

From Regressive Toward Progressive European Structural Reforms

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(FEPS working paper, August 2017)

Key words: structural reforms – technocratic approach – progressive alternative – beyond social and economic dualism

Abstract: The purpose of this article is to analyze the concept of structural reforms, as defined by the European Commission and other European institutions. The article critically examines the content of structural reforms, which is not neutral and often leads to the deepening of economic and social inequalities. Structural reforms in the form of labor market flexibilization, reduction of social welfare support and weakening of the role of public sector frequently deny large segments of society access to entrepreneurial activities, access to funding, know-how, to new technologies and all other necessary resources to emancipate themselves. As a consequence, economic and social dualism is widening across the European union.

Alternatively, progressive demand side and progressive supply side public intervention to open opportunities for the excluded parts of population are presented in the second part of the article. An active role of the public sector, strategic partnership between the public and private sector, institutional innovations and participation of the excluded population in the decentralized form are discussed. It is argued that the progressively defined structural reforms carry equally if not more of the developmental potential than the more frequently mentioned proposal of the transfer Union in order to achieve socially inclusive and sustainable development for all the participants of the European Single market.

1. Introduction

The era of deep international economic integration undoubtedly constrains the capacity of national governments to steer their national economies and to provide the traditional economic and social security to their citizens. The key question is therefore to what extent the traditional social-democratic compromise still holds for the economies and societies in the 21st century.

While recognizing that the processes of globalization, accompanied by liberalization of international finance and trade, constrain maneuvering room of the national governments, this recognition should not serve as a generic excuse for the governments to gradually dismantle the achievements of 20th century social democracy. Modern societies continue to provide social welfare not because social protections would continue to confirm the abstract commitment to social justice, but because the strong social welfare institutions secure more sustainable and socially inclusive development. Therefore, social welfare is not a luxury but a necessary element of modern knowledge-based societies.

This presentation puts forward three main claims: 1) there is no intrinsic trade-off between globalization, international competitiveness and the social welfare; 2) the traditional tax-and-transfer approach to social welfare is not a sufficient answer to the challenges and needs of modern economies and societies; 3) there needs to be a shift from the redistributive to the productivist paradigm of the social welfare. In so doing, the progressive supply side approach to overcome economic, social and institutional dualism needs to be elaborated.

2. 1. First claim: there is no intrinsic trade-off between globalization, international competitiveness and social welfare

It is often mentioned that to maintain competitiveness at the international level, the countries need to reduce their levels of public social welfare spending. However, comparative empirical studies do not support this claim. Many of the most competitive countries in the world also belong to the countries with high levels of social welfare spending.

The explanation for such a claim is that competitiveness has many dimensions and price competitiveness is only one of them. Other dimensions of competitiveness include the innovative capabilities of the countries and firms and the qualities of education and research, infrastructure and the public institutions. All these dimensions of competitiveness require a different approach and a different set of institutions and policies aiming at constant improvements in education, research, collaboration between science, public policies and industry.¹

Social spending on unemployment, disability, health care, pension, family services and housing tend to be higher in the developed and competitive countries. One of the reasons for a correlation between competitiveness and high social spending is that the advanced countries have also developed advanced social welfare institutions.

Despite fears that the processes of globalization would constrain, limit or even reverse the pillars of social welfare, empirical comparative studies have shown that these fears have not materialized, at least before the crisis and the most recent EU collective turn to austerity. Paul

¹ P. De Grauwe & M. Polan, *Globalization and Social Spending*, [in:] 10 Pacific Economic Review 2005, pp. 110-123.

de Grauwe and Magdalena Polan concluded that "on average, countries that spend a lot on social needs score well in the competitiveness league".² What is particularly important in their comparative analysis is the finding about the causality. Namely, it is possible to claim that the countries that are highly competitive and achieve higher growth rates can therefore afford to have higher social spending. Their study showed the opposite is true, namely that "high social spending goes together with strong competitiveness".³ The explanation by the authors was that "a well functioning social system creates a 'risk-taking social capital' that ultimately leads to an improvement of the productivity of a nation".⁴

Of course, the relationship between the social spending and globalization is much more complex than this. The claim that there is no intrinsic, natural and necessary trade-off between social spending and globalization is well founded theoretically and empirically.

