi-private governance models, including exorbitant salaries at the top. Although our work force has high potential, the way we have organised the workplace often stands in the way of realising it. A second step in a social democratic strategy should be to stimulate an "excellent work place", both in the private and the public sector. It is a workplace based on teamwork, improving quality and efficiency by relying on the creativity, knowledge and commitment of the employees. It focuses on the development of their knowledge and skills, their involvement in the decision-making processes, teamwork and excellent relations between employees and management. This type of workplace offers a highly productive, innovative and competitive model for businesses and institutions – some say it is the best way for the European economy to survive. It fits into the idea of a cooperative capitalism, both on a micro and macro level, including new forms of cooperative business models in the third sector.

4. Be wary about overdosing on flexibilisation

Another step in a better workplace agenda would be to counterbalance new insecurities and stimulate social resilience. Flexicurity seemed to be an ideal solution to combine new patterns of work and private life, but has in its perverse forms led to an overdose of flexibility, low pay and minimal rights and a lack of security. It needs rebalancing by providing adapted arrangements through the life cycle. Activating social networks will be one of the roads to follow to organise care, get a new job and secure family assistance. But in order to stimulate social resilience, an active investment strategy is needed as well, providing education and training, childcare facilities and job-to-job programmes.

5. Entrepreneurial activity and innovation are indispensable

Any social democratic economic policy should stimulate entrepreneurship, embedded in terms of social and environmental sustainability. Economic recovery can be greatly hindered or helped by international arrangements and national policies. But entrepreneurial activity and innovation are indispensable. Not too long ago some thought we would all be living on thin air, nowadays many believe that Volkswagen is the example to follow.

But there is path dependency, and local and national circumstances do count. Nevertheless, industry as a source of technological innovation and problem solving, as a drive for economic growth in other sectors as well, will remain of utmost importance. Governments have a limited scope in this domain, but smart policies can make a difference. Some need fine tuning and local knowledge, supporting regional developments or specific sectors or businesses. Others ask for national targets, for example in the field of sustainability and energy politics, or vocational training. In spite of growing unemployment, there is an urgent and unfulfilled need of technicians and engineers. Small and medium-size firms have been the motor of employment in the last decades; specific policies can be helpful for them, such as creating credit facilities, helping starters, organising training-and-work programmes and bringing together knowledge, innovation and business processes at the interface of public institutions and private partners.

6. Europe has to find a way out of its morass

The possibility of laying out such upgrading strategies depends a lot on a more supportive European context. The present global and European economic and financial conditions have a serious influence on national economic strategies. As Dani Rodrik has pointed out, there is a trade off between sovereignty, democracy and the type of globalisation we are witnessing today. In the European Monetary Union, the euro resembles the role the Gold Standard played in the 1930's. It severely limits the perspective for economic recovery in a number of European countries. Are we able to design and realise a different economic regime in Europe? That will be one of the most pressing issues to debate in the social democratic family.

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Tackling income security inequalities

Ronald Dekker

"Excessive inequality is corrosive to growth; it is corrosive to society. I believe that the economics profession and the policy community have downplayed inequality for too long". Christine Lagarde (IMF at the 2012 Annual Meetings of the IMF and the World Bank).

High levels of inequality are a hindrance to economic development. Recently OECD and IMF researchers have put forward serious evidence suggesting that high levels of inequality mean less stable economic expansions and sluggish growth. As I will set out below, one of the key drivers of inequality is the increasing flexibilisation of labour markets. This trend has contributed to the creation of uneven growth which hinders our economies today. Labour market policies need to be evaluated to account for this problem by not only focusing on income disparities but also on the divide in job security.

1. Labour markets are a major source of income inequality

Labour markets have consequences for income inequalities beyond the wage distribution. The main distributional mechanism of income in modern economies is the labour market. Wages are determined on the one hand on the basis of differences in supply and demand of different skills, and on the other hand by the amount of skills (the level of human capital) of the individual. This means that people with a high skill level that is in short supply earn higher wage incomes. At the short end of the stick we find people with lower skill levels, for which there is lower demand. This is a major source of income inequality. Depending on your position in the political spectrum you can regard this as an efficient outcome or as a market failure.

This form of inequality has received ample attention in the academic literature and in the policy debate. But many other inequalities exist in and are produced by the labour market. Examples are (fringe) benefits (e.g. access to healthcare), autonomy at work, job quality and development potential in a job. The inequality dimension discussed here is inequality of income security that can be derived from one's attachment to the labour market.

2. Flexibilisation is not alleviating rising levels of insecurity

Traditionally income security came from two sources: job security, derived from a permanent job and social security, derived from social benefits to compensate for the lack of labour income. Over the course of the last three decades both job security and social security have been eroded. Job security is declining through the process of flexibilisation of labour markets. Social security is reduced through general cutbacks in government spending and specific cutbacks in social spending. The latter austerity measures have become even more relevant since the global recession of 2009.

The recent development of flexibilisation has resulted in a labour market in which fewer people than before can rely on job security. The more successful flexiworkers (either temporary employees or the self-employed) derive a sufficient level of income security from a string of jobs (or assignments). This is referred to as "employment security". But the flexiblisation trend has also resulted in a rising number of less successful workers who experience multiple spells of unemployment and limited access to social security because of their fragmented careers. For this group of people the term "Precariat" was coined by Guy Standing. Below this there remains a group for which the goal of deriving any income security from the labour market is more or less utopic: people with serious disabilities and those who have not had a paid job for more than 10 years. Social security is their primary source of income, either by relying on their families (in Southern European welfare states) or by receiving social assistance (in most Northern European welfare states).

3. Labour markets are increasingly polarised

Reflecting different sources of income security, the potential workforce can be subdivided into four "security segments". Firstly, there is a "high job security" segment. This segment is made up of employees with permanent contracts that move (voluntarily) from one job to the next without experiencing spells of unemployment very often. Second, we find the "low job security but high employment security" segment, with temporary or otherwise flexible employees and successful self-employed workers. Their income is relatively secure because they can, on the basis of their skills, find new employment relatively easy. Third is the "low job security and low employment security" segment, or "the precariat". Their income security is low and this is only partially compensated for by social security. And finally, the "social security" segment which consists of people who derive virtually no income security from the labour market.

Between the upper and lower two segments is the "divide". This means that fewer transitions take place between the lower and the higher tiers or, put another way, labour market "outsiders" making the transition to labour market "insiders". The current direction of policy needs to be re-evaluated to alleviate this polarisation:

4. Income security inequality should be treated as a significant indicator

Labour market policies should be evaluated not only for their effect on income inequality, but also for their effect on income security inequality. Progressive labour market policies should aim for "employment security for all". This means aiming at increasing labour force participation rates but at the same time safeguarding the level of income security for those at the bottom end of the labour market. In particular, "Work First" is a valuable principle, but should not lead to an increase in the number of working poor.

5. Question the all-out drive towards "flexibilisation"

The thrust towards more flexible labour markets should be handled more carefully. The general advice from mainstream economists for labour market policy still seems to be "flexibilisation". Their mistaken idea that labour markets are, or rather should be, perfectly competitive markets, is apparently so strong that the only solution to all labour market ills is to reduce employment protection, reduce the power of unions and reduce wages. However, more flexible labour markets have a tendency to increase labour income inequality and in particular to increase inequality in terms of labour income security. Even when this is compensated for, in developed welfare states, by a high level of social security, the differences in employment security are threatening economic and social development. When social security is also lacking, differences in employment security can pose a real threat to social cohesion and could lead to the type of social unrest some southern European countries are now facing.

