

# Political Ideas and Public Policy

*A manual for political organizers*



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POLITICAL PARTY PROGRAM

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# Foreword and acknowledgements

The activist testament of the historian Tony Judt is an inspiring criticism of the generation of politicians whose own “enthusiasm ... they fail to inspire in the electors of their respective countries”. They apparently, as Judt says, “do not seem to believe ... in any coherent set of principles or policies”. Even though they continuously “call into question institutions of the welfare state”, few of them have “actively betrayed the democratic trust placed in them. But if there is a generation of public men and women who share responsibility for our collective suspicion of politics and politicians, they are its true representatives. Convinced that there is little they can do, they do little”.<sup>1</sup> The idea behind this Manual is to give support to some quite young female and male activists of relatively young political parties in the Balkan region in their initial orientation at the beginning of their political activities. Thus, this Manual was developed on the basis of experiences derived from different forms of basic political education – seminars, workshops or political academies – attended, organized or conducted by the authors who were there in the capacity of lecturers, or trainers as we would say in the activist jargon. We have mostly relied on the program of the Political Academy organized by the Croatian Association for the Development of Social Democracy – New Society, which, with the irreplaceable support of the Friedrich Ebert Foundation [hereinafter: FES], the Alfred Mozer Foundation [hereinafter: AMS], and the Croatian Social Democratic Party, has been constantly improving for seven years now. This, of course, would not be possible without the involvement of

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<sup>1</sup> Judt, Tony. 2011. *Ill Fares the Land: A Treatise on Our Present Discontents*, New York, Penguin, p 134.

Ivica Račan, Zoran Milanović and Igor Dragovan from the Croatian SDP, Arjen Berkvens and Danijel Tadić from the Amsterdam AMS, Mirko Hempel, Dietmar Dirmoser, Tijana Defar and Nenad Zakošek from the FES office in Zagreb, and Antun Vujić and Karolina Leaković from the New Society.

The interest of many students of the Academy in reading the suggested literature, to write essays, prepare their own presentations and give contributions to the critical debate on society and politics has encouraged us to put aside different training courses focused on political communication and devote our attention to political education. Without underestimating the importance of public speaking skills and the use of social media in political action, we simply do not believe that these communication cats actually hunt the election mice if they have no political content. Our own or other people's investment of a very specific amount of work in social theory and in the understanding of political practice is crucial not only for the success of our political parties, unions, movements and civil society organizations, but is valuable in itself.

Ana Kadović and Ana Radičević of NDI encouraged us to start this work, and we completed it thanks to their patience. We designed the entire Manual in line with the program "Do We Need Political Ideas?" taught at the Academy by Dr Tonči Kursar. In this sense, he is not just a reviewer, but also one of the authors of this Manual. When we prepared the chapter devoted to policy, we also relied on the program "Political Economy for Politicians" by Dr Zdravko Petak, and we are very grateful to Stipe Ćurković and Mislav Žitko and many other trainers and students who not only significantly expanded the general references and reading lists through their contributions to the Political Academy New Society, but also helped reduce the number of errors and misconceptions which are, in the end, ours alone. The content of the Manual probably owes much to the context of transition-like "political consolidation", for which we are not at

all grateful. It seems to us that emphasis on the concept of public policy largely stems from a relatively long period of coverage of local political actors by a grid of nationalism and the “symbolic politics” that accompany it. In a nutshell, if everyone is blowing the national trumpet, then focusing on what the government should be doing - in the sphere of economic, educational, social and other policies - seems a possible way out of this “pre-political” condition. This, of course, does not mean that we believe in the ideological neutrality of policy: under the guise of “expertise”, very specific political interests and ideas are hidden. One of the goals of this Manual is to encourage readers to recognize them. This is why this Manual starts with a presentation of three “mainstream” ideologies - (neo)liberalism, conservatism and social democracy [democratic socialism], and ends with a brief outline of the political economy and a call to compare economic policies that could originate in, or are originating from, these three ideological reserves. Students of the Political Academy New Society, at the end of the basic program, took part also in workshops focused on understanding educational or social policies from different ideological perspectives. However, for this Manual, we decided to stay within the established word count.

We have tried to keep our examples as simple as possible, and our [elusive] role model was the style of a children’s encyclopaedia. Of course, for a concise presentation of sometimes demanding concepts without oversimplification, we needed much more knowledge than we had. Our intention was not to extend the reading list suggested at the end of each chapter beyond references, but we still hope that this Manual would also encourage and inspire you to read further and take part in debates in your political schools. In the end, we hope this is not the smallest of steps to do more than little in politics.

Ivan Cerovac, Velibor Mačkić and Milan F. Živković



# 1 Introduction

Starting from the intention of encouraging participants of a growing number of political-educational programs to take a more active role in political processes, we are directing some of our attention to what men and women engaged in politics actually do. The concept of public policy and discussions about the *participatory solving of common problems* (e.g. unemployment or the lack of access to education and medicaments) will be discussed in Chapter 3. However, we believe that not only the selection of goals and ways of solving problems (*policy alternatives*), but the actual effects of political work are inevitably conditioned by what female and male political activists *think*. The second focal point of this Manual is to identify *systems of political ideas, beliefs and symbols* in political action, media presentations, and, generally, the world around us. This means to “locate ideologies at the heart of the political process” [Freeden, 2001: 1].

If we read in a newspaper, for example, about the demand for the abolition of subsidies to farmers, we should know that neo-liberal ideology is “behind it” (or is actually taking effect through such a demand). Advocating government measures that would potentially protect agricultural production through such incentives in conditions of free international competition should be “read” as part of a social democratic program and a potential call to address this issue at the regional level within the conservative conceptual “key”. Therefore, in this Manual, we shall deal with the similarities and differences of the huge ideological triad - (neo)liberalism, conservatism and social democracy - and leave the matrices of green policies, feminism or na-

tionalism for another occasion. The reason for this is the space available - we would still like to be concise - and the fact that most mainstream political parties in the Balkans find their political identity in (at least) one of those three traditional ideological camps (despite the growing number of new green initiatives as well as old nationalist routines). We will see that some *policy measures* are very often used for the purpose of achieving different ideological and political goals. For example, a restrictive monetary policy and the famous fiscal discipline associated with it, which has been emerging in recent years as an inevitable *austerity* measure of neoliberal programs, was once one of the basic ingredients of the Swedish social democratic model.<sup>2</sup> The objectives, in terms of desirable social conditions, however, are extremely different: neoliberals wish for a minimal state, lower taxes and a reserve army of labour so that allocations for salaries are lower, while social democrats tend to maintain full employment and universal social services. Not only are measures “borrowed” depending on the challenges of the moment, but the ideological objectives also change, and, in some periods, they move towards each other. This “convergence” has often led to conclusions about the “end of ideologies” in which, apparently, only cold expert objectivity should survive. Afterwards, periods of clearer political divisions and the revival of permanent battles between the right and the left, that is, between the capital and the labor, would follow. Being aware of the extent to which every simplified overview suggests a lack of dynamics, we do not aspire to any final answer about the essence of (neo)liberalism, conservatism and social democracy, but we hope that a

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<sup>2</sup> See the chapters *Social democracy and What do we need to know about ... economic policy?* in this manual.

comparative approach can encourage the reading of literature and raise questions about what these ideological matrices represent today.

### **Ideology or the system of political ideas**

Our previous presentation already shows that we use the term “ideology” in the meaning of a system of political ideas. We hope that the use of both of these will not cause any confusion. We did not entitle this part – which was also possible – “from ideology to public policy” because of the pejorative meaning that the term ideology can give. “Ideas of the ruling class are in every epoch the ruling ideas”, Karl Marx and Friedrich Engels wrote in *The German Ideology*. “The class which is the ruling material force of society is at the same time its ruling intellectual force” and ideas that some intellectuals [through the media, schools ... and generally accepted ideas about what is socially “accepted”] promote are “nothing more than the *ideal expression* of the *dominant material relationships*, the *dominant material relationships* grasped as *ideas*” [Marx and Engels, 1932]. Ideology is, therefore, opposed to science, the upside-down version of reality [Williams, 1983: 155], an abstract and “false awareness” of society, even though Marx himself never used this expression [Carver, 2001: 39]. In this sense, ideology is always some kind of shady dealing and a [relatively successful] attempt to sell us something incorrect and, essentially, unfair, as the natural [and therefore the only correct/unchangeable] order of things.

Perhaps we, as political activists, are totally aware of this. Outside our circles, we will rarely say, “Our ideology is like this and like that.” However, in the internal debate at a party meeting, it is possible that we would warn that a proposed measure for the resolution of a problem “does not fit into our ideology”. In

academic vocabulary, however, the use of the term ideology as a system of ideas aimed at action [Carver, 2001: 36] has not been seen as a problem for a long time now. Something similar was also suggested by Marx himself in A Contribution to the Critique of Political Economy: “The distinction should always be made between the material transformation of the economic conditions of

production... and the legal, political, religious, aesthetic or philosophic - in short, ideological - forms in which men become conscious of this conflict and fight it out.” Although a continuity of the previous meaning is visible here [an ideological form as an expression - of a possible change? - of relations of production], ideology is no longer understood only as a “pure illusion”. It becomes a form [a system of ideas] through which people can become aware of the problem and thus focus their political activities on its resolution [Williams, 1983: 156]. The latter idea is similar to the concept of the German sociologist Karl Mannheim. The system of ideas genuinely focused on the change of political order Mannheim terms *utopia*. Its antonym, the ideas intentionally and systematically directed at the order’s

## IDEOLOGY

1. A system of ideas and ideals, particularly those contained in the foundation of political and economic theory and policy [*e.g.: the ideology of neoliberalism*]
2. Ideas and ways of thinking characteristic of a specific era or a social formation/group [*enlightenment ideology; a critique of bourgeois ideology*]
3. Wrong or extreme understanding and interpretation of an idea [*inculcation with ideology*]
4. Pure theory about something detached from real life practices.

conservation he calls *ideologies*. We owe him a warning, which is sometimes called Manheim's Paradox, that when we critically observe someone's political ideas as advocating the status quo, i.e. as ideologies, we inevitably have certain political ideas ourselves, whether we are aware of this or not. This is why we often see that the individuals who fight most fiercely against, say, the public funding of education, are those who are affluent enough to finance it privately, regardless of their attempts to present this in "ideal" terms, such as justice, development or economic growth.

### **What drives political actions: ideas or people's demands?**

Perhaps we could also ask what drives political ideas? This is probably simply a combination of different things: the first (or the second one) gets us going, the second (or the first one) strengthens us and gives us direction in troubled times, and somehow we keep moving forward. However, does the change come from [the pressure] below, or from [ideas on] the top? In essence, the liberal concept of institutional change gives priority to political ideas, and the Marxist tradition puts the workers and their demands in the first place [while conservatives generally want everything to stay as it is].

"Greater social and economic equality can be achieved by forming political institutes [such as progressive taxation or universal healthcare]", which is, according to the Swedish left-liberal political scientist Bo Rothstein, "a sophisticated equivalent to designing policies" [Rothstein, 2011: 23]. These policies would be adopted, in the next step, by political parties as part of their political programs, which would then receive - or not receive - support from the critical mass of voters in the elections, and this is what future implementation and social change would depend on. Although aware that "political philosophers generally think that

the normative principles with which they are dealing should be given priority”, by thinking this, they neglect “the administrative and organizational components of politics” [Rothstein, 2011: 24]; these approaches actually start “from above”: from political ideas to policies and their application.

In the second edition of Volume 1 of *Capital*, Marx wrote a famous fragment in the Afterword concerning the difference between his own approach (*dialectical materialism*) and Hegel’s dialectics: “My dialectical method is, in its foundations, not only different from the Hegelian, but exactly opposite to it. For Hegel, the process of thinking, which he even transforms into an in-

dependent subject, under the name of ‘the Idea’, is the creator of the real world, and the real world is only the external appearance of the idea. With me the reverse is true: the ideal is nothing but the material world reflected into the mind of man, and translated into forms of thought” [Marx, 1990: 102].

This is where the long term consequences for left-wing activists are generated: the current order is not given, but can be transformed by anyone ready to provide a critical analysis and initiate

### **WHAT WE TALK ABOUT WHEN WE TALK ABOUT THE IDEAS (OR IDEOLOGIES) OF POLITICAL PARTIES?**

A set of attitudes steering political actions:

- Often including specific understanding of human nature and of development throughout history
- Flagging the causes and criticism of the current state of play
- Presenting a certain project of the future
- Knowing the ways and agents of change
- Giving instructions for political actions

collective action, not only by the “owners of the ideas”: predominantly intellectuals in the ranks of the ruling class who, due to their position, are not particularly interested in systemic change. Such dynamics of pressure from below, which we can frequently see on city squares from Tahrir in Cairo to Syntagma in Athens; from the streets of London to Wall Street; and university classrooms in Santiago or Zagreb, also legitimize the demands for political change, the true expression of which will be enabled by your political ideas and actions.

### **References and suggested reading**

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## 2 Do we need political ideas?

*In this chapter we will present three systems of political ideas that are most common today: [neo]liberalism, conservatism and social democracy. In order to make this overview as systematic as possible, we will first explain the conditions in which these ideologies emerge and take their form. Then we will connect them with three political ideals and try to see how they relate to the personal and economic freedoms of individuals, and thus propose a clear distinction between their fundamental principles. Afterwards, we will present in more detail the basic principles of each ideology as well as some examples of these ideologies in modern political practice. At the end of this chapter, we will illustrate the differences between these ideologies in several tables.*

### **The genesis of dominant political ideologies**

The history of modern political ideas presented in this chapter begins in the Enlightenment, but we can say that the shaping of these ideas started only during and after the French Revolution. Even though in earlier history there were political ideas that we could attribute to these systems, there is no clear continuity to justify their relation with present ideologies; they have, to a greater or lesser extent, had an impact on how they have been shaped, but it would be too ambitious to claim that liberalism, and particularly conservatism, or social democracy, arose before the end of the 17<sup>th</sup> or the beginning of the 18<sup>th</sup> century.

A short historical introduction is necessary here to understand the conditions in which these ideologies arose, the reasons for



*Although the meaning of the word has changed throughout history, **sovereignty** designates the absolute power of a sovereign, state or nation over a territory, and the independence of such power from any external, alien power.*

their formation, and the issues they focus on so that we can compare them in the best possible way. Historians frequently call the first part of the Revolution [1789 - 1792], where the monarchy was overthrown and the republic established, and all the relations characteristic of a feudal system were formally abolished and changed for a capitalist one, a liberal revolution. Liberalism thus starts from the idea that the 1792 Revolution achieved all that was needed: all individuals enjoyed huge political and economic freedoms, all citizens were equal, the people exercised sovereignty, and private property (and also the economy) was protected from the influence of the state. According to the liberals, the project of transformation of social and political relations had come to its end, and the process of radical social change had to stop there. However, some believed that the changes had gone too far.

Conservative theorists would, therefore, criticize the Revolution for having destroyed traditional social structures, disturbed a well-established system of values and authority, and changed the old relations of production at its very roots. Conservatives thus believed that even the first phase of the Revolution was too much, or that the Revolution should not have happened at all.

The third group of theorists, coming a little later, believed that the changes that took place thanks to the Revolution were not enough. Their movement was called socialism because it opposed liberal individualism that was accused of insensitivity to

the problems of poverty, social depression and growing disparities between the rich and the poor.

Attitudes towards the French Revolution illustrate the first obvious differences between our three ideologies – the liberals were happy with the achieved changes, the conservatives opposed them, and the socialists believed that they were just the start.

### **Basic differences: three political ideals**

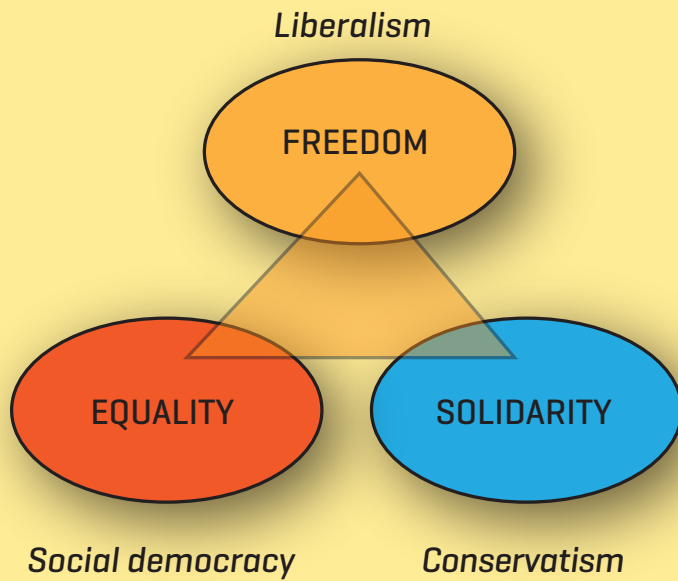
The French Revolution brought to the surface three moral and political ideals that would dominate political discussions until the present day, and they are contained in the famous motto *liberté, égalité, fraternité* – the ideals of freedom, equality and brotherhood [the last is nowadays frequently used in the sense of a similar ideal – solidarity].