On the other hand, this claim has not been broadly accepted in the EU and has been largely ignored during the period of European financial crisis. In the aftermath of this crisis, the response was overwhelmingly toward austerity, fiscal consolidation and tightening of the budget expenditures. By cutting expenditures for social welfare across the EU, the response to the crisis was therefore almost exactly opposite from the claim that there is no intrinsic trade-off between social spending and globalization/Europeanization in a period of economic, financial and social crisis.

² Ibidem.

³ Ibidem.

⁴ Ibidem.

In the EU, one may not be fully aware of the implications of this approach. What is clearly visible is that the EU as a whole is not coping successfully with the protracted economic, financial and social crisis. The highest levels of unemployment in the EU and in the Eurozone, stagnation and loss of perspective for a large part of European member states and their regions show the inability of the EU to cope with the extent of the crisis. To make the debate within the EU even more complicated, there are also EU countries and regions that are not only capable of maintaining high levels of employment, but they are also strengthening their levels of competitiveness and social cohesion.

There are several different dimensions of the crisis that are taking place in the EU. Not only financial, economic and social, but also an existential crisis of the European project is taking place. Unable to launch a comprehensive process of economic, social and institutional reconstruction around Europe, the EU returned to the only remaining option: a program of austerity. By adopting rigid and excessively narrow rules of the fiscal compact, the EU as a whole appeared to opt for permanent austerity regardless the economic and social impact on future development. The consequences of such a defensive approach are becoming gradually visible.

The recent comparative study about the impact of austerity on the European social model presented by Daniel Vaughan-Whitehead concluded with especially concerning findings: "...that beyond the diversity and different magnitudes of the changes by country – the European Social Model being resilient in some while others have opted for its dismantling – these changes nevertheless have been considerable and have affected all the main pillars and

elements of the European Social Model.”⁵ The experts are right to question the viability of the European social model, despite that the process of dismantling the key social pillars (education, health care, pensions, labor market and social cohesion in general) does not occur to the same extent across the EU. The countries that are hardest hit by the crisis experience much faster erosion of the key social pillars than the countries with less severe economic crises. As a result, the divisions within the EU are going to grow.

If the first claim in the debate tries to encourage the enhancement of the social welfare even in the period of economic crisis, the socioeconomic realities of the EU are moving in the opposite direction toward gradual dismantling of the key social pillars of European societies. The first claim should therefore be understood as a call for reversing these trends. Social welfare is not a luxury, but an institutional model that facilitates more inclusive, balanced and sustainable development.

2. 2. Second claim: the traditional tax-and-transfer approach to social welfare is not a sufficient answer to the challenges and needs of modern economies and societies

It appears that the European financial crisis came at the worst possible moment for the European social democracy. It exposed weaknesses in the European institutional model and in the European general policy orientation.

The European "third way approach" can be viewed as an attempt to combine Anglo-Saxon economic flexibility with the Rhineland model of providing basic social and economic

⁵ D. Vaughan-Whitehead, *Is Europe Losing Its Soul? The European Social Model in Times of Crisis*, ILO, 2015, http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-brussels/documents/publication/wcms_236717.pdf.

protections. As observed by Roberto Unger, this approach led to “abandonment of many of the historical features of social democracy in the name of the imperative of flexibility”.⁶ The attempts of "modernizing" reforms led to highly unequal outcomes and spread economic and social insecurity. In the name of “economic renewal, prudent management of public finance and, above all attenuation of barriers separating insiders and outsiders in the labor market... the result has not been flexibility to the benefit of all. It has been more often been the generalization of economic insecurity, and the concentration of resources and opportunities in the hands of an elite oriented to the world economy.”⁷

European social democracy was on defense even before the financial crisis emerged in the EU. It was without a convincing program during the European parliamentary elections in 2009 and again in 2014. Subsequently, the European austerity approach remains the only game in the EU; it has become a goal in itself regardless of the economic, social and political consequences.