6. Income security distribution through the labour market

Progressive politics is meaningless without ideas about the distribution of social progress and mobility. Increasing the level of employment security is not "progressive" if at the same time the level of job security for the low-skilled is lowered. Getting people out of social security is not "progressive" if the only alternative is joining the ranks of the working poor or the "precariat". Progressive politics should develop clever ways of distributing income and income security more equally on the labour market. Further flexibilisation of labour markets and lowering job security will do the opposite. If that's progressive, one would rather be conservative.

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Only fiscal stimulus will increase employment and earnings

Tomas Korpi

According to the latest Eurostat statistics the unemployment rate in Spain is currently 26 per cent but in Germany it is only 5 per cent, putting the two countries at opposite ends of the European unemployment spectrum. At the risk of stating the obvious, such numbers have dramatic implications for individual living standards. For the vast majority of the populations in (post-) industrialised societies, gainful employment is the key to both material living standards as well as for self-respect and social standing. The wages provide for the bare necessities as well as for the added luxury, the job itself provides a sense of meaning and identity and the colleagues a social network. Mass unemployment also lowers GDP and burdens public transfers systems. This is the background against which the current economic crisis must be seen, yet although unemployment figures are now at record levels it is important to remember that Europe's unemployment problem is not new. Many countries of the European Union saw a rise in unemployment already in the 1980s, a rise that turned into permanently high levels of joblessness.

1. Cutting benefits does not solve the unemployment problem

Although it may seem ludicrous to argue that labour supply is the root of today's unemployment problem, employment policy in the EU during recent decades has largely focused on "stimulating work incentives". While this has been pursued by many different means, it has primarily been associated with cutbacks in income compensation programmes. Reduced generosity has here been seen as the means to reduced unemployment, as it would force out-of-work citizens to take on previously unacceptable employment.

Lowering benefits does indeed pressure people into consenting to working conditions they otherwise would have found prohibitive. However, prolonging the period of job search is not the only effect of raising compensation levels, the benefits also function as a consumption subsidy thereby raising total demand and stimulating employment. These contradictory tendencies is also the reason why aggregate analyses of the relationship between compensation levels and employment do not find the same unemployment increasing effect found in analyses of individual employment probabilities.

2. Nor is a lack of skills the main reason behind the unemployment problem

It is often claimed that the knowledge society requires previously unheard of skill levels, and that the lack of appropriate skills condemns people to menial jobs or unemployment. Job requirements are also rising, albeit at a much slower rate and in a much more uneven fashion than generally believed. It is of course the case that requirements have increased in specific occupations, in some cases quite dramatically, yet analyses of educational requirements show only a very gradual rise in a wide range of jobs. This rise is furthermore difficult to separate from the rise in educational attainment, and many professed analyses of job requirements actually examine employee skill levels. This then confounds rising requirements with the simple fact that employee skills as indicated by their educational attainment have risen much faster than job requirements.

This does of course not imply that policies directed at labour supply are unimportant, improperly designed benefit systems and insufficiently responsive educational and training programmes may clearly have contributed to the unemployment problem. But such factors cannot be the primary explanation behind the unemployment figures initially cited, as shown by our recent experience with rising unemployment despite cutbacks in the generosity of unemployment compensation and rapid increases in educational attainment. The searchlight has to be pointed in another direction – towards labour demand.

3. The rise in unemployment in the 1980s coincided with a turn to a low inflation regime

Turning the attention to labour demand is important both for our understanding of the development of unemployment over the last decades as well as for our diagnosis of the current crisis. The shift in monetary policy that occurred around 1980, when many central banks shifted to a low inflation regime based on controlling the money supply, then naturally takes centre stage. The policy shift was motivated by the rise in inflation following the oil crises in the 1970s and was based on a theoretical notion of rational, well-informed and adaptive economic actors. This establishment of a low inflation policy was expected to result in slowly declining unemployment rates as employers and employees adjusted to the new economic conditions.

These high hopes were never fulfilled. Or, rather, they were only partially fulfilled, inflation did decline yet unemployment did not. While the policy shift need not be the only factor behind this development, globalisation may for instance have lowered consumer prices as well as closed factories, it seems clear that the policy of inflation control has been unable to bring about a return to full employment.

4. Anti-inflationary policies will not reduce the ranks of unemployed

If anti-inflationary policies have been unable to generate full employment so far, they will not be able to in the future either. This also has important lessons for the current crisis; a focus on keeping inflation below the 2 per cent mark postulated by the ECB and others will not reduce the ranks of unemployed. A fiscal stimulus package is instead required to bring down unemployment, and a somewhat higher inflation will have to be accepted. Such policies clearly dampened the initial effects of the financial crisis of 2008, before concerns about rising levels of public debt came to dominate the agenda. And while it is clear that rising debt is not unproblematic it is also a problem that current austerity policies are incapable of solving. Rather than attempting to lower debt by slashing expenditures or raising taxes, public debt as a proportion of GDP is best lowered by increasing GDP, or in other words through growth. And it seems clear that neither expenditure cuts nor tax hikes are likely to generate growth – indeed it seems more likely they will reduce it.

5. Only fiscal stimulus will increase employment and earnings

Such stimulus packages can focus on either investments in physical infrastructure or on social investments. The ICT revolution as well as climate change calls for investments in broadband, railroads, refurbished housing, renewable energy and the like, while international migration, technological change and population ageing calls for investments in continuous education and training as well as healthcare. This will in addition have positive spinoff effects throughout the economy. The so-called fiscal multiplier tells us that public investment generates an increase in GDP substantially greater than the investment itself, maybe around 50 per cent higher. Carefully crafted stimulus packages will therefore create jobs and raise earnings, and also have the side effect of relieving public transfer programmes. Yet to achieve this, and to improve the living standards of the 6 million unemployed Spaniards, the 3 million unemployed Germans as well as the large number of unemployed elsewhere, current policy priorities have to be replaced.

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Section three

Empowering young people for the new economy

Skills, investment and mobility

Overcoming the challenges to youth opportunity

Karen Kornbluh

High levels of youth unemployment in most European countries and in the US have been an increasing source of the distrust of political parties and governments. On the one hand, the economic crisis has made entry into job markets more difficult for young people, and there is no prospect of a quick fix. On the other hand, the more structural shift towards increasingly competitive and permanently changing socio-economic environments demands more from both individuals and public institutions as young people begin their careers. Against this background, too many young people currently drop out of school and lack direction. For young workers, and especially for the disadvantaged, failure to find a first job can have negative long-term consequences.

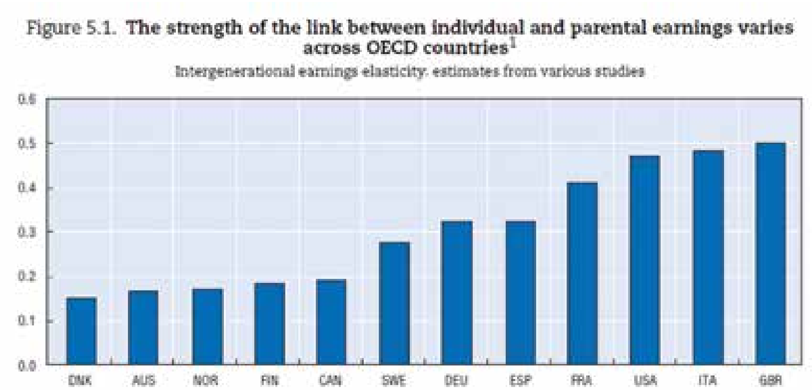
Although the most promising way of providing opportunity is through boosting growth and employment – fostering more and better jobs, enabling people to escape poverty and offering real career prospects – specific measures focused on young people are essential so that they do not fall through a growing gap between mismatched institutions and the changing requirements of the global economy.