These three values are even today the starting point of a large number of [neo]liberal, conservative and social-democratic political parties. They are also explicitly stated in party programs and other documents and are the starting point of the theoretical creators of these ideologies. It is reasonable to wonder how ideologies that are so different and open to conflict with regard to so many issues could have assumed the same values. We should bear in mind, however, that values as such cannot be subject to strict definitions. Neoliberals will view equality or freedom in a totally different way from social democrats, and will sometimes attribute entirely different meanings to the same word. Equality, for example, to neoliberals means only the levelling of political rights, while to social democrats it has more complex meanings which can include equal opportunities – social, health and other



*Liberté • Égalité • Fraternité*

**RÉPUBLIQUE FRANÇAISE**

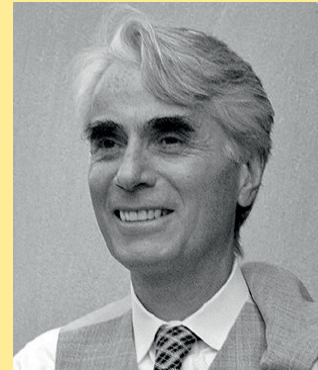


forms of protection – but also equality of outcomes and income: quality of life or levels of welfare. Besides the fact that they cannot agree on the meaning of the values that they all accept, advocates of these ideologies also do

not agree when it comes to the importance of fundamental values in practical decision-making. Even though they accept that each of these values has some importance, they are ready to sacrifice some if this is how to promote other values that are of greater importance to them. In this way, we can emphasize equality as long as it does not oppose our idea of freedom, or we can draw freedom to the centre of attention provided we are ready to limit it for the sake of solidarity and unity. Should we simplify all these positions, we will see that every ideology starts from one ideal of the French Revolution as its fundamental value. Liberalism takes freedom as its focal value: it becomes a fundamental good that must not be jeopardized for the sake of other values. This ideal includes the concept of maximum personal and economic freedom. If a political standpoint warns about the inequalities that arise in this way, and if it continues to pay more attention and gives greater value to equality, then we are talking about forms of left-wing liberalism. Conversely, if it rejects the restriction of economic freedoms, dismisses equality and draws potentially closer to the idea of solidarity as a factor through

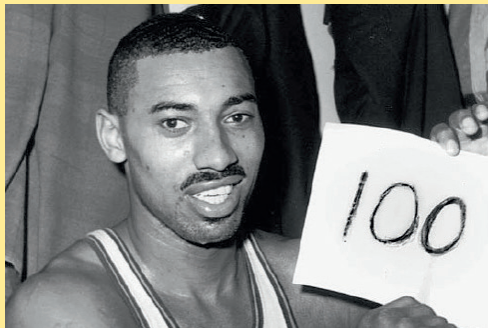
## ARE THE VALUES OF LIBERTY, EQUALITY AND SOLIDARITY MUTUALLY COMPATIBLE AT ALL?

It is justifiable to wonder whether these values exclude each other. If it is possible to achieve all three at the same time, then are they not things that we should all strive for? However, political philosophy strongly believes that all three values inevitably collide and limit each other. A famous argument supporting this thesis was stated by Robert Nozick: if we imagine a perfect egalitarian model of distribution of wealth, and if we offer people the freedom to use it as they want, this will inevitably result in non-egalitarian outcomes. Let us assume that we have given the same amount of wealth to all individuals. Among them is Wilt Chamberlain, a famous top-notch basketball player who signs a contract with his club and, according to this contract, every spectator of a match played by his team pays for a ticket, of which 25 cents goes to Wilt. By deciding of their own free will that they wish to accept the contract, all parties are aware of this, and – regardless of the price of the ticket – they go to the basketball matches willingly and in large numbers. After some time, Wilt will have far more



Robert Nozick, American political philosopher, advocate of libertarianism (1938 – 2002), his most popular work: *Anarchy, State, and Utopia*.

assets than anybody else, in other words, we will have a non-egalitarian result which is the consequence of Wilt's freedom to decide under which conditions he will play for the team, and the freedom of the spectators to decide whether they will attend the game. Therefore, the only way to ensure a totally egalitarian distribution of wealth is to restrict somebody's freedom. On the other hand, if we decide not to restrict the freedom of individuals, differences in the possession of wealth will inevitably arise. The incompatibility of other values can also be shown in a similar way.



Wilt Chamberlain, one of the best basketball players in the 1960s

There have been many objections to this example by Nozick, and here we are only going to address the most important one. Murray Rothbard emphasized that Nozick had taken over Locke's view of freedom as the opportunity to do what we are entitled to do. Nozick, however, assumes that we have an unqualified right to confer property in any way we want. If, on the other hand, we start from the idea that we do not always have the right to confer property rights, irrespective of the consequences, the limitations to conferring rights does not necessarily represent a violation of our freedom.

which an attempt is made to resolve the problem of the poorest layers of society, then we are talking about right-wing liberalism. Social democracy starts from *equality* as a central ideal: its basic goal is to provide equal opportunities for all, and at least an almost equal level of welfare. The most common means to achieve these goals is the restriction of individual economic freedoms, that is, the state interference [through progressive taxation and direct involvement] in the economic sphere. Should social democrats give in to the requests for freedom, they will draw closer to left-wing liberals, and if they intensify their fight against economic freedoms and, in addition to equality, place emphasis on solidarity, then they will get closer to the socialists.<sup>3</sup> Conservatism starts with the ideal of brotherhood and solidarity: we have obligations to the members of our local community, and even towards other fellow-countrymen, similar to those within our family, albeit not as strong. It is clear that we are not all equal and that we cannot allow every kind of freedom; society should be organized as a family, so that richer individuals, like older brothers, directly or through various organizations, provide for the poorer ones – this presupposes not only financial support but also spiritual guidance. If conservatism gets too close to the idea of equality, and if it includes in its methods mobilization of the masses and a moderate restriction of economic freedoms, it will resemble an old right-wing of the first half of the 20<sup>th</sup> century; should it look to the other side, and reject equality, instead embracing extensive economic freedoms and the major role of the market, it will start turning into progressive conservatism and a new European right-wing.

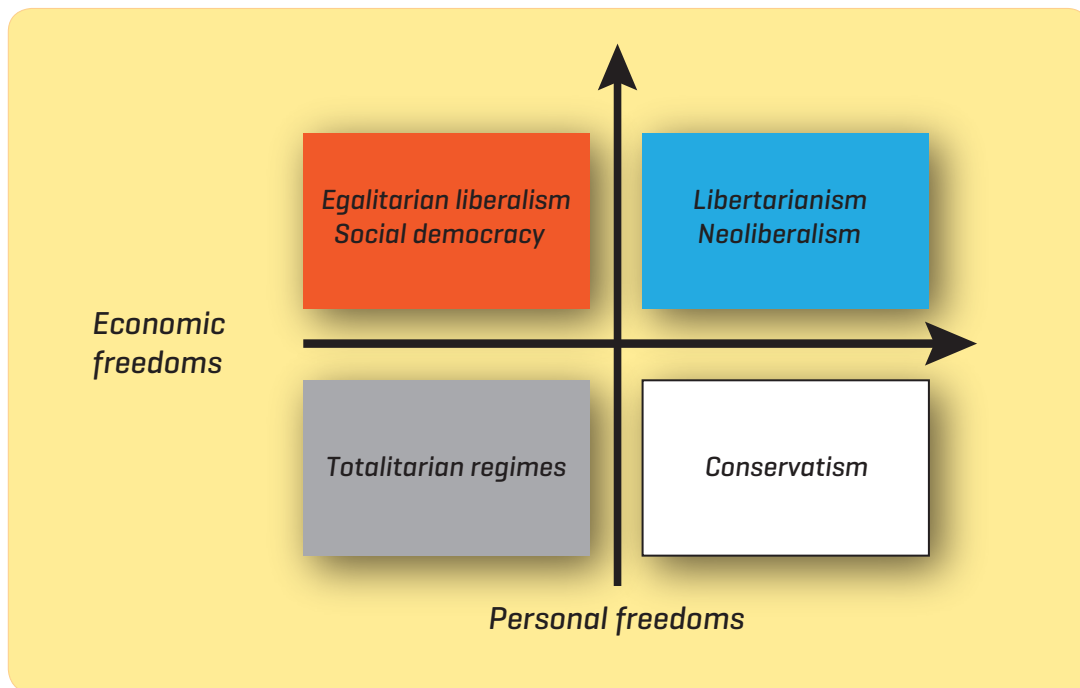
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<sup>3</sup> For the possible differentiation and usages of the terms socialism and social democracy, see the note in the following chapter.

## **Personal and economic freedoms**

Before giving a detailed overview of major political ideas, it would be useful to go through another comparison in order to put information, as easily as possible, in the proper context. It is about presenting the ideas of another American libertarian, David Nolan, which start from the idea that all political options can be presented in relation to personal and economic freedoms which are attributed to the individual. In this simplified overview, we are measuring *economic freedoms* by the level of the influence of the state on the market and its protection of private property. The less interference of the state there is in the market, in the economy and in business relationships between individuals, without making any significant redistribution of resources through taxes and other forms of redistribution, the greater is the economic freedom of individuals. On the other hand, if the state implements strong progressive taxation with the aim of redistributing property, or if it helps (in monetary or other ways) specific companies or whole industries, and determines the minimum price of products or work, and restricts international trade, then – Nolan says – it restricts the economic freedom of its citizens.

*Personal freedom* is measured through the influence of the state on the private sphere of individuals. If the state actively promotes the idea of a good life (advocating, for example, a particular religion or another value doctrine), it positions itself in relation to its citizens in a paternalistic way, and directs or restricts their choices, and limits the personal liberty of its citizens. It is clear that in a country that bans same-sex marriage (restriction of sexual freedoms), prohibits the consumption of soft drugs or alcohol (paternalism), requires compulsory military service, or censors the public media, the level of personal freedoms will be very low.



If we show on the horizontal axis of the graph the level of economic freedoms in a society, and on the vertical axis the level of personal freedoms, we will notice the difference between the three ideologies discussed in this chapter.

We will mark *right-wing liberalism* [neoliberalism] as an ideology that advocates greater personal and economic freedoms, or, in other words, the least interference of the state in all spheres. Neoliberals start from the assumption that neither the state nor other individuals have the right to interfere or restrict our choices. As it has no right to dictate which religion we can practice or what intoxicating substances we can use, neoliberal state has no right to restrict the freedom of the market by taking away property that we have acquired in legal ways through taxes. However, should the state decide to involve itself in the economy, not only would that harm individuals by restricting their rights, but it would also produce undesirable results: instead of strength-



ening the economy, neoliberals believe that market intervention would actually weaken it.

Greater economic freedoms are also included in the program of *conservatism*, as advocates of this theory see the protection of private property rights as one of its key priorities. In their arguments, they are still slightly less aggressive than right-wing liberals, since, in some cases, they justify restrictions regarding international trade, or the promotion of some traditional industries, but we can nevertheless speak of conservatism as a doctrine that promotes economic freedoms. Conservatism, however, presupposes the existence of a single correct form of life and system of values, and one of the roles of the state becomes the protection of these values and the institutions that cherish them. Thus, conservatism tends to restrict the personal freedoms of individuals.

*Social democracy*, unlike the two previously described systems of ideas, puts in first place the ideal of equality that leads to the restriction of the economic freedoms of individuals. The role of the state is to provide adequate social protection for all, and to restrain the free market, because it leads to large differences among individuals. In order to be able to accomplish this task, the state needs a more complex bureaucratic apparatus and plenty of funds, and these are collected, as we know, through heavy and progressive taxation. On the other hand, modern social democrats accept a very wide range of personal freedoms: they do not impose the idea of a good life while trying not to constrain individuals in their personal concerns.

*Totalitarian* political systems and ideologies that advocate the radical restriction of both personal and economic freedoms marked the first half of the 20<sup>th</sup> century [Nazism, Fascism], and some survived much longer [Stalinism]. These are systems in

which a strong state has direct influence on the economy [the planned economy in the USSR, or the control of production in the war industries of Italy and Germany] and restricts the personal freedoms of individuals [compulsory military service or public works, total censorship of the media, racial politics, etc.]. These systems of ideas, however, have not lived to see the 21<sup>st</sup> century and are not present in the mainstream political sphere. Therefore, in what follows we will focus on [neo]liberalism, conservatism and social democracy.

**Paternalism** designates the behavior of a person, organization or state, which restricts the freedom of individuals for their own good. There is a distinction between two types of paternalism: strong paternalism, which describes conduct directly limiting the freedom of a conscious individual, believing that the individual cannot consider his/her own interests correctly [e.g. when the government prohibits the use of alcohol or homosexual relationships between adults], and weak paternalism which designates conduct limiting the freedom of individuals for a limited period, justifying this with the idea that individuals themselves would act differently if they were able to have a time of conscious and informed consideration [e.g., the period of a few days or up to a few weeks during which the individual can order, but not receive, weapons in some American federal states is deemed to be a form of mild paternalism] where the goal is to make sure citizens do not react in haste, and that they make decisions as a result of informed reflection, and not affective behavior.

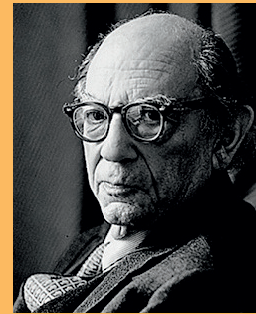
## 2.1 (Neo)Liberalism

It is difficult to talk about liberalism as a unified political position since there are numerous liberal positions [classical, revisionist, egalitarian, economic, humanistic, perfectionist, ethical, deontic, institutional, and other forms of liberalism] that often collide when it comes to fundamental issues. Liberalism has gone through many changes over time, and different forms have appeared. However, it seems that we can list several basic characteristics that they all share, which clearly separate the system of liberal political ideas from other ideologies.

The importance that liberals attribute to freedom and to the idea that no individual or group of people [community] has the right to restrict us if they have no good reason for doing so comes first. The only legitimate reason, according to most liberals, is if we cause harm to another person by our actions – this is the well known harm principle that British philosopher and economist, John Stuart Mill, formulated in the 19<sup>th</sup> century: nobody [an individual, community or state] can intervene and stop us from what we are doing unless we endanger other people or cause harm to them by doing so. We already know that liberalism sees the state as the major threat to our freedom. Even though liberals advocate a democratic system, and see democracy as the correct expression of the moral equality of the people they represent, they are concerned about the possibility that the power of the majority can turn into the tyranny of the majority that will begin to oppress or exploit the minority. To prevent this, liberals are committed to a democratic system in which the power of the majority is limited by a strong constitution established to pro-

## TWO CONCEPTS OF FREEDOM

The restriction of democratic will often makes citizens passive and uninterested in political issues. In order to detect the causes of this problem, we should first consider two concepts of liberty as exposed by Isaiah Berlin. We can be free in two senses: *negative liberty* means freedom from something - an obstacle, obligations or other people who are forcing us to do something - while *positive liberty* means the freedom to do something and to decide about issues that are important to us. We are free in a negative way if no one oppresses or forces us to work, restricts our freedom of religion, takes away our property and prevents us from freely expressing ourselves and moving. In a positive sense, we are free if we have the opportunity to participate (directly or indirectly, through our elected representatives) in the processes of deciding on matters that are important to the community and which concern us personally. These are two separate notions of liberty, and it is easy to imagine a constitutional monarchy in which the negative rights of all individuals are respected (the freedom of movement, religion, speech and association are ensured, and private property is protected), but they have no power to decide on matters concerning the whole community, since decisions are made by the monarch (positive freedoms are restricted, or do not exist), as we can also imagine a democratic community in which all individuals have equal power to decide on important issues (large positive liberties), but, at the same time, it is possible to take any decision about any issue,



Isaiah Berlin, a British social theorist and historian of ideas (1909 - 1997); most famous works: *Four Essays on Freedom*, *Three Critics of the Enlightenment*

which means that our religious and sexual freedoms can be jeopardized or restricted through democratic means (a small negative liberty). The problem that we noted earlier - the tendency of liberalism to lead to the passivity and indifference of citizens concerning political issues - stems from the emphasis that liberalism usually places on the preservation of liberty in the negative sense. In such a system, individuals do not have to worry about whether their basic (negative) liberties are endangered, and thus they have no need to defend them in the political sphere, while remaining without a motive to participate in political decision-making, also because the negative liberties of other individuals significantly restrict the scope of decisions that can be taken in democratic procedures. However, some of the liberal positions (revisionist liberalism) do not neglect positive liberties while striving for freedom as the means of self-realization.