The difficulties of the European social democracy that have been revealed during the European financial crisis can be traced back to the historic social democratic compromise. Adam Przeworski pointed out that social democracy “until 1930s did not have any kind of an economic policy of their own”.⁸ Only with the emergence of the Great Depression, after the development of the anti-cyclical policy and the appearance of Keynes General Theory social democracy, developed “a distinct policy for administrating capitalist economies”.

⁶ R. M. Unger, *European Constitutionalism: proposals for an agenda of debate*, manuscript 2002, <http://www.law.harvard.edu/faculty/unger/english/docs/europe1.pdf>.

⁷ Ibidem.

⁸ A. Przeworski, *Capitalism and Social Democracy (Studies in Marxism and Social Theory)*, Cambridge University Press, 1986, p. 35.

Nevertheless, social democracy had to make a historic compromise with private capital: “social democrats are subject to the structural dependence as any other party”.⁹

Inability of the social democracy to reinvent itself in the context of European integration led Wolfgang Streeck to the conclusion that historically speaking, social democracy was doing little more than buying time in the first decades of the European integration and has largely run out of distinctive, sustainable policies in the wake of the financial crisis. His main argument was that the situation today is significantly different from the situation during the Great Depression and that today’s levels of public and private debts accumulated in the periods of good economic times simply do not allow for the anti-cyclical policies.¹⁰

Streeck was right in arguing there is little maneuvering room today at the national and European levels to implement sufficient and effective anti-cyclical policies. The limited attempt at launching a Keynesian fiscal and/or monetary stimulus is not the sustainable answer to the existing challenges. Furthermore, it may fail and may lead to even a higher level of indebtedness.¹¹

However and contrary to Streeck, European social democracy has not run out of options. European progressives should move beyond the choice between economic orthodoxy or shrunken Keynesianism. Both options remain within the context of a historic compromise: the normative framework of the market economy is neutral and therefore not subject to any change.

⁹ Ibidem, p. 43.

¹⁰ Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism*, Verso, London 2014.

¹¹ Ibidem.

If European progressives accept that the market economy is a social artifact, as argued by Roberto Unger and other progressive scholars, the possibilities to institutionally innovate the modern market economy become much larger. The main goal of social democracy is not to merely regulate and redistribute but to open much larger opportunities to the individuals and social groups to emancipate themselves and to compete and cooperate at the same. Socially inclusive development, based on initiatives and institutional innovations of individuals, local communities and social groups can lead to comprehensive economic, social and political reconstruction, even within the constraints of globalization and Europeanization.

2. 3. Third claim: there needs to be a shift from redistributive to the productivist paradigm of the social welfare - beyond the narrow, technocratic version of structural reforms in Europe

Instead of resorting to the ever more limiting redistributive policies, the alternative is to democratize the market economy to broaden access for the excluded parts of population and to improve and broaden access to capital, new technologies, skills and know-how, high quality of education and all other necessary resources. (See more about the shift to the productivist paradigm in Roberto Unger, *Democracy Realized*, p. 78).

The phenomenon of modern economies and societies in both the most developed and developing parts of the world is one of economic and social dualism. This dualism, which exists both in poor and rich countries as articulated by Roberto Unger, means that the established industries and businesses are equipped with state-of-the-art technologies, knowhow, managerial skills and a skilled and educated labor force, with access to capital and all other necessary resources. Within this relatively privileged but increasingly insulated advanced sector, the circulation of knowledge, information and skills is taking place. The arrangement

is also advanced in organizational terms and in terms of constant innovation and an experiment friendly environment.¹²

The gap between the relatively privileged sectors of established industries and businesses and the excluded ones is growing in the context of the EU and in many other parts of the world. Comprehensive development of start-ups and small and medium size businesses is something difficult to achieve in most of the core regions and countries in the EU, not just in its stagnating regions and countries.