A specific effort focused on youth opportunity is critical for progressives who in the austerity-stimulus drama are often miscast in the role of indiscriminate defenders of government spending opposite conservatives who mask social service and pro-business tax cuts as growth-oriented “reform.” When equality of opportunity seems a fading memory for many, and the government seems unable to help, what social democrats and progressives have to say to today’s young people is key to ensuring a more sustainable and equitable growth model. Offering young people the opportunity to gain the skills they need for the new jobs of the new century is also key if progressives are going to stake claim to an optimistic, future-oriented economic agenda.

THE CHALLENGES TO YOUTH OPPORTUNITY

However, while equipping young people with the skills they need for the twenty-first century work environment is essential for progressives in their effort to develop a more sustainable and equitable growth model, many challenges lie ahead. Four can be identified:

Firstly, social mobility, which is limited in many OECD countries, with worrying levels of inequality transmission.

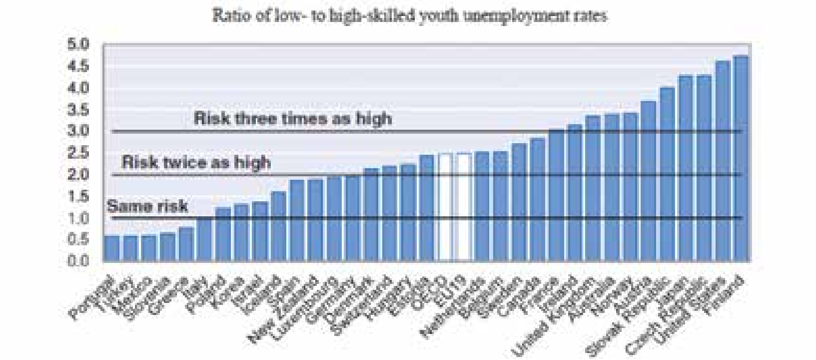


1. The height of each bar measures the extent to which sons' earnings levels reflect those of their fathers. The estimates are the best point estimate of the intergenerational earnings elasticity resulting from an extensive meta-analysis carried out by Corak (2006) and supplemented with additional countries from d'Addio (2007). The choice of empirical estimates in this meta-analysis is motivated by the fact that they are based on studies that are similar in their estimation technique, sample and variable definitions. The higher the value, the greater is the persistence of earnings across generations, thus the lower is the intergenerational earnings mobility.

Source: OECD Going for Growth 2010

Secondly, the rise in higher education fees and the persistence of two-tier labour markets which represent sizeable hurdles to successful career starts. Our youth compete in a global economy and yet they often lack access to the skills they need to succeed.

Figure 4.4. Risk of unemployment for low-skilled youth compared with high-skilled youth,[a] OECD countries, 2008[b]



Source: OECD (2011), Education at a Glance

Thirdly, young people aged 15/16-29 who are neither in employment, nor in education or training (NEET), and who lack a high-school education, frequently go back and forth between temporary jobs, unemployment and/or inactivity, even during periods of strong economic growth. Before the crisis hit, 1 in 10 young people across the OECD who had left education fell into this category. In the US, roughly 4 million young adults aged 16-24 are currently disconnected from both employment and the education system. These youths usually cumulate serial social risk factors (low education, ethnic minority background, living in a deprived neighbourhood, drug use, mental illness), and young women are more likely to be disconnected than men.

Finally, labour market segmentation is increasing between workers in regular jobs - with higher wages, benefits, protections, and job security - and workers in temporary and part-time jobs. All too often, young people can only get contingent jobs which consign them to the temp economy.

THE NEED AND OPPORTUNITY FOR REFORM

In staking a claim to an optimistic, future-oriented economic agenda, the need for progressives to update their economic policies and social institutions for a digital, globalized economy is clear. There are a number of opportunities for progressives in addressing these issues:

Closing the attainment and aspiration gap

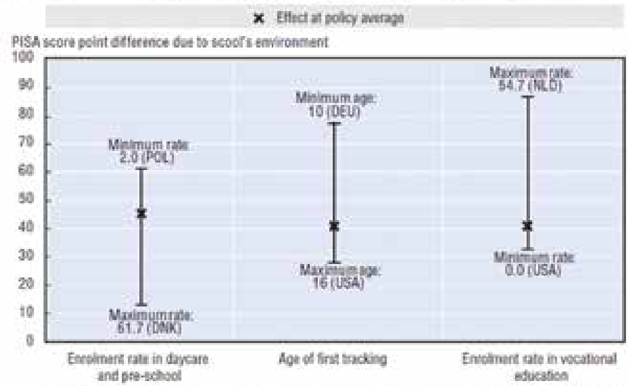
In the global economy, young people must be educated and prepared for rapid technological change and competition from workers around the world. This economy demands that all students attain at least a high-school diploma; that they be educated to global standards of excellence. It increasingly requires that they attain some higher-education or substantial on-the-job training; employers are more reluctant to hire those with just a high-school diploma especially when there is doubt about what skills have been acquired. Progressives should make investment in education with the goal of achieving a world-class education for all a key pillar of their economic agendas. This must start with early childhood and include post-secondary training.

Governments must close the 'attainment and aspiration gap' at school by bringing down the number of early dropouts and ensuring fair access to higher and further education.

Today, students are leaving high school too soon. In the US, although there has been recent improvement, roughly 25% of students fail to graduate even from high-school.

Progressives must make investment in education a pillar of their economic agendas; and they must be champions of both excellence and equity. OECD's PISA results suggest that the school systems that do the best also invest heavily in high need schools. The most effective polices to achieve both equity and excellence and reduce dropout rates are to: invest in early childhood education and care; attract, support, and retrain high quality teachers in high-need schools; set high standards and give students the sense that they will go on to post-secondary schooling from early ages; provide a mix of vocational and academic training.

Figure 5.8. **Early childcare and education policies shape the effect of the school socio-economic environment on secondary education achievement**[1]



1. Each bar represents the change in the school environment effect associated with a change from the least to the most mobility-friendly level of the policy (based on OECD countries' policies distribution, excluding Mexico and Turkey). The scale of PISA score in this figure differs from that of Figure 5.7. For details see Causa and Chapuis (2009).

Source: OECD calculations based on PISA 2006 Database.

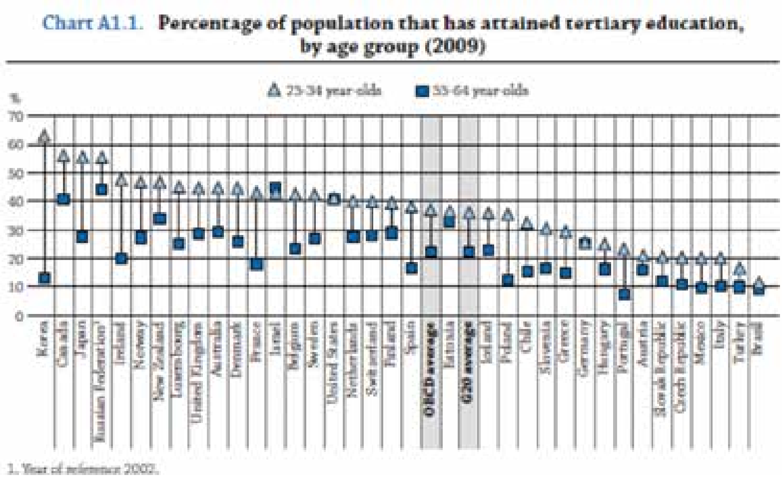
StatLink

It is also essential that K-16 schools (a movement in the United States which seeks to promote public and educational policies designed to strengthen linkages between schools and higher education) engage all students in ways that keep them in school. Students can be taught traditional subject matter through teaching them practical skills so they see their relevance – to engineering, accounting and finance and computer programming.

