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Europe: The Third Way/Die Neue Mitte

by

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Introduction

Social democrats are in government in almost all the countries of the Union. Social democracy has found new acceptance – but only because, while retaining its traditional values, it has begun in a credible way to renew its ideas and modernise its programmes. It has also found new acceptance because it stands not only for social justice but also for economic dynamism and the unleashing of creativity and innovation.

The trademark of this approach is the New Centre in Germany and the Third Way in the United Kingdom. Other social democrats choose other terms that suit their own national cultures. But though the language and the institutions may differ, the motivation is everywhere the same. Most people have long since abandoned the world view represented by the dogmas of left and right. Social democrats must be able to speak to those people.

Fairness and social justice, liberty and equality of opportunity, solidarity and responsibility to others – these values are timeless. Social democracy will never sacrifice them. To make these values relevant to today's world requires realistic and forward-looking policies capable of meeting the challenges of the 21st century. Modernisation is about adapting to conditions that have objectively changed, and not reacting to polls.

Similarly, we need to apply our politics within a new economic framework, modernised for today, where government does all it can to support enterprise but never believes it is a substitute for enterprise. The essential function of markets must be complemented and improved by political action, not hampered by it. We support a market economy, not a market society.

We share a common destiny within the European Union. We face the same challenges – to promote employment and prosperity, to offer every individual the opportunity to fulfil their unique potential, to combat social exclusion and poverty, to reconcile material progress with environmental sustainability and our responsibility to future generations, to tackle common problems that threaten the cohesion of society such as crime and drugs, and to make Europe a more effective force for good in the world.

We need to strengthen our policies by benchmarking our experiences in Britain and Germany, but also with like-minded counterparts in Europe and the rest of the world. We must learn from each other and measure our own performance against best practice and experience in other countries. With this appeal, we invite other European social democratic governments who share our modernising aims to join us in this enterprise.

I. Learning from experience

Although both parties can be proud of our historic achievements, today we must develop realistic and feasible answers to new challenges confronting our societies and economies. This requires adherence to our values but also a willingness to change our old approaches and traditional policy instruments. In the past:

- The promotion of social justice was sometimes confused with the imposition of equality of outcome. The result was a neglect of the importance of rewarding effort and responsibility, and the association of social democracy with conformity and mediocrity rather than the celebration of creativity, diversity and excellence. Work was burdened with ever higher costs.
- The means of achieving social justice became identified with ever higher levels of public spending regardless of what they achieved or the impact of the taxes required to fund it on competitiveness, employment and living standards. Decent public services are a vital concern for social democrats, but social conscience cannot be measured by the level of public expenditure. The real test for society is how effectively this expenditure is used and how much it enables people to help themselves.
- The belief that the state should address damaging market failures all too often led to a disproportionate expansion of the government's reach and the bureaucracy that went with it. The balance between the individual and the collective was distorted. Values that are important to citizens, such as personal achievement and success, entrepreneurial spirit, individual responsibility and community spirit, were too often subordinated to universal social safeguards.
- Too often rights were elevated above responsibilities, but the responsibility of the individual to his or her family, neighbourhood and society cannot be offloaded on to the state. If the concept of mutual obligation is forgotten, this results in a decline in community spirit, lack of responsibility towards neighbours, rising crime and vandalism, and a legal system that cannot cope.
- The ability of national governments to fine-tune the economy in order to secure growth and jobs has been exaggerated. The importance of individual and business enterprise to the creation of wealth has been undervalued. The weaknesses of markets have been overstated and their strengths underestimated.

II. New programmes for changed realities

Ideas of what is 'left-wing' should never become an ideological straitjacket.

The politics of the New Centre and Third Way is about addressing the concerns of people who live and cope with societies undergoing rapid change – both winners and losers. In this newly emerging world people want politicians who approach issues without ideological preconceptions and who, applying their values and principles, search for practical solutions to their problems through honest well-constructed and pragmatic policies. Voters who in their daily lives have to display initiative and adaptability in the face of economic and social change expect the same from their governments and their politicians.

- In a world of ever more rapid globalisation and scientific changes we need to create the conditions in which existing businesses can prosper and adapt, and new businesses can be set up and grow.