When she was trying, through personal action - collecting signatures for a petition organized by the student movement in the spring of 2009 - to support the demand for free (state-paid) education, an active citizen of Zagreb was not overly surprised when she realized that her colleagues employed in a law firm did not want to sign such a petition: they considered the abolition of tuition fees, at least intuitively, as too much interference by the government in a system built on liberal values. However, she was much more surprised to discover that a worker who worked for very little money as a cleaning lady, although the mother of two high-school students, also showed little interest in the petition: "It does not interest me", she said, "my children already know that there is no going to college for them, but that they have to work as soon as they complete high-school, so now they just need to find a job". This situation illustrates the starting point of the socialist concept of (positive) liberty, which means that it is impossible to achieve this only at the level of opportunities to take part in the political process (by signing a petition, for example). Being free also means equal participation in distribution, the freedom of not being prevented due to our economic position from achieving our potential, for example, through education. Frequently taking Berlin's lucid thoughts as a point of reference, socialists understand freedom from a (negative) economic status as inseparable from freedom for (positive) social engagement.

protect a wide range of human rights, and thus prevent the democratic majority from harming the minority with their decisions. With freedom as the main ideal, there are several other elements that all liberal positions have in common. British historian John Gray defines the idea of liberalism as a concept of man and society based on the following four main ideas:

1. **Individualism**: the moral superiority of the individual versus the collective
2. **Egalitarianism**: the moral value of all people is equal
3. **Meliorism**: the socio-political system can be repaired and improved endlessly
4. **Universalism**: humankind is morally indivisible, and local cultural differences are irrelevant.

While developing through history, liberalism appears in various forms that frequently clash with each other. We will try to present below the main varieties of liberalism and their basic characteristics.

### **Classical liberalism**

Even though the initial liberal ideas were generated during the demise of feudalism, the main impetus can be seen after

***The minimal state*** (also known as the *night-watchman state*) is a form of power where the only legitimate role of the state is the protection of individuals from assault, theft and contractual breaches. The only institutions of such a state are the courts, the army and the police. Healthcare, education and care for the socially vulnerable are not subject to state influence, but are organized upon the initiative of free individuals. Any expansion of state prerogatives is to be deemed an infringement of individual freedoms and most fiercely denounced.

**The social contract** used to represent a model of explaining the origin of society in the past, while nowadays it is mainly used as a way to justify the legitimacy of state authority vis-à-vis the individual. In other words, modern theoreticians of the social contract attempt to prove why it would be reasonable for all individuals to waive some of the rights they enjoy and transfer them to the state.

the great revolutions in England and France. Among the first theorists singled out as pioneers of liberalism, there is certainly John Locke who argues that all people have natural rights to life, freedom and private property. Locke is the creator of the concept of minimal state, which assumes a natural state where people work normally together and live by natural law without the existence of the state, whereas the social contract (and the creation of the state) occurs only in order to resolve minor disputes and misun-

derstandings that may arise. Locke's theory in the area of the economy was taken over and expanded by Adam Smith in *The Wealth of Nations*, arguing that the state should not intervene in trade and the economy. The market is capable of regulating itself with the "invisible hand", and government interventions can only end up badly. Therefore, it is necessary to be guided by the *laissez-faire* principle, and avoid any kind of external control of the markets. Smith, who besides Locke laid the foundations of classical liberalism, also relied on pronounced individualism, by focusing primarily on negative liberties (the freedom from anyone, and especially from the state, meddling in affairs, either in the private sphere or in the market).

### **Revisionist liberalism**

In the mid 19<sup>th</sup> century, some of the assumptions of classical

liberalism were called into question. In popular books, such as *Principles of Political Economy* by John Stuart Mill, the principle of *laissez-faire* started to be questioned. He advocates the idea that wealth should be distributed according to merits, which would lead to significantly more egalitarian outcomes. Even though, in general, he accepts a number of earlier assumptions, Mill begins to discuss the idea of the need for the expansion of the positive freedom of individuals. He advocates the abolition of property censuses, and the introduction of universal suffrage for all literate adults, trying to involve

as many citizens as possible in institutions and bodies of local self-government. However, Mill still fiercely defends the concept of negative liberties and sees positive liberties only as a means for making high-quality decisions. Thomas H. Green, at the end of the 19<sup>th</sup> century, changed this manner of argumentation by placing positive liberties in the foreground, so that the concept of a community consisting of a group of selfish individuals was changed into a complex system where all individuals had the duty to promote the common interest.

***Laissez-faire*** is an economic environment where the state does not interfere in any way in trade relations among individuals. The only role of the state is to ensure property rights, without imposing taxes, minimum or maximum prices of goods and services, or exerting any other direct control over the production of goods on the market. Advocates of a *laissez-faire* economy believe that the economy will become optimal owing to the “invisible hand of the market”, i.e., through the laws of supply and demand. The interference of the state can only distort this balance and cause unwanted consequences.



**Deregulation** is the act or process of reducing or completely abolishing state regulation of a specific area. Thus, for example, in traffic, deregulation would mean the abolition of various bans or regulations that we otherwise need to observe. Neoliberals consider that deregulation in the field of the economy results in higher competitiveness, and thus in higher productivity, labor efficiency and, consequently, in lower prices.

The well-known liberal theorist Gerald Gaus saw the lack of progress within liberal ideology as the main problem: the same issues and concerns which were discussed (and could not be agreed on) by the liberals in the 19<sup>th</sup> century, are also present today.

After the crisis it experienced in the early 20<sup>th</sup> century, finding itself in an environment of radical rightist and leftist ideologies, liberalism picked up new momentum after the Second World War in the form of neoliberalism, a political theory

advocating a free and open market, the privatization of state industries, deregulation, and strengthening of the role of the private sector. While opposing state intervention in the economy, and relying on healthy competition as the only factor of growth and economic development, Friedrich Hayek and other supporters of neoliberalism took over to a large extent the ideas of classical liberalism, trying to identify and fix its deficiencies.

### **Egalitarian liberalism**

The first two decades after the Second World War were the period of welfare states which implemented strong redistributive policies and ensured a high level of social security for citizens. At the time when neoliberalism was beginning to suppress the welfare state, a most important work emerged: John Rawls's *Theo-*

## RAWLS'S THEORY OF JUSTICE

Due to differences in interests and values, people find it hard to agree on which concept of fairness to embrace. Different characteristics (gender, race, age, ethnicity, religion) make it hard to reach consensus. Following Kant, Rawls believes that in reflection we need to get rid of those characteristics. So, he proposed that considerations be made under a “veil of ignorance”, in a situation where we know all the empirical data about the world (the current economic, sociological and other theories), but we do not know anything about ourselves: we do not know if we are male or female, a child or an old person, whether our skin is white or colored, or whether we are a manager or a taxi driver... Let us imagine that we have woken up paralysed in hospital after a severe accident in which we lost all memory of ourselves; we still know that there are two sexes in the world out there, several races, those with extremely high and extremely low income... However, we do not know what sex or race we are, we do not know anything about our present income. If we were to choose a concept of fairness under the “veil” of such “ignorance”, to live the rest of our life by those principles and for our descendants to continue living by them, Rawls believes that we would opt for a concept based on two principles of fairness: (1) the equality of political rights and liberties, and (2.a) equal opportunities and (2.b) the principle of diversity. Given that we do not know whether we belong to the privileged or most vulnerable group in society, we will endeavor to ensure equal rights for all (as we cannot end up badly in either case), advocating equal access to resources, except if uneven distribution enables us to end up better, even if we are in the most vulnerable group, than if we had divided the resources equitably. It is important to emphasize that Rawls gives priority to the first principle: if uneven distribution of assets threatens our political equality, then it must be discarded even if it ensures more material wealth to the most vulnerable.

*ry of Justice*, which justifies the redistributive role of the state, and condemns the inequalities arising in the free market. Even though he accepts the idea of private property and its unequal distribution, Rawls believes that it is justified only if the poorest layers of society benefit from it.

The second of Rawls's [re]distribution principles is in line with this thesis: everyone should have equal opportunities, equal chances and equal amounts of material goods, unless unequal distribution leads to the better position of the poor [i.e. that they would live better than if everyone earned the same]. Rawls assumes that the unequal distribution of goods will motivate the capable to work more and thus strengthen the economy.

### **Libertarianism**

As a response to egalitarian liberalism, in the 1970s the USA experienced modern libertarianism. Based on the system of natural rights that Robert Nozick presented in his influential book *Anarchy, State, and Utopia*, libertarianism most strictly prohibits any interference of the state or any other persons in the private affairs of individuals. However, unlike neoliberals who justified this claim by referring to competition and its effect on strengthening the overall economy, libertarians based their claim on proprietary rights: every person owns their body and everything that they produce, and everything that they have legally inherited. Thus, while neoliberals ask for less taxation in order to create market conditions favorable for new investments and strengthening the economy, libertarians claim that any taxation [other than what is necessary for the functioning of the judiciary and the police] is a form of theft or slavery because the state [by taking part of our revenue] makes us work more than we would like to.

## Neoliberalism

Appearing as an economic theory, neoliberalism has become one of the dominant theories of society and politics. Starting from the idea of the personal and economic freedoms of individuals, neoliberals argue for the minimum influence of the state in the private as well as in the public domain. [Negative] human rights are extended, especially in the economic sphere, and the power of the government to take decisions that could potentially jeopardize individuals is restricted. Neoliberals thus accept democracy as a good form of government, but they state that not every democracy is good: the outreach of democratic decisions should be significantly restricted, a number of rights should be excluded from the domain of democratic decision-making, so that we can use democratic procedures to decide only on less important issues [which makes us less free in a positive, but more free in a negative sense]. By protecting not much more than neg-

*A manual for political organizers*



Friedrich August Hayek, Austrian economist and political philosopher [1899 – 1992]; his most famous work: *The Road to Serfdom*.

**With his mentor, Ludwig Mises, who was a key person of the Austrian School of Economic Thought, he was a firm supporter of economic liberalism. He was awarded the Nobel Prize in Economics in 1974 [together with Gunnar Myrdal] for his contribution in the area of the theory of money and economic fluctuations, and the analysis of the interdependence of economic, social and institutional phenomena.**

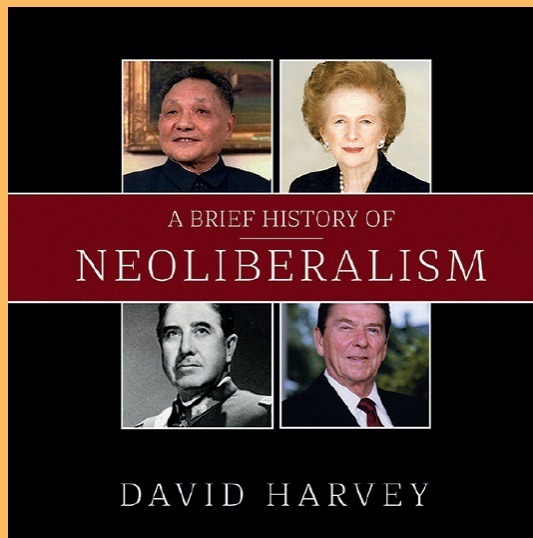
ative liberties, thereby limiting positive ones, the neoliberal state should be minimal, and its only duty should be to defend freedoms and individual rights - not least private property - from the will of the majority and ensure market competition. All other functions that states usually have (education, social welfare, healthcare ...) should be transferred to the private sector, which means that private companies should take them over. Since market freedoms are a form of economic freedoms, the market should be free and not under the control of the state.

Neoliberals believe that such practices would lead to the strengthening of the economy, convinced that a planned economy necessarily leads to a decrease in efficiency, while competition encourages it. Competition is a kind of guarantor of economic and social progress from which all individuals can reap nothing but benefit.

It is important to note that neoliberals justify the interference of the state in the market in that it prevents monopoly and ensures competition. Although they often refer to property rights, they put the power of the economy in first place, and they derive the right to private property from the claim that only the respect of these rights will make the economy stronger. On the other hand, libertarians start from property rights as basic rights, and do not justify any state interference in the market. If monopoly is created legally, no reasons (not even the truth that this would weaken the economy) can empower us to interfere and threaten someone's private property. Neoliberals are, for example, willing to accept that the state helps the private sector in times of crisis, believing that these interventions will save the overall strength of the economy, while libertarians would not even in this case justify state interference. However, neoliberals would not consider that the state needs to be constantly present in the market or

## NEOLIBERALISM AND THE STATE

Croatian journalist Vuk Peršić presents an interesting “ID card” of neoliberalism, stating that the role of the state is not to care about its citizens, but only to create appropriate legal conditions in which citizens, depending on their own abilities and qualities, are able to look after themselves\*. Here we can easily notice the already mentioned tendency of neoliberalism to emphasize individual liberty, but to ignore the equality [tangible equality or equality of opportunities] which is normally provided by the state. With the neoliberal model this is not possible, since the state is “devoid of economic and financial power”: “Liberal capitalism [means] rule of law that guarantees freedom of entrepreneurship, an economy freed from fiscal burden, a state devoid of economic and financial power, reduced to the essential classic functions, and the uncompromisingly loyal duty to protect individual human rights. If [citizens] want a decent existence, they should not expect it from the state. It cannot and does not know how to give it to them, and when it tries, it will always do this at someone else’s expense for the simple reason that the state is, by definition, an expense and not an entity that creates new value. With the same energy with which they are asking for salvation from the state, they should ask the state to leave them alone, to pass reasonable laws, and to watch how they are implemented. They should look for existential security within themselves, their abilities, their knowledge and their work ethic. All that the state is obliged to give them, which is not a small thing, is legal certainty and conditions in which this ability, knowledge and ethics will become profitable”.\*\* The critics of neoliberal policies, however, point out that “the



classic liberal principle of a minimal state hardly has any other function than a rhetorical one. Institutions and state agencies were [during the period of neoliberalization] constantly present, whether it was during the establishment of a regulatory framework in accordance with the requirements of the

leading actors in financial markets, or when securing export markets for domestic corporations” (Žitko, 2012: 33). Improvisation at an ideological level, which justifies extensive state interventions when necessary, for example to save banks, and thereby invoking the minimal state when citizens are seeking a “decent existence”, has brought David Harvey, author of *A Brief History of Neoliberalism*, to the conclusion that, rather than a coherent system of political ideas, in the case of neoliberalism, it is more about a strategy of the ruling classes in the class war against all others (Harvey, 2005:64-86, 202).

\* Perišić, Vuk. 2012. *Dirljiv prezir prema liberalnom kapitalizmu koji nismo niti doživjeli* [A Touching Contempt for Liberal Capitalism that We Have Never Experienced] [online] T-portal. Available at: <http://www.tportal.hr/komentari/komentatori/199962/Dirljiv-prijezir-prema-liberalnom-kapitalizmu-koji-nismo-niti-doživjeli.html>

\*\* Ibid.

needs to regulate the development of the economy [which would be counterproductive]. Rather, it should intervene only when a major crisis erupts.

### **Washington Consensus**

Neoliberal policies greatly match the set of measures presented in 1989 by the economist John Williamson. The list of measures dubbed “Washington Consensus” described the principles of conduct of the major international economic organizations like the International Monetary Fund and the World Bank. Some of the most important neoliberal measures are:

- Stable fiscal policy [or fiscal discipline] that renounces huge borrowing [because it may lead to inflation and ineffectiveness of government]
- Redirection of public spending from subsidies toward the provision of key pro-growth conditions, including pro-poor services like primary education, primary health care, etc.
- Trade liberalization, abolishing import restrictions and tariffs to stimulate competition and the long-term development
- Tax reform and government spending cuts
- Privatization of state enterprises aiming at the creation of market competition
- Deregulation, the abolition of regulations that may curb market competition
- Legal security for property rights
- Financialization of capital and domination of financial markets to traditional industrial and agriculture economy [turning all exchangeable value – labor force, means of production, homes, and even risk someone takes when starting into business – into a financial instrument] to spur trade and exchange.



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## 2.2 Conservatism

Conservatism emerged as a reaction to the changes brought about by the French Revolution. The first conservatives advocated the establishment of a [constitutional] monarchy and the return to a class-based feudal order. We can immediately see that the situation has significantly changed over time: the conservatives have accepted, and have been defending, representative democracy and the capitalist system. Does this mean that conservatism has become weaker? Something has remained the same - conservatives are still committed to preserving the old order and oppose change. The conservatism of the 18<sup>th</sup> century was against liberal reforms and the free market, while, two centuries later, conservatism opposed, first of all, social democracy and the welfare state. This ideology still remains committed to the same social institutions: the church, the family and the community. Conservatism today, due to its opposition to the left wing, is drawing closer to neoliberalism, but this proximity will be the subject of discussion later on. First, let us see what the fundamental tenets of conservatism are.