Governments must combine these efforts with opportunities to acquire appropriate skills and work-study experience (as they have in the UK and the Netherlands). A key element must be effectively designed apprenticeship schemes which, according to an OECD study, "can promote the transition from school to work when many employers are still wary about the future and uncertain about hiring new workers."

At the same time, governments must develop innovative ways to attain equal access to tertiary education. Governments are experimenting with various ways to control rising costs. The rise of online learning offers a tremendous opportunity. While not a panacea, online education combined with one-on-one interactions can theoretically provide access to an education tailored to needed skills and readiness – and can offer certification of skills attained. Any parent who has witnessed a child learn how to play a complex video game in under an hour has felt the frustration that there is not a similar technique yet available to teach useful job skills. Governments must work with educators and businesses to discover the best uses of electronic tools; they must monitor and evaluate these efforts so as to build a body of knowledge; and they must play an active role in ensuring broadband is made accessible so that this educational goldmine is available to all.

Finally, governments should use their convening power to help develop tools to solve the market failure of lack of information - among businesses, youth, and job training programmes - about what skills youth need to acquire and whether they in fact have those skills. Electronic tools should help youth and those who wish to help them to assess what skills business needs, and to assess their competencies, validating them through certificates.



Source: OECD (2012), Off to a Good Start?, Jobs for Youth

Tackling the NEET problem

Specific measures are needed to tackle the barriers facing disadvantaged youths who are neither in employment, education or training. According to the OECD report "Off to A Good Start: Jobs for Youth" training programmes combined with work experience and mentors have been tested and found effective, though expensive. It is up to progressives to get the word out and steer funding to these programmes such as second-chance schools in Europe and the US Job Corps programme. Programmes offering financial assistance should include outreach programmes, early intervention, workshops in résumé writing and how to contact an employer, and allow for mobility. Youths should work, train, or actively search while receiving assistance.

Progressives must be to the fore in recognising the valuable role government can play as a convener, catalyst and coordinator of supports and incentives from a variety of stakeholders, including local governments, employers, trade unions, NGOs, and the youth and their families. In the US, the White House Council for Community Solutions champions, *"A new kind of community collaborative - an approach that aspires to significant, community-wide progress by enlisting all sectors to work together toward a common goal."* In Nashville, Tennessee, for example, Alignment Nashville pooled the thinking and advice of more than 100 nonprofit leaders and community members to develop a shared approach to addressing school dropouts.

Navigating the problem of labour market "insiders" and "outsiders"

Attention must be paid to the two-tier workplace – creating an *on-ramp* but ensuring that it does not become a *slow-lane* of no-benefit, low-wage, temp careers - without alienating traditional centre-left voters. Governments should invest in funds that promote new skills for high-wage new jobs, targeting young entrants. It is essential to find ways to construct apprenticeships and internships especially in these sectors so that they do not undermine labour protections but do provide an opportunity for new entrants.

Governments must promote growth of innovative new, high-wage industries through funding for R&D, fostering broadband deployment and creating a favourable environment for entrepreneurship. In many countries, including the US, stimulus packages included funding for green jobs and broadband deployment.

Progressives will need an answer to youth in countries with large differences in wages, protections, and benefits offered for the precarious jobs available to them compared with other jobs. Governments can improve nonstandard jobs by subsidising benefits and even wages; in the US, the passage of universal healthcare means that young people can stay on their parents' healthcare plans until 26 and can gain access to subsidised healthcare even if they are not provided health insurance by their employers; the Earned Income Tax Credit provides relief to low-income workers. They can also provide ongoing training to ensure that workers can add to their human capital and switch lanes.

THE NEXT GENERATION

Governments must address this most critical cluster of problems effectively in an era of constrained resources – and begin to restore trust in its ability to address new problems of the 21st century economy.

Progressives must be at the forefront of real reform – by working with other stakeholders and by monitoring and evaluating programmes for their effectiveness, and steering support to those programmes that actually produce results for youth. Government has an important role in gathering data to understand what works and shifting support to those programmes. In the US, the Office of Management and Budget has placed increasing emphasis on monitoring and evaluating programmes for effectiveness, and a new group, America Achieves/Results for America is building momentum for such efforts. Legislation has been introduced in the budget context to ensure that public funds are directed toward programmes using data and evidence to ensure greater effectiveness.

At a time when social services are critical, spending must not be wasted and must be focused on programmes that produce the greatest outcomes, and on ensuring equal access to opportunities. As governments confront a future of constrained resources, they must avoid both hurting the most vulnerable and "eating their seed corn" (consuming the resources they need for the future). Instead they must engage in real reforms so that they can both maintain needed social services and make funds available for investments to grow the economy and equip the next generation with the tools they need to succeed.

Karen Kornbluh is a former US Ambassador to the Organisation for Economic Co-operation and Development (OECD)

Responding to the rising NEET demographic

Sue Maguire

The need to address the 'problem' of young people who are disengaged from mainstream learning and employment is recognised internationally. This memo considers what can be done to reduce the numbers of those who are classified as NEET (not in education, employment or training), a term which is now commonly used to capture disengagement and social exclusion, as well as levels of unemployment among young people. In doing so, it recognises that the scarring effects of long-term youth unemployment and social disengagement continue to challenge policymakers to develop successful and sustainable interventions. Moreover, the costs to the public purse of managing the economic and social consequences of inactivity among young people, cannot be ignored.

1. Definitions matter in terms of measurement and intervention

The definitions and measures of youth unemployment and NEET differ significantly across nations. The youth unemployment rate measures the share of economically active young people who cannot find a job, whereas the NEET indicator measures both the unemployed and the inactive. In the United States and some EU countries, the focus has been on those who drop out of the education system before completing their high school diploma – i.e early school leavers (ESL).

2. Early intervention or re-integration?

The distinction between 'preventive' and 'reintegration' strategies is of crucial importance in deciding when and where initiatives to tackle the problem of NEETs are introduced. While both NEET and unemployed rates are much higher among 20 to 24 year olds than among 15 to 19 year olds, policy strategy can focus on: a) NEET prevention; b) re-integration of those already

NEET; and c) active labour market policies for the young unemployed. At present, responses to recession which emphasise 'austerity' measures and cuts to services, the escalating costs of welfare, concerns about civil unrest and the breakdown of social cohesion, place constraints on governments' ability to tackle NEET prevention and reintegration simultaneously.

3. NEETs are not made up of just marginalised groups

It is a mistake to assume that the most vulnerable or marginalised groups, such as the homeless, young offenders or young people leaving care, comprise the majority of the 'at risk' NEET or NEET groups. While certain characteristics, such as poor educational performance, disaffection with education and low socio-economic status, are more prevalent, many young people who are NEET have average levels of attainment, live at home supported by their family and, as such, can become 'invisible'. Policy interventions tend to be focused on the most marginalised and vulnerable groups, while mainstream groups often operate under the radar of policy intervention until their status triggers entitlement to social security and associated benefits.

4. Learning more about those who are NEET is imperative

It is important to have accurate and up-to-date information about the numbers and characteristics of those who are NEET. The rising numbers of young people whose destinations are 'unknown', rather than NEET, is a worrying trend. This may be the result of an absence of, or the dismantling of, tracking and support services, but the spectre of an emerging underclass, which is distinct from the NEET group, cannot be discounted. Therefore, effective tracking systems are essential for the targeting of policy interventions.