- New technologies radically change the nature of work and internationalise the organisation of production. With one hand they de-skill and make some businesses obsolete, with another they create new business and vocational opportunities. The most important task of modernisation is to invest in human capital: to make the individual and businesses fit for the knowledge-based economy of the future.
- Having the same job for life is a thing of the past. Social democrats must accommodate the growing demands for flexibility – and at the same time maintain minimum social standards, help families to cope with change and open up fresh opportunities for those who are unable to keep pace.
- We face an increasing challenge in reconciling environmental responsibility towards future generations with material progress for society at large. We must marry environmental responsibility with a modern market-based approach. In environmental protection, the most modern technologies consume fewer resources, open up new markets and create new jobs.
- Public expenditure as a proportion of national income has more or less reached the limits of acceptability. Constraints on ‘tax and spend’ force radical modernisation of the public sector and reform of public services to achieve better value for money. The public sector must actually serve the citizen: we do not hesitate to promote the concepts of efficiency, competition and high performance.
- Social security systems need to adapt to changes in life expectancy, family structures and the role of women. Social democrats need to find ways of combating the ever more pressing problems of crime, social disintegration and drug abuse. We need to take the lead in shaping a society with equal rights for women and men.
- Crime is a vital political issue for modern social democrats. We consider safety on the street to be a civil right. A policy to make cities worth living in fosters community spirit, creates new jobs and makes residential areas safer.
- Poverty remains a central concern, especially among families with children. We need specific measures for those who are most threatened by marginalisation and social exclusion.

This also requires a modern approach to government:

- The state should not row, but steer: not so much control, as challenge. Solutions to problems must be joined up.
- Within the public sector bureaucracy at all levels must be reduced, performance targets and objectives formulated, the quality of public services rigorously monitored, and bad performance rooted out.
- Modern social democrats solve problems where they can best be solved. Some problems can now only be tackled at European level: others, such as the recent financial crises, require increased international co-operation. But, as a general principle, power should be devolved to the lowest possible level.

For the new politics to succeed, it must promote a go-ahead mentality and a new entrepreneurial spirit at all levels of society. That requires:

- a competent and well-trained workforce eager and ready to take on new responsibilities
- a social security system that opens up new opportunities and encourages initiative, creativity and readiness to take on new challenges
- a positive climate for entrepreneurial independence and initiative. Small businesses must become easier to set up and better able to survive
- we want a society which celebrates successful entrepreneurs just as it does artists and footballers – and which values creativity in all spheres of life.

Our countries have different traditions in dealings between state, industry, trade unions and social groups, but we share a conviction that traditional conflicts at the workplace must be overcome. This, above all, means rekindling a spirit of community and solidarity, strengthening partnership and dialogue between all groups in society and developing a new consensus for change and reform. We want all groups in society to share our joint commitment to the new directions set out in this Declaration.

Immediately upon taking office, the new Social Democratic government in Germany gathered the top representatives of the political sector, the business community and the unions around the table to forge an Alliance for Jobs, Training and Competitiveness.

- We want to see real partnership at work, with employees having the opportunity of sharing the rewards of success with employers.
- We support modern trade unions protecting individuals against arbitrary behaviour, and working in co-operation with employers to manage change and create long-term prosperity.
- In Europe – under the umbrella of a European employment pact – we will strive to pursue an ongoing dialogue with the social partners that supports, not hinders, necessary economic change.

III. A new supply-side agenda for the left

The task facing Europe is to meet the challenge of the global economy while maintaining social cohesion in the face of real and perceived uncertainty. Rising employment and expanding job opportunities are the best guarantee of a cohesive society.

The past two decades of neo-liberal laissez-faire are over. In its place, however, there must not be a renaissance of 1970s-style reliance on deficit spending and heavy-handed state intervention. Such an approach now points in the wrong direction.

Our national economies and global economic relationships have undergone profound change. New conditions and new realities call for a re-evaluation of old ideas and the development of new concepts.

In much of Europe unemployment is far too high – and a high proportion of it is structural. To address this challenge, Europe’s social democrats must together formulate and implement a new supply-side agenda for the left.

Our aim is to modernise the welfare state, not dismantle it: to embark on new ways of expressing solidarity and responsibility to others without basing the motivation for economic activity on pure undiluted self-interest.

The main elements of this approach are as follows:

A robust and competitive market framework

Product market competition and open trade is essential to stimulate productivity and growth. For that reason a framework that allows market forces to work properly is essential to economic success and a pre-condition of a more successful employment policy.