Starting from the ideals of solidarity [fraternity], conservatives still oppose freedom and equality, but in a subtle and indirect way: they are not against freedom and equality; they just do not share the same understanding of these values with the liberals or social democrats. Carl David Stelling, author of the book *Why I Am a Conservative*, states that a political system should be compared to a military command structure. Just as it should be clear who is leading the squad, and who follows the leader, in the same way it should be clear in a political community who are the lead-

## **BROTHERHOOD, COMMUNITY AND THE STATE**

If we look at the relationship between siblings, we will see that they are neither equal nor free: the traditional family as an institution foresees different roles for them, and limits their behavior through various standards that are an integral part of the order of the family. Younger siblings should listen and follow the older ones who should take care of the younger ones. At the same time, if one of the siblings earns an income while the others do not, he/she will give part of it to the poorer siblings through solidarity and unity, and there should not be (indeed there must not be) any repression (of the state with taxes) that would take away and redistribute part of his/her acquired assets. In this way, the state would directly endanger the community because the feelings of brotherhood and solidarity that holds it together would be replaced by alien mechanisms. By trying to introduce equality, states violate traditional values, structures and relationships.

ers and who are the followers. We can see that conservatives advocate not only economic but also political inequality. However, given the fact that with this kind of rhetoric it would be nearly impossible to win democratic elections, conservatives prefer to use, instead of inequality, euphemisms such as the “enterprise culture”, “responsible society”, an “opportunity state”, or “property-owning democracy” [Eccleshall 2001]. At the beginning of Chapter 2 (“Do we need political ideas?”), we saw how conservatives also oppose the personal freedoms of individuals. Just like families, the state should have an educational, paternalistic function, aimed at the development of proper virtues

in individuals. Therefore, conservatives represent the concept of “ordered liberty”.

Huntington writes that the basis of conservative ideology is the defense of the existing order, authority, established institutions and traditions. Inequalities among individuals exist and they are natural. There are better and worse people: it is clear that the former should hold authority which must be rooted in social institutions [there should be a certain social *order*]. Since people are imperfect, and masses are often subject to whims and passions, order and authority serve to keep this imperfect human nature tamed. In doing this, of course, help is needed from numerous traditional institutions, such as the family, the church, the local community and schools. Tradition helps preserve order and authority, creates a sense of belonging and stability, giving people an identity and a sense of rootedness [Weber<sup>4</sup> thus mentions tradition as one of the three sources of descriptive political legitimacy and authority]. Modern conservatism is often associated with patriotism, or love for the community to which one belongs, with the idea **that the nation state is not only a political-territorial unit, but also the correct moral order**. Conservatives believe in the possibility of the gradual improvement of living conditions which would be the result of the moderate actions of government, and not of fundamental reforms and drafts of major plans.

Private property plays an important role in conservative ideology. Referring to Roman law, in which the term *familia* bore the meaning of property [land], conservatives oppose its confiscation, either by the state or by individuals. Property should be “solid”, i.e. stable, able to provide a source of income for the fam-

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<sup>4</sup> See the chapter From political ideas to public policy.

## CONSERVATISM AND THE RIGHT WING

Although often used as synonyms, it should be noted that the right wing and conservatism do not always signify the same political strategies. Although both attach great importance to tradition and authority, within the right wing there are movements which do not strive to defend the existing order, but instead aspire to the mobilization of the masses (the far right) in order to change it. Conservatism, on the other hand, strongly opposes the mobilization of the masses because its effects are often unpredictable and could endanger the existing order. Conservatives are, therefore, great supporters of solving problems within the system, believing that most problems can be resolved by applying the principle of subsidiarity, at lower levels (the family, church, the local community, civil society), without involving the state in dealing with these problems (except in the case of the failure of these instances). By following this logic, this would mean that conservative policies are a subset of right-wing policies (including the far right, which differs significantly from conservatism).

ily living on it (or from it). Uncertainty concerning private property would bring instability in society and undermine order, tradition and authority. However, exposed to neoliberal pressures, conservatism is now turning to the defense of private property solely from the state, allowing the loss of property in private disputes. Those who did badly and who are in need of social assistance will not address the state, but must rely on the mercy of traditional institutions (the family, the church, the local community), while state aid should be the last possible option.

We have already pointed out that conservatism arises in response to the changes brought about by the French Revolution; since then, conservatism has taken numerous forms, of which we shall now mention the most important.

### **Authoritarian conservatism**

The politicians and theorists who were against the changes brought about by the French Revolution and who, several decades later, at the Congress of Vienna, marked the first half of the 19<sup>th</sup> century by drawing a new map of Europe, set as their main goal the preservation of order which would give people protection and security. They saw the solution in a strong state that would be managed by a capable individual supported by a high-quality system of powers and authority similar to that of the Catholic Church [there is a clear and unquestionable hierarchy: priests do not question the bishop's decisions, bishops do not question the cardinal's decisions, and they, in turn, unquestioningly obey the Pope's authority]. The main opponent is [classic] liberalism, which destroys the traditional structures: peasants are impoverished and lose their land, they move to cities and become workers, old local communities disintegrate, the nobility and the church not only lose their privileges, but also their moral authority over the people, and the old laws are changed to facilitate the flow of capital.

### **Paternalistic conservatism**

In the late 19<sup>th</sup> century, it became clear that industrialization had gained momentum, and that it was no longer realistic to expect that things could be the same as they had been before the French Revolution. In addition, many conservative politicians recognized the benefits of imperialism, and thus accepted the capitalist sys-

**Subsidiarity** is a principle of organized decentralization, by which issues are addressed at the lowest possible organizational units that are able to do this efficiently. The principle was present even in the Roman Empire, whereby smaller territorial units where the conquered nations lived were given certain autonomy in resolving their current problems, and they referred the issue to the central authorities only if it was impossible to resolve at lower instances. The idea of subsidiarity is very widespread in conservative circles, where it arrived through the social doctrine of the Catholic Church; by delegating the prerogatives from the state to the local level, an attempt was made to find a middle way between *laissez-faire* capitalism and state socialism. The idea of subsidiarity, particularly present in the structure of the European Union, aimed at preventing its further integration, and keeping most of the prerogatives for problem solving within the competence of the Member States, while the EU becomes involved only if it is clear that this would constitute a more effective approach. Subsidiarity is applied in the aspiration of having decisions taken at the lowest level possible, so that citizens can have as much influence in the decision-making process as possible.

tem. Ideas that required new revolutionary changes – the ideas of socialism – became the new enemy. Paternalistic conservatism was attempting to resolve the social problems created by the free market and classical liberalism – the dissatisfaction that had been growing among the increasingly poor working class, and which threatened the stability of society [let us recall that revisionist liberalism emerged at the same time, as a response to these problems]. Therefore, conservative statesmen, like Disraeli in Great Britain and Bismarck in Germany, introduced social as-

sistance for the poorest, which constitutes paternalistic concern for the poor. In this combination of state repression and social reform, the ideas of conservative tradition remained firmly represented, but the unity and harmony of interests, based on the mutual love, respect and obedience of some, and the leadership and care of others, are particularly emphasized.

### **Liberal conservatism**

In response to the concept of the welfare state that had dominated after the Second World War, a new form of conservatism emerged, which placed great emphasis on the free market, trying to connect it with conservative values [at the same time, neoliberalism became stronger in response to the welfare state, and these two ideologies are very close to one another]. Liberal conservatives like Ronald Reagan and Margaret Thatcher, burdened by the Cold War, wanted to defend both the strong state and the free market. However, a strong state does not mean a strong social state, since social spending was cut, and the problems that it used to resolve were now, at least in principle, delegated to the renewed traditional institutions. To the liberal conservatives, the main role of the state became the protection of private property, instead of the distribution of goods - it was believed that the free market represents the natural order in which the good and the capable prosper. Liberal conservatism is the foundation of most contemporary conservative positions. Here, we will present only the most important.

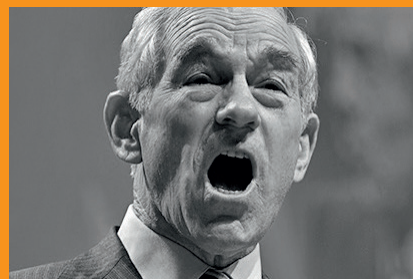
### **Neoconservatism**

A direct successor of liberal conservatism in the US is neoconservatism. However, in addition to the free market, emphasis is put on patriotic values, religion, and the desire to protect one's own culture from immigrants. Traditional values are not only the guard-



## **A FUSION OF NEOCONSERVATIVE AND NEOLIBERAL IDEAS**

During a debate of Republican candidates in the 2012 presidential elections, Congressman Ron Paul, when asked what should be done with a person who does not want to pay health insurance, said: “That’s what freedom is all about; taking your own risks”. A physician by profession, Ron Paul said that he had never refused to help a patient, but that care for such a hypothetical patient should be taken by non-governmental organizations and associations, instead of government, because that is characteristic of a “society that accepts social welfare and socialism.” This example clearly shows how an attempt can be made to solve the consequences of the neoliberal ideas of the privatization of healthcare by using neoconservative methods, i.e. by transferring them to the civil sector or to the local community.



Ron Paul, a libertarian, and then a republican, three times candidate for President of the United States

ians of the stability of the order, but they also become a means of preservation of one’s own identity in conditions of cultural pluralism. The American writer Irving Kristol claims that we need to differentiate between the old British conservatism – which prefers proven and trusted methods instead of the unknown – and the new American conservatism, and its much closer ties with tradition, religion and national identity. Neoconservatism in the economy is closer to a “new-style” neoliberalism by allowing certain budget deficits, and putting strong emphasis on foreign policy and the protection of national interests at the global level.

### **Progressive conservatism**

The goal of the new political order that was formed before the 2010 elections by British Prime Minister David Cameron was to create a strong economy and a strong society. By deregulation and cutting bureaucracy, an effort was made

An example of **public-private partnership** could be leaving public functions (and revenues) in private hands, where a private company funds the construction of a public garage on public land, in order to collect parking fees later.

to stimulate investment in production, to reduce government spending and the budget, while conducting thorough decentralization by transferring substantial resources and authorities to local governments. Cameron believed that central state power and the welfare state were inefficient in providing social services, and that they were distant from the people and that the people did not trust them.

The solution is seen in the typical conservative transfer of social services to a lower level. The solution strives for strong traditional families, a local community that will include and will be involved in the lives of local people, and a strong civil society, responsible for many services previously provided by the state. For progressive conservatives, social entrepreneurship and public-private partnership play a prominent role. Social entrepreneurship can be seen as a concept that integrates the creation of both economic and social values; in other words, success is not measured just by the generated income, but also by the positive influence that the business operations have on society, culture or the environment. An example of social entrepreneurship could be an organization providing child care for children with disabilities.

### **Europe's new right wing**

Almost completely eliminated from the political scene after the Second World War, the right-wing movements that appeared in the

1960s sought a restoration of traditional values that were threatened by liberalism and globalization. The main opponent of this new right wing was the liberal movement which, starting with individualism, egalitarianism and universalism, erased traditional values and culture. Isolated from the community, the individual lost his identity, and in order to reestablish social ties, it was important to return to “community and human values”. The new right wing was not talking only about a single, national community, because then the problem of the solitary individual who stands against the state would not be resolved, but instead sees the state as a federation of organized communities and multiple alliances within which cultural values of organized groups are respected and promoted. Since at present we have several different orientations within the conservative ideology, it is difficult to define a clear set of conservative public policy guidelines. However, it is possible to point out the most frequent measures, which, to a greater or lesser extent, are accepted by all conservative positions:

- a generally stable fiscal policy that avoids huge borrowings [budget deficits are still tolerated more than by the neoliberals]
- advocacy to restore and preserve traditional local industries [they

**Social entrepreneurship** can be seen as a concept that integrates the creation of both economic and social values; in other words, success is not measured just by the generated income, but also by the positive influence that the business operations have on society, culture or the environment. An example of social entrepreneurship could be an organization providing child care for children with disabilities.

constitute part of the identity of the inhabitants of a region]

- the protection of domestic production and industry
- the cutting of taxes and government spending, and funds and powers are transferred to local levels –

decentralization

- social entrepreneurship and public-private partnership, a strong civil society
- strong legal protection for private property
- unemployment is not seen as a problem if it strengthens the traditional family [the father as breadwinner, the mother as housewife].

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## 2.3 Social democracy

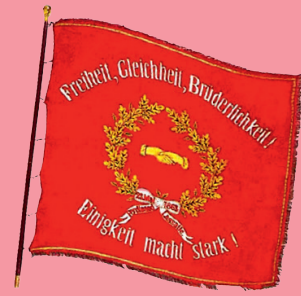
The history of social democracy is a history of change: not only of attempts to change society, but also of providing different answers to the question: what is social democracy? As for social democrats, you can be sure of one thing: if they are not currently implementing a reform, then this can soon become the reason to start one. At the macro-level, two major revisions of the social democratic doctrine were articulated in a span of one hundred years: one is even called revisionism, and the other is known as the Third Way. Although the publication of books by Eduard Bernstein [1899] *The Preconditions of Socialism and the Tasks of Social Democracy*, and by Anthony Giddens [1998] *The Third Way: The Renewal of Social Democracy* should not be taken literally as turning points, they and the polemics they are still raising express concisely the long-term processes that have marked the two ends of the rich and inspiring history of the struggle for equality and the better social position of workers.

### **The goals of social democracy**

Social democratic parties established at the end of the 19th century across Europe were an institutional political expression of firmly intertwined components: the demands of the labor movement and Marxist social theory. Their ultimate goal was socialism as a form of organization of society with common ownership of the means of production, and the short-term objectives were as follows [Sassoon, 2001: 58]:

- (1) the democratization of capitalist society;**
- (2) the regulation of labor market and**
- (3) a welfare state.**

The German Social Democratic Workers' Party [*Allgemeiner Deutscher Arbeiterverein*], led by W. Liebknecht and A. Bebel, united in 1875 with the General Association of German Workers [*Sozialdemokratische Arbeiterpartei Deutschlands*] of F. Lasalle to form the Social Democratic Party [*SPD Sozialdemokratische Partei Deutschlands*], but even before that, in 1871, the Portuguese Socialist Party had been established. This was followed by Norway in 1876, Sweden in 1889, Italy in 1892, the UK in 1900, etc. The Serbian Social Democratic Party was founded in 1892, as was in 1894 the Social Democratic Party of Croatia and Slavonia headed by Vitomir Korać whose membership consisted of "peasants, workers in the craft shops, and a small number of factory proletariat, as well as some intellectuals who provided some help from time to time". Addressing all those who were affected by "economic conditions in connection with the strengthening of the capitalist social system", the party also incorporated "those with little property or business, but are fully dependent on the capitalist market which pushes many into a semi-proletarian or proletarian life... This situation was exacerbated by the fact that this misery had not been caused by the local factory production where the proletarianized layers could make earnings, because they were insignificant, but by the import of foreign factory goods ... The main political demand for which the Social Democratic Party consistently fought was universal suffrage [with] broad Croatian self-government, freedom of the press, and the right of meeting, association and free speech, the separation of the church from the state ... progressive taxation and the abolition of indirect taxes, gender equality, etc." [Gross, 1952: 312-314]. Before the Second World War, social democratic positions were partly represented by Stjepan Radić's Croatian Peasants Party and the Socialist Workers' Party of Yugoslavia [of communists] and, as of 1920, the Communist Party.