Without deliberate public support to provide broad access to technologies, knowhow, long-term finance and other resources, the entry costs for new companies and for the new entrepreneurs remain too high. In modern knowledge-based economies, it takes time to master technologies, production and their organization. As a consequence, without deliberate and systemic public support for deepening access to all of the necessary resources for start-ups and for small and medium size enterprises, the established industries benefit from high entry costs. In the absence of decentralized, coordinated positive means and institutional innovations, the single market creates not only a strong distributional effect, but more importantly, amounts to the protection of established industries.

The effort to overcome economic and social dualism requires the establishment of various forms of strategic coordination between the public and private sectors. Such coordination should take place in decentralized, participatory and experimental forms, which would be specific to the local contents. The experimental form of reconstructive efforts throughout the European union presents a distinction with the recommendations to establish a banking,

¹² R. M. Unger, *Democracy Realized: The Progressive Alternative*, Verso, London 1998, pp. 11-12. 32-35, 113 and 121.

transfer and political Union to overcome the crisis. It presents a distinction from the insistence by the European institutions to the member states to pursue (regressive) structural reforms in order to strengthen their level of competitiveness.

3. From regressive toward progressively defined structural reforms

This is the crucial point at which the European progressive approach departs from the mainstream and conservative approaches to the European single market policies. The most frequently stated requirement for the EU member states is to pursue structural reforms. This requirement seemingly appears to be neutral and generally beneficial to the economies and societies of the European Union. Despite its importance and broad economic and social implications, the content of structural reforms is very abstract and is defined only in vague terms.

Even after careful examination, The Five Presidents' Report on completing the economic and monetary Union provides only a very superficial idea of the content of structural reforms. The Report states that, to achieve a sustainable convergence, member states must to pursue the "structural reforms geared at modernizing economies to achieve more growth and jobs. That means both more efficient labor and product markets and stronger public institutions."¹³ According to the Report, the structural reforms take place in the context of addressing the macroeconomic imbalances of a given member state. The macroeconomic imbalance procedure should be used "not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. It

¹³ J. C. Juncker, et al., *The Five Presidents Report - Completing Europe's Economic and Monetary Union*, European Commission, 2015, https://ec.europa.eu/priorities/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation”.¹⁴

We can understand from the Report that the structural reforms assume more efficient labor and product markets and stronger public institutions. Structural reforms also present a corrective arm for detecting and addressing imbalances. According to the Report, structural reforms should be used forcefully through the European semester to address the imbalances. Therefore, they should be used forcefully in cases of macroeconomic imbalances. In the context of macroeconomic imbalances it is far less clear, however, what is the causality between the structural reforms, envisaged by The Five Presidents’ Report, and the creation of jobs and growth. Especially in the context of fiscal consolidation across the Eurozone, the causality between the structural reforms and the creation of jobs and growth appears to be highly tenuous. What if the structural reforms, used forcefully, as recommended by the Report, lead to further loss of jobs, wage stagnation, further labor market fragmentation and ultimately to deepening of economic and social dualism in most of the member states?¹⁵

Although the Five Presidents’ Report does not elaborate on the causal linkages between the structural reforms and jobs, a more elaborated explanation of the content of structural reforms was provided by the ECB president Mario Draghi. He emphasizes that “structural and cyclical policies – including monetary policy – are heavily interdependent”, whereas he sees

¹⁴ Ibidem.

¹⁵ Ibidem. In addition to tackling imbalances at the member state level by using structural reforms forcefully, the Report tackles the imbalances at the European level in a different way. Namely: »At the same time, the Macroeconomic Imbalance Procedure (MIP) should also foster adequate reforms in countries accumulating large and sustained current account surpluses if these are driven by, for example, insufficient domestic demand and/or low growth potential, as this is also relevant for ensuring effective rebalancing within the Monetary Union.« P. 8.

structural reforms as “policies that permanently and positively alter the supply-side of the economy”.¹⁶ Unlike The Five Presidents’ Report, the president of the ECB presents structural reforms in more substantive terms.