- The EU should continue to act as a resolute force for liberalisation of world trade.
- The EU should build on the achievements of the single market to strengthen an economic framework conducive to productivity growth.

A tax policy to promote sustainable growth

In the past social democrats became identified with high taxes, especially on business. Modern social democrats recognise that in the right circumstances, tax reform and tax cuts can play a critical part in meeting their wider social objectives.

For instance, corporate tax cuts raise profitability and strengthen the incentives to invest. Higher investment expands economic activity and increases productive potential. It helps create a virtuous circle of growth increasing the resources available for public spending on social purposes.

- The taxation of companies should be simplified and corporation tax rates cut, as they have been by New Labour in the UK and are planned by the federal government in Germany.
- To ensure work pays and to improve the fairness of the tax system, the tax burden borne by working families and workers should be alleviated, as begun in Germany (through the Tax Relief Act) – and the introduction of lower starting rates of income tax and the working families tax credit in Britain.
- The willingness and ability of enterprises – especially small and medium-sized enterprises – to invest should be enhanced, as intended by the Social Democratic government in Germany through the reform of the taxes on businesses and as shown by New Labour’s reform of capital gains and business taxes in Britain.

- Overall, the taxation of hard work and enterprise should be reduced. The burden of taxation should be rebalanced, for example towards environmental ‘bads’. Germany, the UK and other European countries governed by social democrats will lead the way in this regard.

- At EU level, tax policy should support tough action to combat unfair competition and fight tax evasion. This requires enhanced co-operation, not uniformity. We will not support measures leading to a higher tax burden and jeopardising competitiveness and jobs in the EU.

Demand and supply-side policies go together – they are not alternatives

In the past social democrats often gave the impression that the objectives of growth and high unemployment would be achieved by successful demand management alone. Modern social democrats recognise that supply side policies have a central and complementary role to play.

In today’s world most policy decisions have an impact on both supply- and demand-side conditions.

- Successful Welfare to Work programmes raise incomes for those previously out of work as well as improve the supply of labour available to employers.

- Modern economic policy aims to increase the after-tax income of workers and at the same time decrease the costs of labour to the employer. The reduction of non-wage labour costs through structural reform of social security systems and a more employment friendly tax and contribution structure that looks to the future is therefore of particular importance.

The aim of social democratic policy is to overcome the apparent contradiction between demand- and supply-side policies in favour of a fruitful combination of micro-economic flexibility and macro-economic stability.

To achieve higher growth and more jobs in today’s world, economies must be adaptable: flexible markets are a modern social democratic aim.

Macro-economic policy still has a vital purpose: to set the conditions for stable growth and avoid boom and bust. But social democrats must recognise that getting the macro-economics right is not sufficient to stimulate higher growth and more jobs. Changes in interest rates or tax policy will not lead to increased investment and employment unless the supply side of the economy is adaptable enough to respond. To make the European economy more dynamic, we also need to make it more flexible.

- Companies must have room for manoeuvre to take advantage of improved economic conditions and seize new opportunities: they must not be gagged by rules and regulations.

- Product, capital and labour markets must all be flexible: we must not combine rigidity in one part of the economic system with openness and dynamism in the rest.

Adaptability and flexibility are at an increasing premium in the knowledge-based service economy of the future

Our economies are in transition – from industrial production to the knowledge-based service economy of the future. Social democrats must seize the opportunity of this radical economic change. It offers Europe a chance to catch up with the United States. It offers millions of our people the chance to find new jobs, learn new skills, pursue new careers, set up and expand new businesses – in summary, to realise their hopes of a better future.

But social democrats have to recognise that the basic requirements for economic success have changed. Services cannot be kept in stock: customers use them as and when they are needed – at many different times of day, outside what people think of as normal working hours. The rapid advance of the information age, especially the huge potential of electronic commerce, promises to change radically the way we shop, the way we learn, the way we communicate and the way we relax. Rigidity and over-regulation hamper our success in the knowledge-based service economy of the future. They will hold back the potential of innovation to generate new growth and more jobs. We need to become more flexible, not less.

An active government, in a newly conceived role, has a key role to play in economic development

Modern social democrats are not laissez-faire neo-liberals. Flexible markets must be combined with a newly defined role for an active state. The top priority must be investment in human and social capital.