### ***The short-term goals of the social democrats***

- *The democratization of the economic and political sphere (co-determination in companies and public services)*
- *The regulation of the labor market (strengthening labor legislation and trade unions, full employment)*
- *A welfare state (free healthcare, education, pensions...)*

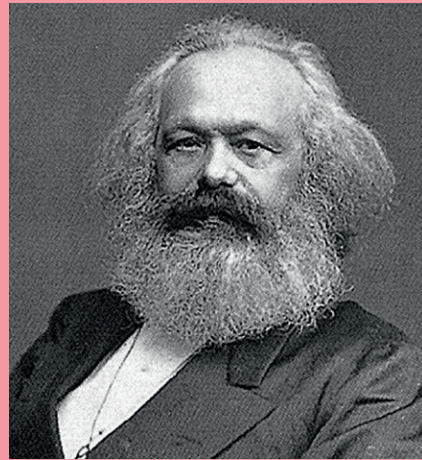
Universal suffrage is only part of the first of the short-term goals. The transfer of powers to elected representatives - if this was the sole expression of the will of people - was seen by the socialists as an excessively elitist concept of democracy. That is why they advocated the expansion of direct decision-making in the local community and, particularly, in the workplace. French reformist Jean Jaurès claimed, that “just as all citizens exercise political power in a democratic manner, in common, they must exercise economic power in common as well” [Eley, 2002: 21]. Bernstein was also a passionate advocate of economic democracy and workers’ cooperatives as areas of decision-making regarding the distribution of surplus value and working conditions. This brings us to the second objective of the social democrats: the regulation of the labor market, and the standardization of the protection of workers’ interests when entering employment. As we learn more from our own experience, if we are looking for a job, we will often be forced to accept longer working hours, shorter holidays and lower wages, especially if we compete with a growing number of unemployed. And if we are not members of very few, fragmented and often legally obstructed unions, our position in an unequal relationship with the employer becomes even weaker. Therefore, on the stage of a social democratic battle, the state, with its laws and regulative practices, appears as

## CAPITAL AND CAPITALISM

In *Capital*, Karl Marx thoroughly and step by step analyses the material basis of society: the capitalist way of production - how human labor can turn into a commodity, and how these goods turn into more money through work... and how this is incorporated in our overall social relations, and ways of thinking and living, which we thought to have just fallen from the sky. This is called *dialectical materialism*.

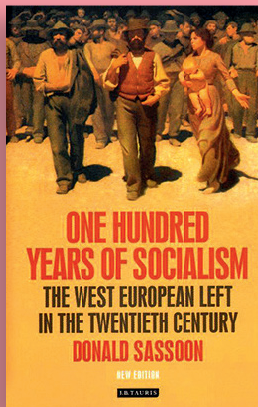
Today, it is clear to everyone [and before the publication of the first volume of *Capital* in 1867 this was not the case] that, between the wage that a worker needs in order to survive and raise her family and the value produced by this work, there must exist a certain surplus appropriated by the owner of the means of production — the capitalist. Should the working day be extended [of course, without paid overtime], this surplus, and thus profits, will be higher. However, the surplus value can be increased even if the working hours remain the same: by consolidation, organization and the division of labor in factories, by introducing machinery, conducting training, and even by forcing workers to produce more, to become more productive. This is called a *relative surplus value*.

Of course, the relative surplus value can also be increased by forcibly lowering wages, as often happens. Marx, however, does not base his criticism on moral judgment, but analyzes capitalism “in its ideal form” assuming that the value of labor “varies with the value of the means of subsistence, i. e, with the quantity of labour-time required to produce them” [Marx, 1990: 276], and this brings us right back to the question of productivity. “The objective of the development of the productivity of labour within the context of capitalist production is the shortening of that part of the working day in which the worker must work for himself, and the lengthening, thereby, of the other part of the day in which he is free to work for nothing for the capitalist” [Marx, 1990: 438].



Karl Marx, economist and philosopher [1818 - 1883], major works: *Capital*, *Grundrisse*, *Manifesto of the Communist Party* [with Friedrich Engels]





## MARXISM

Historian Donald Sassoon, in his book *One Hundred Years of Socialism*, summarizes the understanding of Marxism among the social democrats in the 19th century in three simple propositions:

1) The present capitalist system is unfair. Its fundamental relation, the wage relation, is based on a contract between juridically equal parties, but this disguises a real inequality: the capitalists “cheat” the workers by appropriating far more than they pay in wages and other necessary production costs. This special and statistically unquantifiable appropriation, called “surplus-value” by Marxists, gives the owners of capital great wealth and control over the economic development of society. They thus appropriate not simply wealth but also power.

2) History proceeds through stages. Each stage is characterized by a specific economic system to which corresponds a particular system of power and hence a specific ruling class. The present capitalist stage is not everlasting, but a transient historical phenomenon: the present ruling class will not rule for ever.

3) Workers are a fundamentally homogeneous class, regardless of differences which may exist among them. All workers are united “in essence” by similar interests: to improve their conditions of life under capitalism; to struggle against the existing social order; and to overcome it by bringing about a new stage of history in which there can be “real” and not merely formal equality. It follows that workers must organize themselves into political parties and trade unions and reject any attempt to divide them.

The first proposition embraces the Marxist economic theory of exploitation, the second is the so-called materialist conception of history, while the third, not really elaborated by Marx, was the product of the ideas and political practice of the leaders of European socialism [especially in Germany] after Marx’s death.

At one level of analysis, these propositions express a simple “trinity”:

[A] a statement on the present: “the existing social order is unfair”;

[B] a statement on the future: “the existing social order can be changed”;

[C] a strategic statement on the transition from [A] to [B]: “fate alone will not bring about this transition - we must organize and act”

[Sassoon, 2010: 6].

a powerful tool for meeting the demands for full employment, healthier working conditions and shorter working hours. The earnings of the working class can be increased through free [that is, jointly funded] healthcare, education, pensions, unemployment benefits and other features of what we call the welfare state. Naturally, this “social wage” reduces the dependence of the survival and social reproduction of workers on the market, but it increases their dependence on the central government, often turning into a means of pacifying the labor movement. The first historically won set of significant social rights — to retirement, disability, insurance against sickness and accidents at work — through Bismarck’s laws in Germany in the 1880s, contained prominent motifs of class politics. Divide and conquer: rights were categorized according to job and status, and government officials had special privileges [Esping-Andersen, 1990: 24]. Chancellor Bismarck expressed his conservative-reformist intentions as follows: “[Social]Democratic gentlemen will play the flute when people realize that the sovereign takes better care of their interests” [according to Puljiz, 1997: 65].

In Nordic countries, a complete set of universal social rights was established by the 1930s – pension for all citizens [not only for the employed], paid annual leave, family support, and free education – which was financed from taxes rather than from special contributions as would have been the case in the “Bismarckian” system. Sweden’s “People’s House” [*Folkhemmet*] was created as a result of the political struggle of the working class – with the coming to power of the social democrats in 1932 – but what is also crucial, the “people’s” coalition of “iron and rye”: where the peasants won protectionist prices for agricultural products, and the workers won a welfare state of full employment [Puljiz, 1997: 88 and Esping-Andersen, 1990: 32].

A prominent liberal, Lord William Beveridge, in the atmosphere of togetherness during the Second World War, managed to convince the British industrialists that the fight against unemployment, sickness, poverty and ignorance was just another way to raise what one would nowadays call competitiveness. Inspired by the ideas of economic management of John Maynard Keynes, Beveridge stated: “It is absurd to look to individual employers for maintenance of demand and full employment [...]”. These things “must therefore be undertaken by the State under the supervision and pressure of democracy, applied through the Parliament men”.<sup>1</sup> The national healthcare system of Great Britain was set up by social democrats in 1946. Based on British (Beveridge), German (Bismarck) and Swedish (Folkhemmet) reforms, three types of the welfare state were developed, or “the three worlds of welfare capitalism”, which is also the title of a major book on the welfare state of Danish sociologist Gøsta Esping-Andersen. Even though for the education of children, medical care, and other social services we almost always rely on three sources - the market, family and state - we will notice “qualitatively different arrangements” among them, which form a liberal, conservative or social democratic welfare state.

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<sup>1</sup> Beveridge, William. 1944. *Full Employment in a Free Society*, London, Allen & Unwin.

### THREE REGIMES OF THE WELFARE STATE

<b>(Neo)liberal</b>	<b>Conservative</b>	<b>Social-democratic</b>
Market	Family	State
Means-tested assistance, modest universal transfers towards low income working class	Insurance according to employment status excludes the unemployed and non-working wives	Universal rights and transfers extended to the middle class: equality of the highest standards
Relative equality in poverty among the state-welfare recipients	The principle of subsidiarity emphasizes that the State acts only when the family can do nothing	The principle of decommodification and socialization of costs: no waiting for the family's capacities to become exhausted
Strict entitlement rules often associated with stigma	Undeveloped family services encourage motherhood	Services provided directly to the elderly and children encourage women to choose working careers
Subsidizing private welfare schemes	The growing role of private insurance companies	The marginal role of private insurance companies
Private financing and taxes	Financing from contributions and private pockets	Financing from progressive taxes
The problem of stratification and a class-political dualism between state-welfare recipients and the clients of private-welfare	The problem of the expenses of pensioners and the unemployed	The problem of maintaining full employment
USA, Canada, Australia, Great Britain...	Austria, France, Germany, Italy, Croatia...	Nordic countries

[Esping-Andersen, 1990: 26-29 and 224-226]

The dynamics of the achievement of the other partial goals of social democracy is rather similar: universal suffrage and an eight-hour working day, which were introduced almost everywhere immediately after the Second World War.<sup>2</sup> Naturally, it was hard to imagine the legal framework of a welfare state, of the strengthening of trade unions and of labor market regulation, as well as the impact on the economic policy of full employment without a parliamentary majority. So the direct democratic struggle of

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<sup>2</sup> The British capitalists managed to reinforce their political positions, so that the right to vote, in addition to landlords, was given in 1832 to the rising class, and to a part of craftsmen, but the real fight for political rights started only with the social democrats. The first European country where the monopoly of wealthy white men in political decision-making was abolished was Finland in 1907. Before the Second World War, universal suffrage was introduced in other Nordic countries, Germany and Austria, the Netherlands, Ireland and Great Britain, and the rest of Europe joined in 1945. The exception was Switzerland where women were given the right to vote only in 1971. Universal suffrage in New Zealand was introduced in 1893. If not through labor laws, the eight-hour working day was introduced through the fight of trade unions and the pressure of collective agreements, which confirms Marx's words that "for 'protection' against the serpent of their agonies, the workers have to put their heads together and, as a class, compel the passing of a law, an all-powerful social barrier by which they can be prevented from selling themselves and their families into slavery and death by voluntary contract with capital. In the place of the pompous catalogue of the 'inalienable rights of man' there steps the modest Magna Carta of the legally limited working day, which at last makes clear 'when the time which the worker sells is ended, and when his own begins'" [Marx, 1990: 416]. In France, a 35-hour working week was introduced in 2000, and the struggle over working time, just like discussions broached by the experimental shortening of the working day in the Swedish public services, has still not ended. See Savage, Maddy. 2017. *What Really Happened When the Swedes Tried Six-hour Days?* [online] BBC News. Available at: <http://www.bbc.com/news/business-38843341>.

the socialists against the capitalist state slowly gave way to efforts to come to power in that very state. The threat of a general strike and the strengthening of the alliance of social democratic parties with the workers led the conservatives and liberals to increasingly co-opt social democratic demands into their programs. Social democratic ministers in coalition governments responded by placating the militancy of the labor movement and, in general, by adopting “state-building” objectives, which culminated in giving consent to the First World War. It seemed that the ruling classes had lost their monopoly to govern, while the socialist ideas were on track to become the “common property of the entire polity” [Sassoon, 2001: 57], with social democrats, from sworn opponents, increasingly becoming advocates of capitalism.

### **Historical reformism**

Despite the differences between social democratic parties and the currents within them, the matrix of socialism as an ideology during the second half of the nineteenth century - before the advent of revisionism at the end of the century - was Marxist theory. The generally accepted view on the nature of the crisis of capitalism, which sharpened the class struggle and inevitably led to socialism [in the sense of social organization with common ownership of the means of production] was expressed in the program documents of the Second International founded in Paris in 1889.

However, recovery from the Long Depression [1873-1896], a 45 percent growth in industrial production and a drop of unemployment to 1 percent in Germany at the end of the century inspired Eduard Bernstein to attempt the first major ideological revision. The era of boom resulted, not least thanks to Bis-

marck's social reforms, in a rise in workers' living standards, and also in the creation of a new, middle-class of civil servants, which now included an increasing number of professional activists of the strong social democratic party. The development of shareholding and the government economic policy of lending spurred economic growth. Although aware that the inequality of distribution increased with productivity, it seemed to Bernstein that the class struggle was not radicalized, but that it was becoming more complex [Prpić, 1981: 19-31].

So the level of theory, the ideological assumptions of socialism, were *revised*. At the level of the political activity of the social democratic party it meant the adoption of tactics of gradual *reforms*. The main goal - the abolition of capitalism - was gradually falling behind, and the struggle for partial goals became a priority: the democratization of the state, the regulation of capitalism, and social rights. "Democracy is", Bernstein says, "both means and end. It is a weapon in the struggle for socialism, and it is the form in which socialism will be realized. [...] In principle, democracy is the abolition of class government, although it is not yet the actual abolition of classes." [Bernstein, 1993: 142-143]. "A democratic political state with universal, equal and secret suffrage, freedom of association and freedom of the press is, for Bernstein, an organizational form that not only allows for a civilized resolution of class conflict, but also, by assuming that the social democrats will win political power, allows for the establishment of democratic and socialist principles in other areas of society" [Prpić, 1981: ix].

The ideology of revisionism and the political practice of reformism have caused and are still causing numerous divisions on the left, paradigmatically expressed in the polemic text *Reform or Revolution* and in the tragic fate of Rosa Luxemburg. This is clear



Rosa Luxemburg, Marxist economist and activist (1871 - 1919); major works: *The Accumulation of Capital, Reform or Revolution*

“Can the Social-Democracy be against reforms? Can we contrapose the social revolution, the transformation of the existing order, our final goal, to social reforms? Certainly not. The daily struggle for reforms, for the amelioration of the condition of the workers within the framework of the existing social order, and for democratic institutions, offers to the Social-Democracy the only means of engaging in the proletarian class war and working in the direction of the final goal – the conquest of political power and the suppression of wage labour. Between social reforms and revolution there exists for the Social Democracy an indissoluble tie. The struggle for re-

forms is its means, the social revolution, its aim. It is in Eduard Bernstein’s theory, presented in his articles on Problems of Socialism and in his book *The Preconditions of Socialism and the Tasks of Social Democracy* that we find, for the first time, the opposition of the two factors of the labour movement. His theory tends to counsel us to renounce the social transformation, the final goal of Social-Democracy and, inversely, to make of social reforms, the means of the class struggle, its aim. Bernstein himself has very clearly and characteristically formulated this viewpoint when he wrote: ‘The Final goal, no matter what it is, is nothing; the movement is everything’” [Luxemburg, 1900].

at the level of the use of the terms “socialism” and “social democracy”, which increasingly ceased to be synonymous in the labeling of the political strategies of the labor movement. In 1914, the parliamentary fraction of the German social democrats sup-



ported the loan that the German government requested to fund the First World War; the Russian Social-Democratic Labour Party [Bolsheviks] changed its name after the revolution to the Russian Communist Party [Bolsheviks], and since then, the choice between these attributes was no longer a matter of tactics. Socialism and communism, as social formations [in that order] that should supersede capitalism, remain the goals and ideologies of the radical left, the more or less revolutionary communist, socialist and anarchist parties, and social movements. On the other hand, social democracy or democratic socialism began to be used to indicate ideologies of the mainstream parties for which social reformism and the framework of the parliamentary struggle within capitalism were the main features of political action.<sup>3</sup>

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<sup>3</sup> It should be noted that the meaning of the terms varies in use, depending on the national contexts and historical trajectories. For example, the Dutch [democratic] Socialist Party [*Socialistische Partij SP*] is more radically left, while the French one [*Parti Socialiste, PS*] is a relatively standard social democracy of the center left, just like the socialists in Montenegro or Albania [*Democratic Party of Socialists or Partie Socialiste Shqipërisë*]. The Group of the Progressive Alliance of Socialists and Democrats [*S&D*] in the European Parliament brings together the center left, and *the Confederal Group of the United European Left - Nordic Green Left [GUE/NGL]* draws together more radical socialists and communists. Raymond Williams distinguishes the *social* [1] as “the merely descriptive term for society in its now predominant sense of the system of common life” and *social* [2] as “an emphatic and distinguishing term, explicitly contrasted with individual and especially individualist theories of society” [Williams, 1985: 286]. The ultimate consequence of the latter is the abolition of the private ownership of the means of production, while the popular conceptions of socialism as a kind of completion of the liberal project of the amelioration of society developed from the former, which is not least present in the use of the term liberal in the US, equivalent for what in Europe we would call a *social democrat* or *democratic socialist*. The editor of the Croatian translation of Krugman’s book *The Conscience of a Liberal*, Zdravko Petak, seriously considered releasing the book under the title *The Conscience of a Social Democrat*. The widest of all concepts, that of the *political left*, we owe to a random organization of seats “in Versailles in August 1789, in the noisy unruly Constituent Assembly, when those of like mind gathered and voted together, to the right and left of the President’s desk: those on the right called their opponents ‘factious’ to discredit them”. Steven Lukes. 1992. *What is Left?* Times Literary Supplement, 4643. Available at: <https://stevenlukes.files.wordpress.com/2012/05/what-is-left.pdf>

## **Full employment**

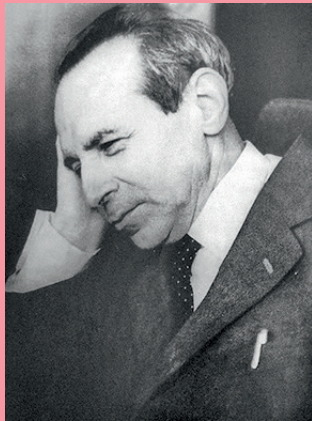
Starting with the opportunistic tactic of participation in bourgeois governments [ministerialism] in the early 20th century, the relationship of social democrats and the national state, from the end of World War II until 1973, was guided by the until then unimaginable increase in equality of income, improvement of working conditions, better job security and the greater scope of the welfare state. The so-called Fordist way of organizing labor increased production, productivity and profits – through the standardization of products and improvement of the division of labor and production processes – but also of spending. The post-war economy was heading towards full employment and broad acceptance of the postulates of the Keynesian economics, claiming that a developmental state can spend its way out of any crisis.<sup>4</sup> With the control of interest rates through the central banks, government investments raised the standard of all users of public services, created new jobs in the public sector, and increased ag-

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<sup>4</sup> Michał Kalecki, sometimes known as the “Polish Keynes”, in his famous 1943 lecture in Cambridge, briefly explain the doctrine of developmental economics: “A solid majority of economists is now of the opinion that, even in a capitalist system, full employment may be secured by a government spending programme, provided there is in existence adequate plan to employ all existing labour power, and provided adequate supplies of necessary foreign raw-materials may be obtained in exchange for exports. If the government undertakes public investment [e.g. builds schools, hospitals, and highways] or subsidizes mass consumption [by family allowances, reduction of indirect taxation, or subsidies to keep down the prices of necessities], and if, moreover, this expenditure is financed by borrowing and not by taxation [which could affect adversely private investment and consumption], the effective demand for goods and services may be increased up to a point where full employment is achieved. Such government expenditure increases employment, be it noted, not only directly but indirectly as well, since the higher incomes caused by it result in a secondary increase in demand for consumer and investment goods” [Kalecki, 1943: 1].