For example, in his recent speech on the policy alignment, he explores the ways to increase potential growth and productivity with the improved indicators on research and development. He emphasizes the need to get more firms to the productivity frontier, to boost employment and wage equality, to organize a well-functioning financial market capable of channeling finance to dynamic firms, and to develop an efficient judicial system, including the bankruptcy laws to deal with unproductive firms. He also puts forward the need to provide an adequate social safety net. He especially emphasizes the need to invest in human capital as the key ingredient in making growth stronger and more inclusive. He is also aware that only a few member states are achieving a high productivity growth, but he is convinced that The Five Presidents’ Report’s support for a new convergence process would move all Eurozone countries toward the best practices on structural reforms.¹⁷

This brief overview shows that many of the elements of the structural reform concept enjoys a broad public support. On the other hand, the approach toward structural reform requires a closer, more nuanced analysis, during which three serious problems should draw attention. First, determining how to approach structural reforms at the levels of Eurozone member states takes place within the very narrowly defined context of The Five Presidents’ reform. Therefore, structural limitations imposed by the European economic guidelines and rules (for

¹⁶ M. Draghi, *Structural reforms, inflation and monetary policy*, European Central Bank, 2015, <https://www.ecb.europa.eu/press/key/date/2015/html/sp150522.en.html>.

¹⁷ M. Draghi, *On the Importance of policy alignment to fulfil our economic potential*, European Central Bank, 2016, <https://www.ecb.europa.eu/press/key/date/2016/html/sp160609.en.html>.

example, the limitations and constraints imposed by the Fiscal Compact) inevitably shape the scope of structural reforms in the member states. Second, very few and limited common European policy areas support the proclaimed new convergence process of the Eurozone countries (such as investment in human capital, lifelong learning schemes or building a common adequate social welfare network). Different member states are in different positions to implement structural reforms successfully. Their institutional capacities and their abilities to define and implement high quality structural reforms in a transparent and participatory manner differ markedly from one member state to another. In the European narrowly defined context of structural reforms and in the absence of more vigorous common policies, it is likely that the implemented reforms will lead to widening the gap between the most developed, most productive, socially cohesive member states and the stagnating member states and their regions. Third, many of the policy-orientations and the decisions of various authorities at various levels, including the decisions by the ECJ, such as Laval and Viking, lead to weakening not strengthening European labor standards and social welfare protections. In the context of the supposedly neutral common market rules, the gap between the advanced economic and social sector on one hand and the stagnating economic and social sector on the other hand is growing.

On the surface, many elements of the structural reforms assumed by The Five Presidents' Report and elaborated more by the ECB president Draghi appear to be broadly acceptable. However, when these structural reforms are being implemented in the actual context of the Eurozone and the single market rules, these reforms frequently further undermine the existing levels of labor law and social welfare protections. The gains, however, are unevenly distributed across the firms and the labor market. More often than not they lead to the 'race

to the bottom' with negative consequences for many European regions and the member states.

Some of the critics of the European approach toward the structural reforms recommend simply rejecting the whole notion and insisting on the structural reforms to return the EU, its member states and their regions to the path of socially inclusive economic growth and development. Others claim that structural reforms in practice focus on increasing market flexibility and reducing social welfare costs¹⁸, which, in combination with fiscal consolidation (rapid deficit and debt reduction) lead member states, especially those unable to follow the agreed rules, toward slow growth, high unemployment, rising inequality, and, in case of the peripheral countries, even to a humanitarian crisis.¹⁹ Some other critics put forward that structural reform is nothing less than a code word for smashing workers' rights²⁰, especially because of the often-stated critique that the European labor and product markets are 'too rigid'.