5. Early intervention works

Research evidence from longitudinal studies shows that early intervention works. Types of successful interventions include: investment in good quality Early Childhood Education and Care to reduce the propensity of ESL/NEET status. This requires long-term investment; identifying, targeting and supporting 'at risk' students, especially through the use of assessment tools and one-to-one intensive mentoring support; offering financial support to those from lower income households and other vulnerable groups can encourage and sustain their participation in learning; within schools, the introduction of alternative curricula, the provision of more vocational and technical education and working in partnership with other organisations, such as specialist technical colleges, charity/voluntary sector and employer organisations to support delivery, can all help tackle ESL; as can identifying the triggers of disengagement from school; raising the participation age at which young people can leave education or training. However, this runs the risk of simply 'warehousing' young people, unless it is accompanied by the attainment of credible qualifications and learning that has real currency in the labour market.

6. Positive and active re-integration strategies are required

Re-integration strategy at the level of the individual should involve having systems which identify young people who become NEET and support them to achieve positive outcomes. The NEET population is not homogeneous and requires interventions with the capacity and capability to identify and support the breadth of the population. In this respect, outreach services have been shown to be successful, but they are also resource intensive. Furthermore, young people who are NEET need financial support mechanisms, intensive support (from trained advisers) and tailored education, employment and training solutions to achieve long-term, sustainable outcomes. This requires time and substantial investment. To achieve this, strategy and policy implementation needs to be led by government and should include partnership working between statutory and voluntary sector organisations.

7. Labour market policies should directly support young people

A number of countries have introduced active labour market measures to stimulate the labour market demand for young people who are 'work ready'. Such initiatives include: Wage and training subsidies or tax and national insurance breaks/credits to employers; programmes which offer a bridge between education and work, such as training and work experience, the re-focusing or expansion of apprenticeship programmes and entrepreneurship training programmes; youth guarantees, which ensure that young people have a job offer or an educational or training opportunity within a specified timeframe following their unemployment registration. Active labour market policies are unlikely to work for the most disadvantaged groups unless accompanied by re-engagement strategies.

8. Maintaining a high quality level of jobs for young people is crucial
While stimulating the demand for young workers is important, the quality of the jobs they occupy must be safeguarded. Priority should be given to: a) improving the quality and security of jobs they are able to enter; and b) ensuring that young workers receive decent wages. Stricter limits on temporary working have been found to reduce the incidences of 'churn' between employment and unemployment among low qualified young people/ESLs. Short-term, temporary and precarious working patterns do not facilitate access to permanent jobs for young people. They are much more likely to trap young workers in precarious 'in and out of work' trajectories. Reducing the costs of employing lower skilled youth through sub-minimum wages and/or lowering social security contributions has been applied in some OECD/EU countries.

9. Reducing the NEET population
Measures designed to reduce the NEET population should include policies which tackle NEET prevention, re-engagement strategies for the hardest to help/hardest to reach groups, and active labour market policies for the young unemployed. A 'one size fits all' approach, simply focusing on 'quick fixes', will not facilitate and sustain meaningful transitions into adulthood. While the NEET issue is a key priority in many national policy agendas, intervention programmes are often time and funding limited, with an over-emphasis on proving that the programme itself has worked in the quickest possible time, for political expediency, rather than tackling the underlying obstacles to reducing the NEET population itself.

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The education quality imperative

Eric A. Hanushek

Particularly in times of recession, all political attention is focused on immediate concerns of unemployment, particularly youth unemployment. While these are legitimate concerns, they are frequently allowed to overshadow more significant economic issues related to long run economic wellbeing. The human capital of nations, which can be measured by the quality of education, determines the long run growth of economies. Differences in long run growth lead to much larger economic impacts than business cycle fluctuations, even of the magnitude of the 2008 recession. Economic growth also provides a solution to the current fiscal struggles. Improving human capital and increasing skills of the population demands attention to school quality, and the key element of school quality is teacher quality.

1. Long run growth rates are the key determinant of future economic well-being

From 1960 to 2000, GDP per capita grew on average by less than 1.5 per cent per year in New Zealand and Switzerland, but by more than 4 per cent per year in Ireland, Japan and South Korea. As a consequence, the average Korean was about 10 times as well off in 2000 as in 1960, and the average Irish and Japanese about 5 times. By contrast, the average New Zealander and Swiss were only 1.6–1.8 times as well off than 40 years before.

2. Long run growth impacts dwarf business fluctuations

While all attention is focused on the immediate implications of the 2008 recession, the magnitude of lost output across the recession is very much smaller – roughly one-tenth the size – when compared to the impact of an increase in the long run growth rate of 0.5 per cent. While the current concerns are real and must be dealt with, they cannot be allowed to obscure the importance of long run improvements.

3. Improved long run growth solves the fiscal imbalances

The current discussions of fiscal imbalances are necessary to demonstrate attention to making long run decisions that are supportable and sustainable. Nonetheless, most of the on-going deficits – particularly those due to future health and retirement costs – would be manageable with higher long run growth.

4. Long run growth is determined by human capital

The skills of workers are very closely related to productivity improvements and to long run growth. However, it is important to be very clear about how to measure and produce more relevant skills. After two decades of research on differences in economic growth across countries, it is now clear that years of school attainment is not a good measure of human capital. Students with the same amount of schooling show very different performance on international examinations of math and science (e.g., PISA and TIMSS). Differences in achievement (as opposed to years of schooling) have very large impacts on growth rates. According to evidence on growth rates from 1960-2000, 25 points on the PISA test translates into a 0.5 percentage point higher long run annual growth in GDP per capita.

5. Improving schools is the key to increasing human capital

While many factors contribute to student outcomes – including parents, neighborhoods, and other students – the only feasible way of improving achievement is through improving schools. The international assessments show that much higher achievement is feasible than most countries are producing. School quality is the instrument of improvement that can be changed by governments.

6. Teacher quality is the key indicator

Teacher quality is the most important factor determining school quality. Extensive research now demonstrates that teacher quality is the one key element in determining school quality and ultimately student achievement.

The difference between a highly effective and a highly ineffective teacher can dramatically affect not only a student's life chances but also contribute to overall differences in a country's performance. At the same time, teacher quality cannot be measured by the standard measures of teacher experience, teacher credentials, teacher training, and teacher degrees. These background measures bear little resemblance to effectiveness in the classroom, or the "value-added" of teachers. At the same time, it is possible for administrators, other teachers, and parents to make reliable judgments about who is in the top category and who is in the bottom category of effectiveness.

7. Adding more resources will not ensure higher quality schools

While it is conventional to measure "investment" in schools simply by the resources provided, this approach proves to be very inaccurate and misleading. Across OECD countries, for example, there is no relationship between PISA performance and the amount spent on schools. The same finding holds for detailed research within a wide range of countries. How resources are used is much more important than how much is available. Simply providing more resources to existing school institutions does not predict improved student outcomes and the long run changes in human capital that are desired. Moreover, just increasing overall teacher salaries, covering both effective and ineffective teachers, will not yield desired outcomes.

8. Performance incentives are the best way to improve quality

International research indicates that providing better incentives can lead to improved student performance, most frequently by leading to improved teacher effectiveness. Individual countries and their policies and institutions differ significantly, but some generalizations come from comparing performance across countries. The research suggests that the following can lead to better student outcomes: the use of comprehensive examinations; a strong school accountability system; direct rewards for the performance of teachers and other school personnel; and more local school autonomy in decision making (particularly when accompanied by a good accountability system). Additionally, high quality preschool helps to prepare students better for schools and particularly to close initial achievement gaps that result from varying parental inputs.

9. The education quality imperative

Many "improvement policies" of the past have proved ineffective; gains come only from actually improving student outcomes. Simply declaring new policies, even if they sound good, has no effect unless there are actual improvements in achievement. For example, a wide range of intuitive resource policies such as reduced class size or added remedial programmes has proven ineffective in the past. Decisions must be continuously made to adjust programmes – expanding those that are effective and discarding those that are ineffective. Because most policies gain their own political support over time, putting schools on an improvement path takes strong and insightful leadership.