## THE POLITICAL ASPECTS OF FULL EMPLOYMENT

“The reasons for the opposition of the ‘industrial leaders’ to full employment achieved by government spending may be subdivided into three categories: [1] dislike of government interference in the problem of employment as such; [2] dislike of the



Michał Kalecki  
[1899 – 1970],  
Polish economist

direction of government spending [public investment and subsidizing consumption]; [3] dislike of the social and political changes resulting from the maintenance of full employment. [...]

Indeed, under a regime of permanent full employment, the ‘sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true

that profits would be higher under a regime of full employment than they are on average under *laissez-faire*, and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But ‘discipline in the factories’ and ‘political stability’ are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the ‘normal’ capitalist system.” [Kalecki, 1943: 3].

gregate demand, thereby filling budgets and reducing the burdens of high social expenditures.

Growth in productivity and profits was so great that, under con-

ditions of full employment, it seemed possible to keep the existing level of, or even a slight increase in, real wages.

“But the fact” noticed by Michal Kalecki during World War II “that everybody can gain from the expansion [of Government spending], does not preclude heightened distributional struggle” (Glyn, 1995: 36). In conditions of full employment, the reinforced position of trade unions may squeeze profits and resolve this conflict in favor of labor, but the question is what to do in case of a strike of capital, or its escape across the border.

Progressive taxes can, under certain conditions, preserve both the level of private investments and real wages, keeping at the same time the inflationary expectations and budget deficits in check. These conditions include an active labor market policy, and wage bargaining at a central level based on the principle of solidarity between employees in industries with higher and lower surplus values.<sup>5</sup>

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<sup>5</sup> “‘Islands of unemployment’ should be eliminated, not by increasing general demand but by selected and targeted labour market policy measures such as retraining, mobility - promoting allowances, wage subsidies for disabled workers and public work for older and immobile labour. From the very beginning, active labour market policy was a central component of the non-inflationary full employment proposal which was presented and intensively debated at the 1951 LO Convention” (Meidner, 1993: 214). In other words, an active labor market policy means that when someone needs a job, instead of the free market, government policy will find a job for this person, and the costs [of retraining and the benefits during the period of searching for a job] are covered from the taxes collected from the most profitable industries. Along with the pressure on profits, we should not forget that a larger part of the costs of fiscal expansions in Sweden was paid by workers in modern highly profitable industries, whose spending grew more slowly than their productivity. In the period from 1965 to 1973, workers in the market sector increased productivity at the rate of 4 percent, while their consumption in the same period grew by only 1.5 percent a year. The profit rate in the 1970s decreased by some 10 percent, and in the following decade of the “employers’ offensive” it returned to the previous level of about 19 percent (Glyn, 1995: 43-45).

One example of such a social democratic policy was the subject of a long debate and political struggle in Sweden in the 1970s and 1980s.

### **The Swedish model and labor funds**

High levels of private investments enabled high rates of growth with budget surpluses, increased productivity nurtured profits, while the solidarity-based policy of wage bargaining at the national level and progressive taxes kept inflation on the leash. With the highest income equality (also between men and women), unemployment was the lowest in Europe. The large numbers of economic immigrants from Southern Europe did not cause any of the tensions that characterized the later period. The standards of education, healthcare, pensions, and other public services became the elusive measure of the welfare state, while the LO trade union confederation (*Landsorganisationen*) and its “political wing” SAP: Social Democratic Workers’ Party (*Sveriges Socialdemokratiska Arbetareparti*, continuously in power from 1932 to 1976) became a global reference and a role model for the left even in the socialist part of the world. The short-term goals of the reformist social democratic program were, at least in Sweden, to a large extent achieved, and it was time to join the main one: the socialization of the means of production.

The idea of workers’ funds (*Lontagarfonde*), as a means of changing the ownership structure of companies, arose at the beginning of the 1970s in the context of the efforts of the Swedish labor movement to achieve an active industrial policy and strengthen economic democracy. At a Congress in 1976, the LO adopted a report of the Commission under the leadership of Rudolf Meidner (the main trade union economist, and, with Gösta

Rehn, planner of the post-war Swedish economy], who offered a mechanism for a slow and gradual transition to socialist production relations. What precisely was all this about?

Enterprises with over 50 employees had to give 20 percent of their annual profit, in the form of new shares, to special funds that would be managed by the employees. It was calculated that a company with an average profit of 10 percent would be under the 49 percent ownership of workers only in 35 years, but if the profits were higher, the socialization would be faster. The workers' funds [*Löntagarfonde*] could, however, significantly affect the investment policies and working conditions in enterprises even earlier. In addition, Meidner's Commission believed that workers with higher wages would more easily accept their levelling - which, remember, was one of the basic prerequisites for the functioning of the Swedish economic model - if they took part in collective ownership. "We want to deprive the capitalists of the power that they exercise by virtue of ownership", said Meidner in an interview with the magazine *Fackföreningsrörelsen* [Labor Movement] in 1975. "All experience shows that it is not enough to have influence and control. Ownership plays a decisive role. I refer to Marx and Wigforss:<sup>6</sup> we cannot fundamentally change society without changing its ownership structure" [Pontusson, 1987: 6-14].

The debate on workers' funds dragged on until 1982. It was discussed not only by the general public and in the media under the increasing control of employers, but also in special commissions, including among representatives of interest groups such as public service unions, and also between the LO and SAP,

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<sup>6</sup> Ernst Wigforss, Swedish reformist, Minister of Finance in governments from 1925 to 1949.

which expressed party's concern that openly accepting the proposals might destroy its electoral prospects. After multiple delays and dilutions, in 1983, the adopted scheme no longer had anything to do with limiting capitalism and economic democracy, and funds were transformed solely into a means of limiting wages and a source of capital for entrepreneurs.

### **Capital on the offensive**

However, the employers' offensive, which ended by leaving the concept of workers' funds as a means of gradual socialization of the means of production, began as early as in the 1970s. In Sweden, this offensive was seen as an aggressive public campaign and a subsequent break with the centralized policy of wage bargaining that led to the collapse of the entire economic model. Basically, however, the same thing had long been happening in the whole of the Western world. In the US, the policy of the reaction to the social democratic policy of the New Deal<sup>7</sup> consisted of weakening the unions and building the media and [pseudo] scientific infrastructure - the establishment of various institutes, lobbying squads and the gradual conquest of university departments of economics

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<sup>7</sup> A group of public policies and investment in all areas, from infrastructural building to health awareness and culture, undertaken by US President Franklin D. Roosevelt in 1933 as a response to the deepest economic crisis ever, caused by the collapse of the stock exchange in 1929. The New Deal was based on the conviction that, contrary to traditional economists, broadened by J. M. Keynes, if capitalists do not make investments in times of crisis, the state must do so.

– financed by, in Paul Krugman’s words, *ridiculously rich people who hate paying taxes more than anything else*.<sup>8</sup> A drop in profit rates in the stagflation of the 1970s, marked by oil shocks at the beginning and the end, had fundamentally changed the face of the golden age of the Keynesian consensus into an open class war in which, according to the words of entrepreneur Warren Buffet “the rich class has won” [Ćurković, 2011].<sup>9</sup> “Celebrating the virtues of individual self-reliance,” this class turns to the “mass media to launch campaigns against pub-

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<sup>8</sup> “In the twenties, taxes had been a minor factor for the rich. The top income tax rate was only 24 percent, and because the inheritance tax on even the largest estates was only 20 percent, wealthy dynasties had little difficulty maintaining themselves. But with the coming of the New Deal, the rich started to face taxes that were not only vastly higher than those of the twenties, but high by today’s standards. The top income tax rate [currently only 35 percent] rose to 63 percent during the first Roosevelt administration, and 79 percent in the second. By the mid-fifties, as the United States faced the expenses of the Cold War, it had risen to 91 percent” [Krugman, 2007: 55-56].

<sup>9</sup> With the Keynesian demand management, the reasons for the success of the social democratic class compromise Ingo Schmidt finds in the exchange of relatively expensive industrial products for cheap imports from countries of the Global South, as well as in the “role played by unpaid household labour and the super-exploitation of groups of workers, often immigrants, who were excluded from the deal between capital and organized labour. The convergence of struggles of these excluded groups, the militancy of unionized workers and anti-imperialist movements in the South represented a formidable threat to profit rates from the late 1960s onwards”. When the threat coincided with the crisis of overproduction and the rise of new industrial economies in Asia, “capitalists decided to turn from welfare state compromise to neoliberal class struggle from above”. Schmidt, Ingo. 2017. *In the Shadow of Social Democracy: Right-Wing Challenges and Left Alternatives* [online] The Bullet, E-Bulletin No. 1400: Available at: <https://socialistproject.ca/bullet/1400.php>.



lic-sector inefficiency and for the restoration of market forces and corporate profitability” [Pontusson, 1987: 22]. By irreversible decline of economic growth [Lavelle, 2008: 19 - 35], the time of the Golden Age of national welfare states permanently passed, while power fell into the hands of multinational corporations and neo-liberals in their administrations. Social democrats, who put all the assets of their political strategies on the card of the nation state, experienced defeat after defeat, not only in the ideological, but also in the electoral field. “As the twentieth century was coming to a close, socialists could not but re-examine, yet again, the framework of their doctrine. They did so as they had always done: in a confused and uncoordinated manner, propelled by the contingency of everyday politics and the pressure of electoral considerations. They could not do otherwise. Moving forward is no guarantee of success. Standing still offers the certainty of defeat” [Sassoon, 2010: 754].

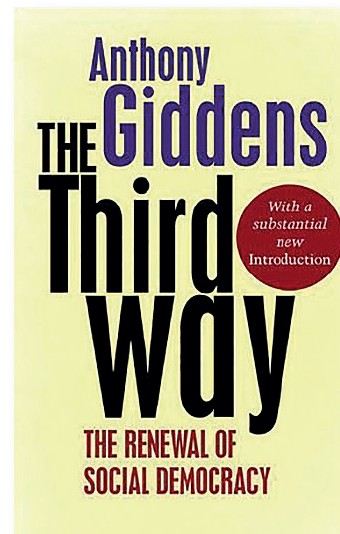
### **Third-way reformism**

While they were searching for a credible political strategy to help them return to power, the social democrats of the 1990s articulated, on the level of ideology, an additional set of reforms based on their understanding of the

- (1) attitude towards capitalism;**
- (2) social rights and labor market regulation;**
- (3) state and democracy.**

“As various aspects of capitalism [especially its financial organization] developed in a global direction, this state-oriented strategy began to falter” [Sassoon, 2006: 64 - 65]. Since they could no longer regulate it, the new left decided to adjust to capitalism. In the UK, the New Labour under Tony Blair’s leadership, in Germany *Die Neue Mitte* under Gerhard Schröder ... “the re-

newal of social democracy” soon spread to other countries under the aegis of the *Third Way*. Anthony Giddens says that this represents a “framework of thinking and policy-making that seeks to adapt social democracy to a world which has changed fundamentally over the past two or three decades. It is a third way in the sense that it is an attempt to transcend old-style social democracy and neoliberalism” [Giddens, 1998: 21].



This fundamentally transformed *runaway world* is primarily characterized by globalization and technological change. The increase in international financial flows weakens “some powers nations used to possess, including those that underlay Keynesian economic management” [Giddens, 1998: 23]. Then, the Internet revolution contributed to the disintegration of the Fordist mode of production, distribution and consumption.<sup>10</sup> Unlike the Swedish social democrats of the previous periods -

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<sup>10</sup> “In the 1920’s Henry Ford famously paid his workers higher wages than was the norm because, he said, he wanted them to be his customers. His successors at Ford today have reduced their North American work force by over 50 percent in the last five years. More profits – but fewer customers. There’s the little problem of what Keynes and Kalecki wrote about – effective demand. In any medium-run calculation, if there are not enough customers, there will not be enough sales, and very soon the profits will dry up. The industries that are increasing their profits by reducing their work force and squeezing their remaining laborers are going to have surging profits for a very short run until they run into the hard brick wall of serious deflation” [Wallerstein, Immanuel. 2010. Ponzi Solitaire [online], available at: <https://iwallerstein.com/ponzi-solitaire/>

and, in general, as Giddens calls it, the old left - the social democracy of the Third Way does not consider globalization and the post-Fordist economy as a threat to the balance of interests of labor and capital. On the contrary, the global mobility of capital, ready to respond at a mouse click, produces political effects to which one should adjust. In search of an alternative strategy of growth, the new social democrats opt for three basic approaches: competitiveness of exports, savings in the domestic field, and socially responsible management according to the pattern of civil society.<sup>11</sup> Another set of reforms of the Third Way concerns the value matrix of the political left. Starting from awareness of the disintegration of the working class, it manifests itself in the redefinition of *solidarity* through *individual responsibility* for life outcomes, and *equality of opportunity* for involvement in the new *knowledge economy*. With regard to the “old” objectives of social democracy, such as the regulation of the labor market and the welfare state, this means the following: by recognizing that redistribution should not disappear from the agenda, the Third Way

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<sup>11</sup> Alan Zuege calls these three accumulation strategies three types of corporatism: ‘*supply-side corporatism*’ (*supply-side* and *export-led growth* are common terms for export and supply promotion, instead of, according to the Keynesian model, encouraging domestic demand), ‘*open-economy corporatism*’ (tax, income and social policies tailored to targeted public investments, collective sharing of the burden of adjusting to international competition) and the ‘*corporatist social governance*’ (creating social capital in a society of *stakeholders*). “Each of these strategies relies heavily on restoring the institutions and ideology of social partnership, but with a new twist” - abandoning the management of aggregate demand within the national economy (Zuege, 2000: 89 - 97).

shifts emphasis to the “redistribution of possibilities”, and it is the responsibility of individuals whether to use them or not.<sup>12</sup> In this sense, the increased reliance on the market provision of social services revises the social state as a state of *social investment*, primarily investment in *lifelong education*, *public-private partnership*, and the *mobility of human capital*. Instead of full employment and the number of jobs, discussions started on the number of hours worked by the precariously employed, and, in general, the *flexibilization of the labor market*. At the level of democratization, the new social democrats are seeking a Third Way between “government as the enemy” and “government as the answer” [Giddens, 1998: 40]. This restructuring of the state sees civil society as its backbone. Instead of participating in economic management, the new area where participation expands is in numerous small groups “who meet together in a regular way to develop their common interests” [Giddens, 1999: 44], and the reformed state would have to open up space for *partnership* through increased *transparency*, *efficiency* and the *decentralization of public administration*. On the level of political action, building coalitions with civil society arises as a key requirement of the preliminary reform of the Third Way into a feasible revisionist strategy. Giddens believes that the changes produced by globalization “have everywhere threatened to undermine orthodox political parties”, civil soci-

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<sup>12</sup> A famous Third Way manifesto explicates that “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” [Blair and Schröder, 1998: 3].

ety organizations - from global organizations like Greenpeace to small pressure groups - were simply better in finding their way. "What to some appeared as a process of depoliticization - the draining away of influence from national governments and political parties - to others was a spread of political engagement and activism. Ulrich Beck speaks of the emergence of 'sub-politics' - politics that has migrated away from parliament towards single-issue groups in society" [Giddens, 1999: 30]. Parties of the Third Way should therefore be prepared for "lifelong learning" from civil society organizations. Beck and Giddens see them as places of lively, young, affective politics, as opposed to boring meetings of older people in political parties. Instead of the tired and mostly sacked working class, the political focus turns to a new stratum of well-disposed and educated urban professionals, that is, from the left to the "centre left". Adopting a typical neoliberal view of social division, and a fundamental consensus about the "parasites", according to which "it was not, a war between classes [but] the struggle between the productive and the non-productive" members of society - the Third Way abandoned equality in the name of meritocracy, seeing the role of the state as nothing but a promoter of full participation in meritocratic competition [Seymour, 2016: 94, 105].