If high employment is to be achieved and sustained, employees must react to shifting demands. Our economies suffer from a considerable discrepancy between the number of job vacancies that need to be filled (for example in the field of information and communication technology) and the number of suitably qualified applicants.

That means education must not be a ‘one-off’ opportunity: lifetime access to education and training and lifelong utilisation of their opportunities represent the most important security available in the modern world. Therefore, governments have a responsibility to put in place a framework that enables individuals to enhance their qualifications and to fulfil their potential. This must now be a top social democratic priority.

- Standards at all levels of schooling and for all abilities of pupils must be raised. Where there are problems of literacy and numeracy these must be addressed, otherwise we condemn unskilled individuals to lives of low pay, insecurity and unemployment.

- We want all young people to have the opportunity to gain entry into the world of work by means of qualified vocational training. Together with local employers, trade unions and others, we must ensure that sufficient education and training opportunities are available to meet the requirements of the local labour market. In Germany, the political sector is supporting this endeavour with an immediate action programme for jobs and training that will enable 100,000 young people to find a new job or training

place or to obtain qualifications. In Britain the Welfare to Work programme has already enabled 95,000 young people to find work.

- We need to reform post-school education and raise its quality, at the same time modernising education and training programmes so as to promote adaptability and employability in later life. Government has a particular role in providing incentives for individuals to save in order to meet the costs of lifelong learning – and in widening access through the promotion of distance learning.

- We should ensure that training plays a significant role in our active labour market policies for the unemployed and workless households.

A modern and efficient public infrastructure including a strong scientific base is also an essential feature of a job-generating economy. It is important to ensure that the composition of public expenditure is being directed at activities most beneficial to growth and fostering necessary structural change.

Modern social democrats should be champions of small and medium-sized enterprise

The development of prosperous small and medium-sized businesses has to be a top priority for modern social democrats. Here lies the biggest potential for new growth and jobs in the knowledge-based society of the future.

People in many different walks of life are looking for the opportunity to become entrepreneurs – long-standing as well as newly self-employed people, lawyers, computer experts, medical doctors, craftsmen, business consultants, people active in culture and sport. These individuals must have scope to develop economic initiative and create new business ideas. They must be encouraged to take risks. The burdens on them must be lightened. Their markets and their ambitions must not be hindered by borders.

- Europe's capital markets should be opened up so that growing firms and entrepreneurs can have ready access to finance. We intend to work together to ensure that growing high-tech firms enjoy the same access to the capital markets as their US rivals.

- We should make it easy for individuals to set up businesses and for new companies to grow by lightening administrative burdens, exempting small businesses from onerous regulations and widening access to finance. We should make it easier for small businesses in particular to take on new staff: that means lowering the burden of regulation and non-wage labour costs.

- The links between business and the science base should be strengthened to ensure more entrepreneurial 'spin-offs' from research and the promotion of 'clusters' of new high-tech industries.

Sound public finance should be a badge of pride for social democrats

In the past, social democrats have all too often been associated with the view that the best way to promote employment and growth is to increase government borrowing in order to finance higher government spending. We do not rule out government deficits – during a cyclical downturn it makes sense to let the automatic stabilisers work. And borrowing to finance higher government investment, in strict accordance with the Golden Rule, can play a key role in strengthening the supply side of the economy.

However, deficit spending cannot be used to overcome structural weaknesses in the economy that are a barrier to faster growth and higher employment. Social democrats also must not tolerate excessive levels of public sector debt. Increased indebtedness represents an unfair burden on future generations. It could have unwelcome redistributive effects. Above all, money spent on servicing high public sector debt is not available to be spent on other priorities, including increased investment in education, training or the transport infrastructure.

From the standpoint of a supply-side policy of the left, it is essential that high levels of government borrowing decrease and not increase.

IV. An active labour market policy for the left

The state must become an active agent for employment, not merely the passive recipient of the casualties of economic failure.

People who have never had experience of work or who have been out of work for long periods lose the skills necessary to compete in the labour market. Prolonged unemployment also damages individual life chances in other ways and makes it more difficult for individuals to participate fully in society.

A welfare system that puts limits on an individual's ability to find a job must be reformed.

Modern social democrats want to transform the safety net of entitlements into a springboard to personal responsibility.

For our societies, the imperatives of social justice are more than the distribution of cash transfers. Our objective is the widening of equality of opportunity, regardless of race, age or disability, to fight social exclusion and ensure equality between men and women.