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Taking on the tough politics of social investment

Patrick Diamond

Since the late 1990s, there has been an emerging consensus within European social democracy about the case for 'Nordic-style' social investment creating equilibrium between markets and social justice through the 'service-intensive' welfare state. European welfare systems should focus less on 'traditional' social risks such as unemployment and old age, and more on 'new' social risks such as family poverty and relationship breakdown. This has stimulated a degree of policy change within member states: for example, the UK has moved further in the direction of providing universal childcare with a core entitlement of 15 hours per week for all three and four year olds. In Germany, there has been increased investment in early childhood education enabling parents to better combine paid work and family life: by 2013, all parents will have the legal right to a day care place after the child's first birthday.[1] Moreover, Spain is extending maternity and paternity leave for working parents. The EU's pre-crisis social agenda had stimulated a 'turn' towards the Nordic model.

However, public support for tackling new social risks is weaker than ever; the post-2008 financial crisis has reinforced the 'traditional' welfare state consensus based on higher pension payments, prioritising public expenditure on health, education and criminal justice.[2] Politicians will have to demonstrate leadership to mobilise sufficient public support behind the transition to a different model of welfare capitalism.

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1 This is somewhat contradicted by the Merkel administration's policy of *Betreuungsgeld* where parents receive a payment to keep their children out of daycare in order to encourage 'freedom of choice' for families.

2 See Diamond, P. & Lodge, G. "European Welfare States after the Crisis: Changing public attitudes", Policy Network paper, January 2013

1. The two challenges for welfare states after the crash

Welfare states in Europe currently face two broad challenges. The first concerns the financing of welfare after the financial crisis: slower growth and productivity are accelerating the process of de-industrialisation in favour of the emerging powers. Many EU member states are confronting a fiscal crisis, as sovereign debt is contaminated by 'toxic' financial sector debt alongside plummeting tax receipts. Over the next decade, fiscal austerity is increasingly expected by most governments in the west.

The second challenge relates to the disjuncture between existing social protection regimes, and new social risks and needs. Structural changes in labour markets, demography, and families create new pressures and demands that traditional social protection systems are often poorly equipped to address. There are new clusters of long-term social disadvantage and inequality emerging as the global economy attenuates polarisation in labour markets and wages. Nonetheless, securing political and public agreement for a structural recalibration of the welfare state will not be straight forward.

2. Political parties have to confront a new welfare state trilemma

A new 'trilemma' is emerging in the politics of European welfare capitalism between conservatism, means-testing and social investment: First, the welfare state remains broadly popular among the electorate, despite the wave of neo-liberal restructuring in the 1980s and 1990s. However, this is accompanied by a considerable degree of resistance to change among key voter groups and an underlying 'conservative' bias. Second, support for the welfare state is anchored in the contributory principle, but in the light of the financial crisis, many voters accept the need for greater targeting which impairs equity in the long-term. Finally, equity and efficiency necessitate a shift from passive income maintenance and 'old' social risks to social investment strategies that address 'new' social risks. However, the preferences of voters reinforce the 'elderly bias' of existing social security and welfare state arrangements.

A conflict has emerged between the objective of securing support for the traditional welfare state, responding to the crisis by accepting higher levels of targeting and means-testing, and securing agreement for social investment approaches that divert resources from existing social security benefits and guarantees. Politicians will be able to achieve two of these objectives simultaneously, but it is unlikely they can secure all three.

For example, shifting to greater means-testing will increase the scope for social investment, but is likely to erode popular support for the welfare state. Sustaining support for the traditional welfare state by minimising the use of means-testing will reduce the resources available for addressing 'new' social risks. Maintaining existing welfare guarantees while extending the frontiers of the welfare state through social investment without any further means-testing of social security is likely to be fiscally unsustainable. The danger is that such a trilemma will merely reinforce the status quo ante in European welfare systems.

3. Constructing the case for a social investment state

The social investment model is associated with policy strategies such as flexicurity and employment activation. However, the social investment paradigm relates to a broader set of approaches responding to demographic challenges such as the ageing society, and the shift towards the service-based, knowledge-driven economy. The core elements according to Morel, Palier and Palme[3] include: publically funded childcare and education programmes; investment in human capital, skills and lifetime learning; tackling unemployment, particularly youth unemployment, through active labour market policies that prevent 'scarring' effects; creating a 'learning economy and society' enabling workers to constantly update their knowledge and capabilities by giving employees a democratic stake in the organisation of the firm.

The social investment paradigm seeks to address the trade-off between equity and efficiency, developing credible policy approaches and stimulating

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3 Nathalie Morel, Bruno Palier, Joakim Palme (eds.), Towards a Social Investment Welfare State? Ideas, Policies and Challenges, (Bristol 2012).

organisational and institutional innovation in the welfare state and the capitalist economy. The financial crisis underlined that the previous era of high growth was not based on long-term improvements in productive capacity, and the growth model itself was highly unbalanced supported by rising public debt. In the aftermath of the crisis, Wendy Carlin[4] has highlighted the importance of pre-distributive human capital and asset based interventions associated with the social investment approach: creating egalitarian outcomes while developing a more balanced and sustainable growth model.

4. We are in a new age of distributional conflict

Centre-left parties have been adept at using higher public spending commitments to build coalitions of voters, dispensing benefits to working parents, poorer pensioners, public sector workers, and so on. There is, as yet, no real sense that most politicians have fully grasped the painful implications of moving from an era of 'plenty' to an era of 'less', while addressing the in-built conservative 'bias' of the welfare state. The strategy of shifting resources from passive income maintenance to employment activation and younger families remains optimal both for equity and efficiency, and does not preclude continuing to undertake income transfers and redistributive measures. However, it will require skilled political leadership to secure the consent of the electorate for a different balance of resources and priorities in the European welfare states of the next decade and beyond.

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4 Carlin, W. (2012) 'A progressive economic strategy: innovation, redistribution and labour-absorbing services', London: Policy Network.

Childcare, childcare, childcare

Jon Kvist

To avoid Europe falling further into stagnation and social conflict we need an ambitious strategy of social investment. Prioritising social investments through childcare is not only important for families with children, but for everyone living in Europe now and in the future. For these reasons, the European social investment strategy starts and ends with childcare investment. There are six good reasons why Europe urgently needs to invest massively in more, better and accessible childcare:

1. Reconciliation of work and family life

Childcare enables traditional carers not to choose between work and children. Without childcare many European families will only have one child or be childless.

2. Skills and human capital investment

Good quality childcare improves social, language and cognitive skills that are essential to further learning and thereby to raise the skill level and flexibility of future European youths. Childcare investments are the social investment element that builds the fundament of further human capital investment without which, many later investments in schools, training and life-long learning will yield smaller returns, if any.

3. Finishing the incomplete revolution

Fortunately young people are entering tertiary education in increasing numbers with more women than men completing such education. As the skill levels of European labour markets increase they will also become more feminised. Affordable childcare is essential to maximise the return on educational investment in women, to fight gender discrimination in the labour market and to increase gender equality in families.

4. Increasing social and cultural cohesion

Boosting social, language and cognitive skills are especially important for groups with another cultural background than the dominant. Mastering the language and cultural codes are instrumental to become integrated in the social, political and economic life in the country of residence. Childcare also helps integration of children later in life. This is the case for all children, but most importantly for children in families with a less privileged background. Early, high quality, interventions for such children may help reduce future school drop-out and crime rates. Childcare investment may thus reduce future public expenditures in the education and the penal system as well as improve the social capital of society through greater degrees of social trust and subjective feelings of personal security.