This is how Giddens' academic manifesto saw "new social democracy". However, in the everyday electoral competition in the field, impregnated by the media serving their owners, it most often implied advocating the objectives of the owning class and abandoning the principles, values and objectives of the labor movement.<sup>13</sup> "Indeed", as noted by Richard Seymour in the anal-

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<sup>13</sup> The long-term changes in the structure of employment, followed by the fragmentation of trade unions, were at the same time declared the signs of the official "disappearance" of the working class.

ysis of change of the Labour Party, “if principle only leads to defeat, why not turn to electoral professionals, media operators and brutal party managers [...]? And if the right-wing media are so awfully powerful, why not hand the reins to those who know how to play the media game? And if the Conservative-aligned media is so grossly powerful, why not hand the reins to those who can play the media’s game? Surely those who [...] cleave to doctrine at the expense of exercising power, even if only to mildly temper the excesses of capitalism, are at best political Don Quixotes, and at worst fanatical wreckers? Such is the essential argument of the Blairites, whose project is about making Labour an effective ‘party of government’ rather than an effective opposition” [Seymour 2016: 180]. If the implicit electoral strategy at first was “let’s leave the principles of social democracy aside in order to win the elections and only then can we return to our original values”, it was abandoned soon after they came into office. “‘The leftover’ working class has since remained politically and culturally isolated”, commented the German SPD historian Franz Walter. “Its former social democratic leaders were promoted and now spoke a different language, dressed better and more expensively, drank wine instead of beer, and lived at better addresses in city centre apartments, far away from the old locales. As a result, this working class fragment ceased to exist as a self-conscious political entity. The connection between it and the social democracy of the ‘new center’ had been sundered. The ‘leftovers’ had become politically homeless, doomed to meander between abstention, electoral support for the conservative CDU and support for the new party of left [*Die Linke*]. Social democracy had dissociated itself from its former subject, leaving it both behind and beneath it. In response, the abandoned subject withdrew its loyalty”. The

new social democrats started losing election after election.<sup>14</sup>

### **Against the Third Way**

Unequal pay - which grew in the UK over three consecutive *New Labour* terms (1997 - 2010) - confirms the failure of the *society of knowledge* concept where everyone should be employed in the services sector with high surplus value. Even if the number of highly educated staff with above-average salaries grows, the number of underpaid workers engaged to look after their children, maintain their gardens or provide protection services, as a rule, also grows. Besides, the mystification of the “new economy of services” could also not go unnoticed, as it is not the same doing an underpaid, highly supervised, semi-automated job in a call-center, or receiving millions in bonuses in a bank [Callinicos, 2001].

Trying to serve the investors and, at the same time, to gain more time and patience from the workers, the Third-Way macroeconomic management became a victim of the growth myth. Catching up with the demands of competition through so-called internal devaluation, and without domestic demand, turned into an international race for lower salaries. Growing unemployment and insecurity undermined the legitimacy of tripartite agreements and trade unions, which accepted the derogation of their rights as “partners” in the name of growth, or these derogations were

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<sup>14</sup> Walter, Franz. 2007. Out of the Ashes, [online] Dublin Review of Books. Available at: <http://www.drb.ie/essays/out-of-the-ashes>.

imposed on them from the European Union [Zuege, 2000: 99]. Thanks to the new wave of financial deregulation, investors never had to stick to their part of the deal anyway. The relocation of investments to places with lower labor costs or securities with even higher yields – but, as seen in 2008, with very questionable value – further increased.

The failure of growth strategies based on Third-Way trust in the power of the “entrepreneurial spirit” – now free from the supervision of central banks that had become “independent” – to resolve all the problems, understandably, had a negative impact on the welfare state. Third-Way governments by default restructure healthcare everywhere, cut pensions, introduce and increase tuition fees, etc. This, however, does not stop them from moving a growing amount of funds into private hands through various “public-private partnerships” or “ordinary” privatization.

The partnership between state and civil society, despite the indubitably good intentions of many keen activists, subjects the work sphere to the exclusive arbitration of the market, which is the basis of *bürgerliche Gesellschaft* [Ger. Civil society, but also the capitalist company]. Ellen Meiksins Wood deconstructs civil society as a “network of distinctively economic relations, the sphere of the market-place, the arena of production, distribution and exchange” which “can serve as a code-word or cover for capitalism” [Wood, 1990: 61 and 65]. Many critics of the Third Way believe it is “naively optimistic” of the “soft left” to believe that “social cohesion” strategies will bring real progress in democratization and living standards. “Without confronting capital’s power more directly, they face the same dangers encountered by the other models of social partnership, of incorporation as subsidiary elements in the global logic of competitive austerity” [Zuege, 2000: 102].



“Although it usually retained something of the social democratic idea that public policy had an obligation to help workers improve their skills”, as British political scientist Colin Crouch noticed, “Third Way social democracy went a long way down the path of a neoliberal interpretation of the relationship between work and citizenship rights. This followed inevitably from downgrading the role of trade unions as guardians of workers’ active voice in the labour force, which was part of a wider trend within the Third Way of rejecting work as an area where working people were invited to make political demands. Shareholders were the only legitimate stakeholders here as in other parts of economic activity” [Crouch, 2011]. The criticism of the Third Way in the context of the historical changes of social democracy was effectively summed up by Perry Anderson: “Trapped between a shifting social base and a contracting political horizon, social democracy appears to have lost its compass. In such altered conditions, is it likely to undergo a new mutation? Once, in the founding years of the Second International, it was dedicated to the general overthrow of capitalism. Then it pursued partial reforms as gradual steps towards socialism. Finally it settled for welfare and full employment within capitalism. If it now accepts a scaling down of the one and giving up the other, what kind of movement will it change into?” [Anderson, 1994: 15-16]. Naturally, the roots of reformism of the Third Way, i.e. *the new center*, did not originate yesterday or in the nineties. The rejection of Marxist theory and of the workers’ demands for the abolition of capitalism can be traced back to the reformism of Bernstein’s and Juarez’s time, through the adoption of the free market with minimal regulation expressed in the Godesberg program of the German SPD of 1959, until the abandonment of Keynesian economic management and the subordination of entire states to

financialized capital that led to the collapse of Western economies in 2008. Instead of gaining some leverage from one of the biggest crises in capitalist



history, it turned out that voters mostly associated the Third-Way social democracy with neoliberalism and voted against it. All of this led to the normalization of the radical right-wing that, so far, went perfectly hand in hand with the vicarious governments of financial experts without pretending that they needed the minimum appearance of democratic legitimacy. Neoliberal coercion produces a population without means of subsistence with the dynamics that can be compared with the industrial revolution. If in its golden age the welfare state was one of the reasons for making the labor movement passive, its rapid deconstruction was no longer a reason after 2008. From the student blockade of the University in Zagreb to the revolution in Maghreb and the flames on the streets of London's suburbs ... it seemed that the time of the sub-political pushing of politics under a mosaic of carpets of cultures and lifestyles in the practices of social movements had irrevocably passed. A critical mass of workers belonging to the generation of millennials grew up and faced the commodification of education, growing inequality, and the issue of not being able to find a job or to buy a flat without entering into "debt bondage". Will social democracy find the strength to ar-

articulate their demands in a feasible political strategy that confirms equality and solidarity? It depends, once again, on its capacity to reform.

### **New left initiatives**

Early in the summer of 2017, twenty years after Tony Blair and the Third-Way social democrats in the United Kingdom came to office, the Labor leader Jeremy Corbyn climbed on the Glastonbury Festival stage of popular culture. Tens of thousands of visitors hailed him with ovations and chant as if he were a planetary popular hip-hop star and not a 68-year-old member of the “old left” who remained on the backbenches of Parliament during the ups and, inevitably, downs of “New Labour,”<sup>15</sup>. Despite the steady subversion of both the right-wing and “pro-left” media,<sup>16</sup> Corbyn

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<sup>15</sup> Khomami, Nadia and Ellis-Petersen, Hannah. 2017. *Jeremy Corbyn Calls for Unity in Glastonbury Speech* [online] The Guardian. Available at: <https://www.theguardian.com/music/2017/jun/24/jeremy-corbyn-calls-for-unity-in-glastonbury-speech>.

<sup>16</sup> The academic report on the journalists’ representation of Jeremy Corbyn in the British press, developed by a group of researchers from the London School of Economics and Political Science, concluded that “the degree of viciousness and antagonism with which the majority of the British newspapers have treated Corbyn is deemed to be highly problematic from a democratic perspective [...]

“Certainly democracies need their media to challenge power and offer robust debate, but when this transgresses into an antagonism that undermines legitimate political voices that dare to contest the current status quo, then it is not democracy that is served”. Bart Cammaerts. 2017. *From Watchdog to Attackdog*, LSE. Available at: <http://www.lse.ac.uk/media@lse/research/pdf/JeremyCorbyn/Corbyn-Report.pdf>. See also Pierre Rimbart. 2016. *Medijska podvaljivanja u Velikoj Britaniji* [Media Sham in the UK], *Le Monde Diplomatique – Croatian edition* [9], p. 32. Available at: <https://elemde.owncube.com/s/XI55K8TIL6ME9s2>.

beat pro-Blair opponents in the leadership elections twice with resounding victories, and the early general election, which had been held two weeks previously, showed a significant fall in the Conservative vote. Contrary to all expectations, Corbyn's Labour won 3.5 million votes more than in the previous elections. Corbyn's rise to the helm of the Labor Party and the campaign – the success of which he owes to direct



Jeremy Corbyn

and the internet communication – following the motto “*for the many, not the few*”,<sup>17</sup> as one commentator said, “has shifted the space of the politically acceptable: talk of public ownership and common good, once deemed electoral poison, are back on the agenda.”<sup>18</sup> Instead of “equality of opportunities”, now it is again being talked about simple, just equality. Instead of celebrating the opportunities of globalization, issues caused by “global capitalism” get on the agenda, and “even ‘a Marxist social analysis’ is no longer omitted as a source of social democratic activities.”<sup>19</sup>

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<sup>17</sup> While on the stage, Corbyn conveniently added to this slogan the verses of the English Romanticist Percy B. Shelley:

*“Rise, like lions after slumber  
In unvanquishable number!  
Shake your chains to earth, like dew  
Which in sleep had fallen on you:  
Ye are many - they are few!”*

<sup>18</sup> Butler, James. 2017. *Reality is Running* [online] Verso Blog. Available at: [https://www.versobooks.com/blogs?post\\_author=8802](https://www.versobooks.com/blogs?post_author=8802).

<sup>19</sup> Walter, Franz. 2007. *Out of the Ashes*, [online] Dublin Review of Books. Available at: <http://www.drb.ie/essays/out-of-the-ashes>.



Wikimedia Commons

Bernie Sanders

Advocating cooperative, state or municipal ownership<sup>20</sup> probably does not bear the potential of Meidner’s radical plan but political projects, like those of Jean Luca Mélenchon in France, Podemos in Spain, or Bernie Sanders in the US, have many more things in common with the “old” social democracy’s advocacy of democratization of the society and the

economy, full employment and the welfare state than with adjustments to a neoliberal consensus of the once “new” social democracy of the Third Way. At times, as in the case of Corbyn, this means a shift to the left by a traditional party of the center, but most often these are alternatives to social democratic parties and to the bankrupt Blair-Schroeder strategy. Though not shunning the challenge of social inequity and global economic power, the initiatives of the new left are, according to Andrew Murray from the Unite labour trade union, “generally more class-focused than class-rooted”.<sup>21</sup> Despite this, the media and political opponents, including traditional social democratic parties, often perceive them as the “radical” left or at least attach

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<sup>20</sup> Labor Party. 2017. *Alternative Models of Ownership*, Report to the Shadow Chancellor of The Exchequer and Shadow Secretary of State for Business, Energy and Industrial Strategy. Available at: [http://www.labour.org.uk/page/-/PDFs/9472\\_Alternative%20Models%20of%20Ownership%20all\\_v4.pdf](http://www.labour.org.uk/page/-/PDFs/9472_Alternative%20Models%20of%20Ownership%20all_v4.pdf).

<sup>21</sup> Murray, Andrew. 2017. Jeremy Corbyn and the Battle for Socialism, [online] Jacobin. Available at: <https://www.jacobinmag.com/2016/02/corbyn-socialism-labour-left-tony-benn-miliband/>.

## HOW TO RECOGNIZE IDEOLOGIES

Criteria	Old Left	Third Way Left	The New Right	New left initiatives
Party control	Bureaucrats	New middle class	Business elites	New social movements and labour unions
Role of the state	Central	Complementary	Secondary	Transformative
State reform	Remains bureaucratic and large	Change to managerial	Downsize	Change to direct-democratic management and institutions
Provision of basic social services	Directly by the state	By public non-state organizations	By the market	Public services and co-ops
Financing of basic social services	By the state	State and private	Private	Public
Social security (basic and complementary)	State assured	State provides only basic social security	Privately assured	Publicly assured
Macro-economic policy	Populist or Keynesian	Neo-Keynesian or neoliberal	Neoliberal	Post-Keynesian
Globalization	Threat	Challenge	Benefit	Problem that needs to be solved

[Bresser-Pereira, 2001: 368;  
adapted by Tonči Kursar and the author]

negative labels to them, such as “left populists”,<sup>22</sup> but when political positions taken by such leftist projects are considered, it is truly difficult to say what constitutes any kind of radicalism. The Labour Manifesto, with positions similar to the program documents of similar political movements, is considered as “a statement of historically modest social democracy” which is now also “unapologetically redistributive and anti-neoliberal”.<sup>23</sup> What all these – mutually very different – “new democratic socialists” have in common is the genuine renunciation of fis-

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<sup>22</sup> Political scientist Danijela Dolenc comments on this as follows: “From the liberal perspective, the function of labeling something as *populist* is to justify the technocratic non-democratic governance”, recalling the diagnosis of the Dutch author of a series of studies on populism, Cas Mudde, that populism is an “illiberal democratic response to undemocratic liberalism” characterizing present day societies. Pulig, Srećko. 2017. *Nismo isti populist* [We Are Not the Same Populists] [online] Novosti. Available at: <https://www.portalnovosti.com/nismo-isti-populisti>. “Corbyn is sometimes accused of populism. The correct term is “class politics”, says Richard Seymour. “Labour ran an unashamed class-driven campaign. It promised to tax the rich and the big corporations to pay for council house building, nationalised utilities and rail, and free education. It promised to abolish zero-hour contracts, raise the minimum wage, abolish the anti-union laws, and end benefit sanctions and the bedroom tax. There was a promise to review council tax and look at implementing a far more progressive Land Value Tax. It also incorporated the usual gamut of left-wing ‘post-materialist’ themes, including ambitious targets for reducing pollution and making free wifi available across the rail network”. Seymour, Richard. 2017. *Corbyn: Shifting the Possible*, [online] *Times Literary Supplement*, Available at: <https://www.the-tls.co.uk/articles/public/corbyn-election-labor/>.

<sup>23</sup> Salvage. 2017. *Absolute: On the British General Election*, [online] Salvage. Available at: <http://salvage.zone/online-exclusive/absolute-on-the-british-general-election/>.

cal austerity and strong advocacy of more democratic, inclusive politics. As Jeremy Corbyn put it, “[p]olitics that’s kinder, more inclusive. Bottom up not top down. In every community and workplace, not just in Westminster. Real debate, not necessarily message discipline all the time”.<sup>24</sup>

“What has impressed me”, said the American senator and almost presidential candidate Bernie Sanders when visiting the United Kingdom, “is he has taken on the establishment of the Labour Party and he has gone to the grassroots and he has tried to transform that party and taken on a lot of establishment opposition. That is exactly what I am trying to do in the US with the Democratic party”.<sup>25</sup> Richard Seymour concludes that Corbyn “understands the relevance of mass politics, the politics of social movement” and “ordinary membership, trade unions and the wider left to support him”, pointing out that the parliament and mainstream media are not the only arena for political action [Seymour, 2016].