Structural reforms mean many different things to many different actors. Some elements of structural reforms may overlap between different proponents of structural reforms, while at other times there are fundamental disagreements about what kind of structural reforms are necessary and/or adequate. Sometimes, even the key actors significantly contribute to the confusion of the debate. Kent Whelan has enumerated fifteen uses of the phrase 'structural

¹⁸ V. Schmidt, *Changing the policies, politics, and processes of Eurozone in Crisis: Will this time be Different?*, [in:] D. Natali & B. Vanhercke eds., *Social Policy in the European Union: State of the Play 2015*, p. 33, <http://www.etui.org/Events/Social-Policy-in-the-European-Union-State-of-Play-2015>.

¹⁹ Ibidem.

²⁰ W. Mitchell, *Structural Reform – Code For Smash the Worker Resistance*, econblog, May 2015, <http://bilbo.economicoutlook.net/blog/?p=31018>.

reforms' in Draghi's speech to the European Parliament's Economic and Monetary Committee. Although Whelan is not in principle against the structural reforms, he is convinced that "it is important for the ECB to take responsibility for its crucial role in the shorter-term macroeconomic management of the Euro area, and ECB officials continually placing structural reforms at the heart of discussions of this issue is unhelpful".²¹

The overall approach of the ECB toward the structural reforms, the approach presented in The Five Presidents' Report, and the policy orientation of the European Commission – DG for Economic and Financial Affairs – are far from being neutral and unproblematic both in theory and practical implementation. According to the official European line, the main focus is on creating more adaptable and responsive labor markets, liberalizing service sectors, boosting competition in product and service markets, and improving the overall business environment. Not only is the approach toward the structural reforms taken out of the actual context of the single market (the context of fiscal orthodoxy and the context of largely pro-cyclical macroeconomic policy), this particular approach assumes that one single, universally valid market arrangement exists. It presents the extension of the neoclassical economic synthesis and a belief in the neutrality of the markets. It assumes that public institutions can do little to improve the competitiveness of the markets. This assumption has already been included in the fiscal rules as articulated by the Fiscal Compact. It is an approach that, according to 'supply-side' economics, assumes that there is automatic causality between structural reforms and convergence to the highest level of prosperity. In the actual socio-economic developments of the Eurozone and the member states, we can observe far more divergent

²¹ K. Whelan, *Draghi on Structural Reform*, September 2014, K. Whelan's blog, <http://karlwhelan.com/blog/?p=1265>.

trends. As pointed out by Reissl and Stockhammer, the official European approach toward structural reforms “is characterized by a strong belief in the efficiency of the market system, a distrust of state activity and an anti-labor bias.”²²

4. Progressive structural reforms – progressive supply side and progressive demand side public interventions

If it is more likely than not that the narrowly defined context for implementing structural reforms leads toward further divergence in the Eurozone, then the biggest challenge for scholars, policy-makers and practitioners becomes determining what more pro-development and more inclusive progressive structural reforms will look like.²³ In view of the analysis presented in this section, the distinction between the mainstream approach toward structural reforms and the progressive approach toward structural reforms is one of the most crucial distinctions regarding the future of the EU, the Eurozone and the single market. Beyond the discussion about the macroeconomic framework and the possibility of the transfer union, the discussion about the nature and scope of the structural reforms should become a crucial area of a debate about European alternative futures.

The focus of progressive structural reforms should not be merely on progressive intervention on the demand side. The focus should be broadened toward the progressive intervention on

²² S. Reissl & E. Stockhammer, *The Five Presidents' Report One Year One: More Of The Same*, [in:] *Social Europe Journal*, July 5, 2016, <https://www.socialeurope.eu/2016/07/five-presidents-report-one-year/>.