5. Childcare confers legitimacy to the welfare state

Young people – current or coming parents – can immediately appreciate how affordable childcare can help realise their dreams of establishing careers and forming families. Without good childcare young people face increasing difficulties in seeing the benefits of a European social model, dominated in most countries by a social insurance model that in the context of an economic crisis both strips them from earning entitlements and social insurance. Where employment protection legislation is strict many young people are also stripped of jobs as employers are reluctant to hire young people on ordinary terms.

6. Childcare investment as pension provision

Investments in children of today are investments in the pensions of tomorrow. Even if the majority of middle-aged persons do not see how childcare investment today benefits the middle-aged, they may appreciate how human capital investment in due course help secure their retirement provision.

Although childcare investment for the six reasons above is perhaps the most central element in a European social investment strategy it cannot stand alone. The European social investment strategy will benefit from a focus on investment and returns over the life-cycle. To allow for longer periods of return on social investments, many unpopular reforms must also be undertaken. These chiefly involve reforms of employment protection legislation and pensions. When in the process of implementation, many of these types of reforms cause social uproar. Making cuts, without pasting on other policies to sweeten the deal, is difficult for politicians to sell and difficult to swallow for the electorate. Childcare investments and a clearer formulation of the social investment strategy involving both investments and returns may also help the implementation of unpopular elements.

In most countries, the European social investment strategy in these ways entails a rethinking of core institutions – most importantly social insurance, employment protection legislation – and the expansion, subsidising and professionalising of another institution, child care.

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Integrating training and mobility in the fight against youth unemployment

Karen Anderson

Youth unemployment is one of the most serious challenges facing the affluent democracies today. The challenge is particularly difficult in the European Union, where several years of austerity policies have done little to address the eurozone's woes. Indeed, austerity has only exacerbated the downward trend in employment in many parts of Europe. In early 2013, the EU's jobless rate reached its highest level (12%) since the introduction of the euro. For young people aged 15-24, the jobs picture is even worse. In September 2012, unemployment for this group was 22.8%, and the figure is substantially higher for those with few skills.

How can progressive governments devise policies that fight youth unemployment and at the same time promote spatial and social mobility? This memo suggests a partial answer: the integration of language instruction with both theoretical and practical education at all levels of instruction (primary, secondary, and tertiary) and the strengthening of occupational or career orientations at a much earlier stage in secondary and tertiary education. Doing so will enable young people – whether they attend vocational or academically-oriented schools – to link their proficiency in a second (or third) language more directly to their preparation for the world of work. This will increase young people's motivation to learn a second (or third) language, it will enhance their employability, and it will facilitate spatial mobility.

1. Learning another language

Second language acquisition is one of the keys to a dynamic, knowledge-oriented economy. Despite the completion of the internal market, there is relatively little employment-related mobility within the EU. To be sure, the

Erasmus university exchange programmes have been relatively successful, and there are thriving regional labour markets that span the borders of more than one EU member state. Despite these modest successes in terms of the mobility of university students, the situation is much different in vocational schools and other vocational training arrangements such as apprenticeships. Few young people carry out part of their vocational training in another member state, despite the availability of exchange programmes.

2. Promote student and employment mobility

Low levels of student mobility contribute to low levels of employment-related mobility. There is much untapped potential in terms of labour mobility, especially of those with medium to high skills. Even in the midst of the current crisis, there are unfilled vacancies for skilled workers in countries like Germany and the Netherlands. One of the barriers to filling these vacancies with workers from other EU member states is language.

At present, language teaching at the primary, secondary and tertiary levels in most, if not all, EU members is divorced from instruction in other subject areas. Even in vocational schools, students learn foreign languages by reading literature (novels, short stories) and learning vocabulary related to everyday situations (shopping, commuting, etc.). Students do not learn to use their freshly-learned foreign language skills in situations related to the occupational skills that they are learning.

This means that a student studying how to be an electrician will learn French or German at the same time, but the student will never practice his/her French or German skills in a situation that has anything to do with the profession of electrician. Moreover, the student's choice of second language - should he/she study French, Spanish or English? - will likely be made without considering whether the choice of language is relevant, useful or appropriate for the occupation that the student has chosen to learn. For example, a student studying business marketing might be interested in emerging markets in South America. Spanish or Portuguese would then be obvious candidate languages for this student to learn.

3. Integrate language with career orientation

Reforming academic (pre-university) and vocational education so that second and third language acquisition is fully integrated into a strengthened emphasis on what Germans call a *"Berufsperspektive"* (career orientation) will help to get young people to think about how language acquisition is related to the subjects or occupations that they are considering studying at university or in vocational training. Young people who integrate the decision of which language to learn with the decision about what to study and where (university, vocational school, apprenticeship) are much more likely to be better language learners than those who do not link these issues.

At present, the EU Commission recommends that young people learn two EU languages (in addition to their native language) as part of the Europe 2020 Strategy. This goal is too ambitious, and it says nothing about linking language learning to education and training. Moreover, the "two language goal" is especially problematic for young people with an immigrant background. This group not only learns their parents' language (for example, Turkish or Arabic) but also the language of the country where they live. These are not ideal preconditions for learning two additional languages. It is far better to devote more resources to learning one additional language properly and linking this to a career orientation.

Equipping today's youths with the language skills that they need in order to thrive in the European labour market will require creative thinking and financial resources. Ideally, young people should have access to career guidance starting at about age 12, and they should receive coaching at an even earlier age in their choice of which language to learn. Vocational schools should also offer the kinds of short-term exchange programmes that more academically-oriented schools often provide.

Only by investing in these kinds of programmes can we ensure that academic and vocational training prepare young people for a truly integrated European labour market that is globally competitive.

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Encouraging geographical mobility

Eskil Wadensjö

Youth unemployment is a serious problem in most countries. Many young people are newcomers to the labour market looking for their first job. Others have only a temporary job or are the first to go if the employer downsizes. The youth unemployment rate is in almost all countries higher than the unemployment rate for older cohorts.

The unemployment rate as measured is often misleading for the teenagers. Most of them are in school and even if many of them who are in the labour market are unemployed they constitute only a small part of the cohort. Many of those who are counted as unemployed in the labour force surveys statistics are also in school looking for a part-time job. The situation is much more serious for those who are in their twenties and have left school and are looking for their first full-time job. A better measure of the labour market situation for young people than unemployment is NEET (not in employment, education or training). The NEET rates for young people are at present high in many European countries.

The best medicine against youth unemployment and youth NEET is of course a good general economic situation. If the crisis ends it also means lower unemployment and NEET rates for young people, but there are things to do even during a crisis period. This memo puts forward some related to different forms of mobility.

1. Completing secondary education

A group of young people with serious problems in the labour market are those who leave school without completing their secondary education. Completed secondary education is in practice a signal of ability and work discipline. Those who have not completed their education are often sorted out at early stage when sending in a job application. Unskilled jobs are the alternative but the remuneration in those jobs is generally low and the number of unskilled jobs tends to decline. It is important to find ways for those who have not completed their education to move into the regular labour market. Completion of education (often a vocational education) and subsidised work practice may lead to mobility within the labour market and to more rewarding parts of the labour market. A generous system may lead to increased social mobility.

2. The importance of educational mobility

Education for an occupation does not always lead to a job in that occupation. There may be an excess supply in some occupational groups leading to unemployment and frustration. The situation may for example have changed during the education due to a change in the composition of the labour demand. It is important that the educational system in such situations gives those who cannot find a job in their occupation a second chance – new or additional education leading to a greater chance of getting a job. An increased mobility between occupations may help some young people with problems in finding a job.

3. Geographical labour mobility can aid youth unemployment

The jobs and the job applicants are often in different regions of a country's labour market. The youth unemployment or the NEET rate is often much higher in some areas than in other areas. It is often difficult to move jobs even when industrial and regional policies are utilized. An alternative or complement is to facilitate mobility of labour and especially of young people who often have lower mobility costs than grown-ups. The mobility support could be in he form of travel allowances when looking for a new job but also support for the costs of moving. Not less important is support to find a place to live at the place of the new job. The labour market authorities have important and diverse work tasks for supporting youth regional mobility.