People rightly demand high-quality public services and solidarity for all who need help – but also fairness towards those who pay for it. All social policy instruments must improve life chances, encourage self-help and promote personal responsibility.

With this aim in mind, the health care system and the system for ensuring financial security in old age are being thoroughly modernised in Germany by adapting both to the changes in life expectancy and changing lifelong patterns of employment, without sacrificing the principle of solidarity. The same thinking applies to the introduction of stakeholder pensions and the reform of disability benefits in Britain.

Periods of unemployment in an economy without jobs for life must become an opportunity to attain qualifications and foster personal development. Part-time work and low-paid work are better than no work because they ease the transition from unemployment to jobs.

New policies to offer unemployed people jobs and training are a social democratic priority – but we also expect everyone to take up the opportunity offered.

But providing people with the skills and abilities to enter the workforce is not enough. The tax and benefits systems need to make sure it is in people's interests to work. A streamlined and modernised tax and benefits system is a significant component of the left's active supply-side labour market policy. We must:

- Make work pay for individuals and families. The biggest part of the income must remain in the pockets of those who worked for it.
- Encourage employers to offer 'entry' jobs to the labour market by lowering the burden of tax and social security contributions on low-paid jobs. We must explore the scope to lower the burden of non-wage labour costs by environmental taxes.
- Introduce targeted programmes for the long-term unemployed and other disadvantaged groups to give them the opportunity to reintegrate into the labour market on the principle of rights and responsibilities going together.
- Assess all benefit recipients, including people of working age in the receipt of disability benefits, for their potential to earn, and reform state employment services to assist those capable of work to find appropriate work.
- Support enterprise and setting up an own business as a viable route out of unemployment. Such decisions contain considerable risks for those who dare to make such a step. We must support those people by managing these risks.

The left's supply-side agenda will hasten structural change. But it will also make that change easier to live with and manage.

Adapting to change is never easy and the speed of change appears faster than ever before, not least under the impact of new technologies. Change inevitably destroys some jobs, but it creates others.

However, there can be lags between job losses in one sector and the creation of new jobs elsewhere. Whatever the longer-term benefits for economies and living standards, particular industries and communities can experience the costs before the gains. Hence we must focus our efforts on easing localised problems of transition. The dislocating effects of change will be greater the longer they are resisted, but it is no good pretending that they can be wished away.

Adjustment will be the easier, the more labour and product markets are working properly. Barriers to employment in relatively low productivity sectors need to be lowered if employees displaced by the productivity gains that are an inherent feature of structural change are to find jobs elsewhere. The labour market needs a low-wage

sector in order to make low-skill jobs available. The tax and benefits system can replenish low incomes from employment and at the same time save on support payments for the unemployed.

V. Political benchmarking in Europe

The challenge is the definition and implementation of a new social democratic politics in Europe. We do not advocate a single European model, still less the transformation of the European Union into a superstate. We are pro-Europe and pro-reform in Europe. People will support further steps towards integration where there is real value-added and they can be clearly justified – such as action to combat crime and destruction of the environment as well as the promotion of common goals in social and employment policy. But at the same time Europe urgently needs reform — more efficient and transparent institutions, reform of outdated policies and decisive action against waste and fraud.

We are presenting our ideas as an outline, not a finalised programme. The politics of the New Centre and the Third Way is already a reality in many city councils, in reformed national policies, in European co-operation and in new international initiatives.

To this end the German and British governments have decided to embed their existing arrangements for exchanging views on policy development in a broader approach. We propose to do this in three ways:

- First, there will be a series of ministerial meetings, supported by frequent contacts among their close staff.
- We will seek discussion with political leaders in other European countries who wish to take forward with us modernising ideas for social democracy in their respective national contexts. We will start on this now.
- We will establish a network of experts, farsighted thinkers, political fora and discussion meetings. We will thereby deepen and continually further develop the concept of the New Centre and the Third Way. This is the priority for us.

The aim of this declaration is to give impetus to modernisation. We invite all social democrats in Europe not to let this historic opportunity for renewal pass by. The diversity of our ideas is our greatest asset for the future. Our societies expect us to knit together our diverse experiences in a new coherent programme.

Let us together build social democracy's success for the new century. Let the politics of the Third Way and the Neue Mitte be Europe's new hope.