²³ On the troubling ambiguity of structural reforms, the conclusion by scholars examining the concept of structural reforms in the is »that the EU is trapped in a destructive – rather than constructive – ambiguity. Conflicting socio-economic strategies crystalize on which type of structural reforms should be implemented and when or, in other words, whether austerity and investment can be pursued at the same time. Amandine Crespy & Pierre Vanheuverzwijn, *What 'Brussels' means by structural reforms: constructive or destructive ambiguity?*, May 2016, <http://www.academia.edu/25827774/>.

the supply side of structural reforms. The point of departure should be to articulate any elements of structural reforms with the broad participation of local communities, entrepreneurs, trade unions, civil society, and experts. Structural reforms are context specific and country or region specific. Different regions possess different potentials, skills, expertise and traditions. They can develop and implement different development strategies tailored-made to their niches, capabilities and comparative advantages. The role of supranational institutions is to become more hospitable and more supportive of bottom-up initiatives. They can help disseminate advanced practices, innovations, new technologies and newly acquired skills from the most successful European regions to the stagnating European regions.

According to the EU Innovations Scoreboard, “all the EU regional innovation leaders (27 regions) are located in only eight EU Member States: Denmark, Germany, Finland, France, Ireland, Netherlands, Sweden and United Kingdom. This indicated that innovation excellence is concentrated in relatively few areas in Europe”.²⁴ Despite certain improvements in the last two years, “the process of convergence in performance differences between Member States – as observed in previous reports since 2012 – appears to have come to a halt”.²⁵ There is plenty of room for opportunities for the European supranational institutions to become more proactive in disseminating knowledge, research and technologies across the European single market.

In addition to including bottom-up initiatives from the European citizens in defining structural reforms and the broad dissemination of advanced practices, the next step in broadening the

²⁴ European Union, *Regional Innovation Scoreboard 2014*, [in:] http://ec.europa.eu/enterprise/policies/innovation/files/ris/ris-2014_en.pdf.

²⁵ European Union, *European Innovation Scoreboard, 2016*, [in:] http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_sl

scope of structural reforms is to accept and support the national and regional institutional varieties of the European single market. In place of a one-size-fits-all, imposed top-down, economic and social model for all of the diverse European regions and member states, a variety of institutional, economic and social models should be encouraged. Institutional regional varieties across Europe should be accepted and supported to open more development space for European regions and to stimulate more initiatives from local communities and their citizens. Institutional divergence, based on regional comparative advantages, is a more plausible path toward common prosperity than a narrowly defined technocratic approach toward structural reforms.²⁶

Another unexploited opportunity to achieve comprehensive structural reforms is to establish a strategic partnership between the public and the private sectors. Such a collaboration can be established in a decentralized, participatory and experimental manner. The goal is to help make the conditions and instruments of advanced production available to larger parts of the economy and the society. As proposed by Lothian and Unger, the focus of such a policy “should be on small and medium size enterprises as the key source of jobs and output. Its method should be the expansion of access to credit, technology, advanced knowledge and practice, and facilities for the organization of networks of cooperation that combine the

²⁶ On the overlooked sources of institutional innovations in some of the most inclusive and cohesive European regions see M. Nahtigal, *European Regional Disparities: The Crucial Source of European un-sustainability*, [in:] *European Regional Disparities: The Crucial Source of European un-sustainability*, Lex Localis - Journal of Local Self-Government, vol. 11, no. 3, pp. 601-614.

benefits of flexibility of scale. Its characteristic concern should be to propagate successful organization and technological innovation wherever they may arise".²⁷

Perhaps the closest to the idea of decentralized cooperation as the new, reinvented form of industrial policy can be seen in some of the advanced European regions and member states, such as Emilia Romagna, Piedmont and other Italian regions and local public-private partnerships in Ireland. Innovate policies and high quality education in Finland as a basis for entrepreneurial and technological progress offer further examples of successful European decentralized development policies and structural reforms. The organization, tradition and supportive institutions of the German *Mittelstand* should also be included. To achieve the common prosperity standards on the European single market, we need to approach comprehensive institutional, economic and social restructuring well beyond the narrowly defined structural reform approach as currently proposed by the European institutions.