Mobility between countries may also facilitate the labour market situation of young people. The economic and labour market situation is presently quite different in different parts of Europe. The crisis is mainly a crisis in the southern European member states but is much less pronounced in the north-western part of Europe. One way out of unemployment may be a move to another country, and we have a common European labour market. This move may be temporary – a return migration may follow after the crisis but some will remain in the country. That is the typical outcome of labour migration – some of the migration is temporary and some is in practice permanent. We get as a result of such migration increased integration in Europe. It is not always without complications to move to another country for a shorter or longer period. It is important for the labour market authorities and also the social partners in sending and receiving countries to not only advice young people to move to another country but also give different forms of support and information.

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The reality of downward intergenerational mobility

Steven Roberts

The contemporary crisis for youth in the developed world is one that centres upon high levels of unemployment - reducing the numbers of NEETs (young person Not in Education, Employment, or Training) and nullifying the associated problems for individuals and societies that are a consequence of this status has been a high policy priority.

Another related concern in this "youth in crisis rhetoric", certainly from a UK perspective, has been to do with, first, encouraging greater university level participation, and then secondly coming to terms with the fact that even graduates face the prospect of unemployment, or at the very least may have to settle for jobs that they would not have otherwise hoped for or been 'promised'.

While these difficulties have been brought to a head by the recession and by the job losses associated with austerity measures, they are actually part of long-term trends in a diminishing youth labour market. Yet, there are also considerable numbers of young people who remain off the policy radar by virtue of a positive employment status (labelled variously as the 'forgotten working poor', or in my own research, the 'missing middle'). My primary concern, then, is to illuminate some of the realities that such young people face and to argue that these individuals are likely to remain trapped in low level jobs and experience a stagnation or even downward intergenerational social mobility.

1. The broken promise of the new economy

Moving from an industrialised period of employment to a post-Fordist economy, premised on high level products and services and high-end technologies, was expected to herald a new era: an expansion among high level, high skill jobs; a steady number of intermediate, technical skilled roles; and a diminishing lower end of the labour market, where low skills and low wages would gradually disappear.

However, the reality is somewhat different. The UK labour market resembles something of an hour glass shape. 'Knowledge intensive' jobs have opened up at the top, in banking finance, new technologies etc., intermediate levels and technical jobs appear to have been sucked out of the economy. Meanwhile, there has been an expansion of manual or low skills level jobs. This kind of labour market is characterised as a polarisation between 'lovely and lousy jobs'.

In some ways, governments have committed to upskilling the general population (although with very variable results and highly stratified according to social characteristics). In the last thirty years, unprecedented rates of staying on in further and higher education have given us a more educated workforce overall. As a result of these cohorts coming through the education system, where in 2006 the UK was home to 2.5million economically active adults with no qualifications, by 2020 it is estimated that this number will be just 585k. Crucially, however, these supply side initiatives have not stimulated a corresponding demand. By 2020 the UK economy will still likely have around 7 million jobs that require no entry qualifications. [1]

2. Stepping stones vs occupational stagnation

Young people are disproportionately located in retail, café, and hospitality jobs, often in roles at the sales and customer service level. Such jobs are often considered to be stepping stones to something better, the starting point for young people's engagement with the labour market. This notion is given significant credibility by the fact that students are often not taken out of such labour market analyses, allowing such activity to be correlated with later employment destinations.

Considering students is important, but when looking at stepping stones, they have got to be factored out. A good example is the work done in Teesside

1 Lawton, K. Nice Work If You Can Get It: Achieving a sustainable solution to low pay and in-work poverty, (London, 2009).

University by MacDonald and Shildrick[2], who revisited young people trapped in a low pay-no pay cycle of work, ten years after initially interviewing them. Into their thirties, rather than being stepping stones for many of these now young adults, the low pay-no pay cycle remained, and when in work they remained in jobs of similar levels to those occupied when first interviewed.

Importantly, this kind of precariousness is compounded by the limited avenues for upward progression and a lack of high quality training in the types of jobs that young people work in. In my research it was often the case that young people felt relatively safe – there were no obvious snakes they could see that would have them slide down out of employment. But there were no ladders. While not appearing especially vulnerable, they are trapped.

Echoing Lloyd and Payne's comments[3] about employment in the café sector, an important feature of the service sector trap is that while 'internal labour markets are not dead... they are thinner and weaker than they used to be'. Consequently, many young people are likely to remain with a fatalistic view of their prospects for occupational development.

3. Opportunities for, and barriers to, career progression

One reason for this is that increasing numbers of graduates are entering the economy. As they enter the labour market, in many cases they seek jobs for which they are over-qualified, and accept lower wages than their qualifications would be expected to garner.[4] The influx of over-qualified workers into low-skilled jobs has therefore blunted wage growth at the bottom of the earnings distribution, despite the growth in demand for workers in these jobs. In other words, there is an oversupply of labour.

Of course this also has to be considered in line with the challenges emerging from an increasing student labour force, as well as graduates. The flexibility

2 Shildrick, T., MacDonald, R., Colin Webster, Kayleigh Garthwaite, *Poverty and insecurity: Life in low-pay, no-pay Britain,* (Bristol, 2012).

3 Lloyd, C. and Payne, J., *Flat whites: who gets progression in the UK café sector?,* Industrial Relations Journal, Volume 43, Issue 1, pages 38–52, January 2012.

4 Green, F., and Zhu Y., (2010), *Overqualification, Job Dissatisfaction, and Increasing Dispersion in the Returns to Graduate Education,* Oxford Economic Papers 62 (4), 740-763.

that students offer often corresponds with employers' desires for short hours, part-time contracts, and is in direct conflict with the motivations of those who want full-time work and who want to progress.

A more fundamental reason for this lack of progression, and even a lack of feeling integral, is the nature and quality of training that the young people are often given the opportunity to undertake. The only vocational qualification many had undertaken at work in my research was the National Vocational Qualification (NVQ) level 2. While opportunities to undertake this qualification apparently indicate an expansive learning environment[5], note that 'NVQs are usually used as mechanism for validating what employees already know'.

Furthermore, the quality, content and subsequent value attached to the qualification by the candidates is of substantial importance. In this respect, these qualifications were almost always perceived very negatively, with many deeming the qualification a form of inconvertible cultural capital, and, worse, a stigma.

4. Tackling youth unemployment and improving life chances

Youth unemployment is at a modern-day high across many parts of Europe, though this stubbornly difficult figure to manage downwards is often augmented, as in the case of the UK, by the presence of full time students actively pursuing employment to complement and subsidise their studies. Youth employment in the lower reaches of the service sector remains characterised by low wages and high insecurity, even for those who are 'moderately' qualified. Routes onwards and upwards are remarkably limited. The consequence is that young people with certain qualification profiles are likely to remain trapped in the lower realms of the labour market, unable to become upwardly mobile and, in the absence of parental support at least, likely to continue to struggle with the increasing costs of daily living.

In a bid to avoid this outcome, progressives must ask serious questions, the answer to which may make uncomfortable reading: has the transference of

5 Fuller, A., and Unwin, L., (2004), *Young people as teachers and learners: challenging the novice-expert dichotomy. International Journal of Training and Development,* 8, (1), pg141.

higher education costs onto the individual prompted downward occupational pressure, with unemployment and stalled progression as an artefact? Why might employers ever invest in more 'appropriate' skill formation? Can supply side initiatives ever stimulate demand across the whole economy, or is the future of the 'forgotten working poor' a sacrifice we are willing to make?

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