In parallel with a comprehensive institutional reconstruction of the market economy, a direction toward its democratization can be envisaged. There are several insufficiently exploited possibilities such as profit-sharing of employees in advanced sectors of the economy; collective representation to strengthen the power of organized labor at the middle range of wage hierarchy; and subsidies and training for the workers in low-wage and low-skill economic sectors.²⁸ Comparative empirical studies in labor economics suggested that none of these measures is inherently inflationary. The next step in the direction of democratizing the

²⁷ T. Lothian, R. M. Unger, *Crisis, Slump, Superstition and Recovery: Thinking and Acting Beyond Vulgar Keynesianism*, [in:] Columbia Law and Economics Working Paper No. 394., 2011, p. 49, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1780454.

²⁸ Roberto Mangabeira Unger, *What Should the Left Propose?*, Verso, London, 2006, pp. 28-29.

market economy would be to spread, fragment and disseminate property rights to different property holders and stake holders to encourage cooperation and create long-term strategic alliances (on property-owned democracy see Zwicky.²⁹

In the context of remaking the markets, there are many other unexploited possibilities. The role of pension funds in supporting long-term development of the firms is one such example. From the social welfare perspective, however, it should be emphasized that the social policy received a new role. It is a policy of empowerment of individuals, social groups and different stakeholders to emancipate themselves and to become the productive and creative participants in the modern knowledge based societies. Hence there is a need for a shift from merely redistributive to the productivist character of the modern social welfare.

4. Conclusion

In the previous three claims, it was explained that modern social welfare is not a luxury nor a charity. It is a necessary and essential element of any modern, inclusive and dynamic knowledge-based society. The introduction of social investments by ensuring learning abilities during the life course offers a new dimension to the traditional social welfare approach.

It was also explained that the EU and the European social democracy are at a crossroads. As argued by Gusenbauer and Skrzypek, a new social contract with the help of reenergized democratic politics is required.³⁰ At the moment, the EU is going through the biggest existential crisis since the establishment of the European integration. Social democracy is also

²⁹ Pascal Zwicky, *Economic Democracy as a Key Element of a Social Europe*, [in:] E. Stetter, K. Duffek & A. Skrzypek (eds.), *For a Connecting Progressive Agenda*, FEPS Next Left Book Series vol 9, FEPS Renner Institut, Brussels, pp. 358-394.

³⁰ A. Gusenbauer & A. Skrzypek, *The Next Social Contract - Progressive Politics after an Era of Plenty*, [in:] Olaf Cramme, et al. (eds) *Progressive Politics After the Crash: Governing from the Left*, I.B. Tauris, pp. 229 – 238.

at a crossroads. On one hand, the important achievements of the twentieth century social democratic legacy are being gradually dismantled in many (but by no means all) of the European places. On the other hand, the process of reinventing social democracy for the twenty-first century is very slow. Progressive economic and social theory of the 21st century should move beyond the traditional tax-and-transfer policy and beyond the traditional Keynesianism of the 20th century. The valuable achievements of the twentieth century social democracy in the areas of economic security and social welfare present a source of encouragement to advance the causes of equal opportunities, social welfare and cohesion to the twenty-first century. Institutional innovations, tailored to the needs and potential of local communities and regions across Europe can open new prospects for the excluded parts of population. Progressive fiscal, tax, trade and other policies can directly address the persistent economic and social dualism in many stagnating European regions and member states.

Instead of accepting the definition of structural reforms as articulated by the European institutions, local communities, citizens, trade unions, entrepreneurs, NGOs, groups of experts, local financial institutions and policy-makers should articulate and implement structural reforms based on diverse local and regional development strategies. The role of the supra-national institutions in this context is to stimulate diverse strategies, support them and cross-fertilize good practices from prosperous to stagnant European regions and member states. Institutions and policies that would lead to more inclusive, more balanced, more sustainable and diverse European union can and should be articulated and implemented across Europe.

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