“I am also impressed by his willingness to talk about class issues”, adds Sanders on Corbyn, warning that “[t]oo many people run away from the grotesque levels of income and wealth inequality that exist in the United States, that exist in the UK [so]

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<sup>24</sup> Labor Party. 2015. *Speech by Jeremy Corbyn to Labour Party Annual Conference 2015*. Available at: <https://jeremycorbyn.org.uk/articles/jeremy-corbyns-speech-at-labour-party-annual-conference-2015/index.html>.

<sup>25</sup> Nichols, John. 2017. *Bernie Sanders is Super Excited about Jeremy Corbyn’s Anti-Austerity Campaign – You Should Be Too*, [online] *The Nation*, 7 June; available at: <https://www.thenation.com/article/bernie-sanders-super-excited-jeremy-corbyns-anti-austerity-campaign/>.



we will never make the kinds of changes that we need unless we take on this issue of income and wealth inequality and create an economy that works for all of us”.<sup>26</sup> If nothing else, the infamous example of Syriza testifies that this is not at all going to be simple. Stemming from social movements and the traditional left, the Greek social democratic party was considered a role model for resistance to the global neoliberal rule among the “new democratic socialists”, only to agree to apply austerity measures shortly after. Having won office precisely thanks to the promise of abolishing them, Alexis Tsipras and Syriza thus confirmed once again what the historian Robert Brenner called the “paradox of social democracy”, namely, a rule that, having come to power thanks to increased political awareness and the self-organization of workers, social democracy turned its back on the long-term collective goals of those who elected it, following the short-term individual interests of its chief representatives and allies [Brenner, 2007: 36]. Of course, in all that, Syriza was exposed to the very strong pressure of international financial institutions. However, one should foster no illusions that the attacks of the advocates of the *status quo* would be any weaker elsewhere. Instead of marking the end of neoliberalism, which based its *acceptability* for the middle classes on promises of infinite space for “the creativity of private initiatives”, the beginning of the 2008 crisis heralded its radicalization in terms of *imposing* further cuts on public spending, production investments and social transfers, followed by a new round of deregulation of industrial relations, and blackmail with public debt. If the *allure* of the neoliberal consensus sagged with the crisis breaking out, then the *coercion* of its implementation was additional-

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<sup>26</sup> Nichols, *Ibid.*

ly strengthened. The credit crunch, and the drop in investments and profit in the private sector resulted in entrepreneurs turning more vigorously towards the government and new opportunities for them in public sector. This was “a far more important part of what the government calls ‘austerity’ than its spending cuts” [Seymour, 2016: 59] and constitutes guaranteed revenues independent of the market, which the capitalist class, together with the whole media and lobbyist machinery, will not give up so easily. So far, in the first years of their actions, very few of the new social democrats have managed to win the elections [as in Barcelona]. However, electoral success is just one of the yardsticks for the success of the new social democratic agenda [Seymour, 2016: 135 – 137]. The fact that the 2017 election turnout in the United Kingdom grew most significantly among the youngest voters [from 18 to 24]<sup>27</sup> is quite telling of the fact

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<sup>27</sup> “They had been written off as a non-political generation who were simply not interested, hence the relatively low turnout and low level of registration of young people in the last general elections”, warned Corbyn two years earlier, “They weren’t, they are a very political generation that were turned off by the way in which politics is being conducted, and not attracted and not interested in it. We have to and must change that”. Jeremy Corbyn. 2015. *Leader of the Labour Party Acceptance Speech*, available at: <https://jeremycorbyn.org.uk/articles/5912/> Some surveys show potential for a growing turnout among young people from 58 to 72 percent [the average was 69 percent]. Salvage. 2017. *Absolute: On the British General Election* [online] Salvage. Available at: <http://salvage.zone/online-exclusive/absolute-on-the-british-general-election/>. Even when turnout estimates are more conservative, Labour support mainly comes from young people [66 percent 18- and 19-year-olds, with 19 percent of 70-year olds], while older voters most often opt for conservatives [69 percent of the population 70+, and 19 percent of 18- and 19- year-olds]. YouGov. 2017. *Vote by Age* [online] YouGov. Available at: <https://yougov.co.uk/news/2017/06/13/how-britain-voted-2017-general-election/>.

that they succeeded in changing the distribution of power among political ideas at times, making politics important and interesting again. Whether they succeed depends on their ability to develop adequate policies geared towards social democratic goals as well as feasible.

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## THE LABOR MOVEMENT

“There are places where the crop yield hardly even lasts until the beginning of fall. Where should one go, what should one do but search for work? If only there was any”, this is how Rudolf Bićanić, economist and activist of the Croatian Peasants’ Party, describes the living conditions of the new class. “One can earn 6-8 dinars, and sometimes even 10 to 15 dinars a day in season, with food provided by the employer ... Women are paid even lower wages than men. They can earn 3-5 dinars per day ... [which is slightly less than the price of coffee in the cafes of Zagreb!]. On average, the worker spends 5-6 dinars a day for his meagre food [usually corn meal or dried beans], and for sleeping in the barn, he pays a dinar per night ...” [Bićanić, 1936: 113]. The separation of the de-feudalized population from the means of subsistence created an essential prerequisite for the industrial revolution and urbanization, which was soon followed by the self-organization of workers. The first workers’ associations were founded in Croatia around 1870, fifty years after Great Britain which was leading the way regarding industrialization. Labour historian Mirjana Gross reports: “Workers, and craftsmen apprentices live miserably. Wages are low and the workers are helpless and disorganized, because the guild spirit still prevails among them. The labor issue, which is treated solely as a matter of ‘the poor’ is dealt with only by humanitarian associations ... In 1869, there were several meetings about the establishment of an association for the education of workers and the mutual provision of sickness assistance ... a meeting of 150 workers was held in a private house” [Gross, 1955: 4-5]. The beginnings of the workers’ struggles are directed towards limiting working hours since capitalists, if they had sufficient “reserves” of available unemployed workers, often tended to stretch them beyond a person’s physical capacities. Marx mentions the case of a 20-year-old textile worker “in a highly respectable dressmaking establishment”, Mary Ann Walkley, who, thanks to the “occasional supplies of sherry, port or coffee ... worked uninterruptedly for 26.5 hours” and then died from simple overwork. “We have heard”, Marx says, “how over-work has thinned the ranks of the bakers in London. Nevertheless, the London labour market is always over-stocked with German and other candidates for death in the bakeries” [Marx, 1990: 364-5 and 378]. The mechanism is the same everywhere: throw out the peasants [the *work force*] from the land [*means of production*], add new technology [*new production forces*], use them in your factory [these are new rela-

tions of production) and you have transformed society from feudalism to capitalism. Marx noted that a particular form of social organization (e.g. capitalism) is not given by any natural law, the Idea or by the Holy Spirit, but by a characteristic way of [material] *production* resulting from the dynamics of *productive forces* [workers, assets and production technologies] and *production relations* [which can reveal who is the owner, who is in power and whether the relationship between classes is relatively peaceful or strained]. When any of the variables fundamentally change - such as technology or the relationship between the classes - that is when the productive forces outgrow the given relations, the entire manner of production changes, which then results in a change in the shape of society. This is called the *materialist conception of history or historical materialism*. "We see then: the means of production and of exchange, on whose foundation the bourgeoisie built itself up, were generated in feudal society. At a certain stage in the development of these means of production and of exchange, the conditions under which feudal society produced and exchanged, the feudal organisation of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to be burst asunder; they were burst asunder.

Into their place stepped free competition, accompanied by a social and political constitution adapted in it, and the economic and political sway of the bourgeois class. A similar movement is going on before our own eyes ..." [Marx and Engels, 1888].

At the time of their greatest successes, the social-democratic parties acted as the "political wing" of the labor movement. The weakening of the trade unions - their fragmentation and acceptance of the ideology of "social partnership" under unequal terms and with a much stronger adversary [Lončar, 2012 and Wahl, 2004] - in the final decades of the twentieth century marks the collapse of the political strategy of the social democrats, which was inevitably followed by their electoral marginalization. Once a rule, close cooperation between trade unions and left-wing parties became an exception. Yet, at least the example of the British Labour Party and their largest trade union, Unite the Union - developing legislative amendments in order to strengthen the position of trade unions and running many successful campaigns - herald that the labor movement, trade unions and the political parties close to them are not a thing of the past.

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## 3 From Political Ideas to Public Policies

The purpose of this chapter is to describe the process of turning political ideas into practical plans for the development of society. How to get from our core values - or ideas concerning our social theory - to the basics of the work program of our government? First, we will familiarize ourselves with the concept of *public policy*. Then we will explore what this concept could look like in practice and what we could eventually gain by focusing part of our party's activities on public policies. What is the benefit for membership, for leadership and successful communication?

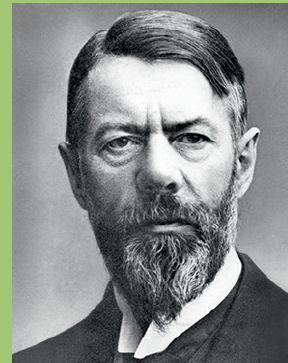
### **What do we mean when we talk about the party's program?**

Program? *Manifesto*? Elective *Manifesto*? *Policy*? - let us try to bring some order in the different uses of these terms. Program and manifesto mean the same thing: a declaration (this is why the term "program declaration" is sometimes used) of policy principles and objectives. Parties can develop a program for a period longer than the parliamentary cycle. The Godesberg Program of the German SPD was adopted in 1959 and it was changed only in 1989. Such long-term programs usually involve fundamental ideological revisions - as in the example above: the rejection of Marxism and the adoption of a social-market econ-

### **Why policy?**

1. *Motivation by a clear message and identity*
2. *Platform for participation*
3. *Program for the government*

“What do we understand by politics? The concept is extremely broad and comprises any kind of independent leadership in action. One speaks of the currency policy of the banks, of the discounting policy of the Reichsbank, of the strike policy of a trade union; one may speak of the educational policy of a municipality or a township, of the policy of the president of a voluntary association, and, finally, even of the policy of a prudent wife who seeks to guide her husband. Tonight, our reflections are, of course, not based upon such a broad concept. We wish to understand by politics only the leadership, or the influencing of the leadership, of a political association, hence today, of a state” [Weber, 1919]. Weber’s definition of politics actually means striving to share power or striving to influence the distribution of power.



Max Weber, German sociologist (1864 - 1920), major works: *Economy and Society*, *The Protestant Ethics and the Spirit of Capitalism*

omy - and, understandably, they are less concerned with the issue of their implementation.

This is why parties, prior to every election, work on their electoral program (Ger. *Wahlprogramm*, Eng. *election manifesto*, or, in North America, *party platform*) which translates long-term party principles and goals into the policies and intentions of the next government.

A party’s political program always brings a more or less innovative vision of the main set of our political ideas. How, for example, do social democrats interpret today the old ideals of liberty, equality and solidarity? Advocating the preservation of

social rights, such as employment, pensions, free education and healthcare – this is something we can always find in any program document. However, how the subjects of the program or declaration – “we” that usually stands with verbs like “see”, “insist”, “believe” or “pledge” – intend to achieve their generation’s share of common goals, by what means and by when, it is something that is not always clearly declared.

Moreover, there are party leaders who intentionally avoid facts and details because somebody may take them at their word. Others do not have sufficient insight into the problems, they lack information or simply do not have *policy-focus*, and thus their solutions are very general. “We will increase the number of new jobs” or “the percentage of university graduates” – such claims in the parties’ electoral programs are usually reported in the media with the remark “What *specific measures* will be taken, remains to be seen” or labelled as “wish lists”. It is understandable that this approach does not delight the electorate. Even those who do turn out at the polls primarily motivated by the values of the world of political ideas of the party, as a kind of “political homeland” they belong to, even they vote reluctantly and in less and less numbers. Furthermore, the policy measures may not only work for the benefit, but also at the expense of different social groups. If they become aware of that only after the elections, considerable disappointment may follow. By focusing on *policy* during the preparation of the electoral program, parties can **(1) motivate their supporters** with tangible differences from the other parties. Clear solutions to problems allow parties to gain advantage by delivering clear messages during the campaign. Mass democracy, of course, has never been the voters’ “rational choice” between parties’ “bids” [simply because our decisions are not directed by immediate material interests only, but also

by moral values], but a clear message *before* elections is the cornerstone of a long-term honest relation with the electorate. We do not think that a party program should include guidelines for government policies only to make a “pre-election bid” credible, but also because we **[2] as active citizens have the right to participate in the process of “translating” political ideas into the world of the real problems** each one of us is facing, and see how these ideas can “cope” with them. Such participation is, of course, impossible if the parties do not offer a platform for discussion about their political programs and the alignment of different interests of the participants in the debate. General things can also be discussed generally. We can easily imagine a conversation about, for example, positive and negative freedoms, or the concept of distributive justice. We know, however, that such discussions will hardly be of interest to more party members than those who are already familiar with the analytic philosophy. Real problems on the agenda of a party’s meeting are not only the reason for real people to come to such a meeting, but they are also the foremost social obligation of the party [while understanding of aforementioned concepts can only help]. Finally, a really big reason why parties should deal with policies is **[3] the need for the timely development of the government’s work program.**

### **What is policy?**

*Policy*, in a nutshell, is **what governments do** [bearing in mind, of course, that various citizens’ interest groups and political parties, even those in opposition, influence and prepare these programs.] At certain moments, when their members do not call frivolous press conferences and create the illusion that “things are under control”, the government, with greater or lesser suc-

cess, tries to resolve political problems with planned activities and appropriate resources. This is what we call *policy*.

We will not, following Weber's directions, deal here with the other examples of the concept of policy, for example in the corporations, but we will focus on the management of state affairs [this is the origin of the *public* attribute of a policy], on in-

fluences, pressures and party preparations for it. In business circles, anyway, it seems that the term *strategy* is used more frequently. The things that both *strategy* and *policy* have in common are knowledge, coordination and orientation towards a specific goal [Colebatch, 2004].

This goal may be more or less measurable. "We will start the construction of primary schools" or "by the end of this term we will build enough schools to provide single-shift schooling". The quantitative ambiguity of the objective is not problematic in itself. Many goals cannot even be expressed in this way, as proven by many unsuccessful attempts to quantify the "increase in the quality of higher education" by a number of citations, opinion polls, and the like. However, it should be kept in mind that the issue of measurability will be called upon at a later stage of the

## THE LOGIC OF POLICY

**1 Polity** = the foundations of the political community with its written and unwritten norms and rules; the constitution, elections

**2 Policy** = an attempt to resolve politically defined problems with action programs and appropriate means, taking into account interests, values, goals and political ideas

**3 Politics** = the process of implementing the selected programs; the battle to come to power and stay in power

### Orientation towards a goal

realization of a policy: during its evaluation. How will we know if we have succeeded? This goal can be more or less measurable. What is even more important is the hierarchy of objectives. Are not in fact “the construction of primary schools” and “single-shift schooling” only parts of a higher goal, that is, “better-quality elementary education”? We are not building schools only to create more work for contractors, or only so that children do not have to get up early, but to open up space/time for extracurricular activities, such as music, dance, writing, sports ... which significantly contribute to the goal set in this way. The goal can be long-term, a desirable condition [the *overall goal*], or a specific task [*objective*] as a part of the way to its realization. On any level, there is no aimless policy.

### Harmonization

Public policy must be coherent, part of a sensible whole of government policies. This is known as *horizontal coordination* [Colebatch, 2004 and Petak, 2008]. It would be quite pointless, to remain with the previous example, to build new schools, while reducing funds for the salaries of teachers and teaching assistants who would be able to provide these schools with educational activities. A classic example of the inconsistency of public policies is government spending on incentives for tobacco growing and, at the same time, on campaigns against smoking [Colebatch, 2004]. Horizontal coordination can be less - including the exchange of relevant information and avoiding conflicts between different parts of the government - or more extensive cross-sectoral cooperation. At a higher level it is considered *policy integration* [Petak, 2007]. Of course, vertical coordination between different levels of government is also important: those responsible for the implementation and those who charge them with

this task. Vertical coordination of policies, however, should not be viewed merely as a hierarchical routine of government, in terms of the unconditional loyalty of lower officials to the implementation of policy - *negative coordination*. Rather, it should be seen as the enthusiasm of senior officials to take into account information “from the field” when making decisions.

Such *positive coordination* - or, rather, the preference for consensual decision-making or, simply said, cooperation - is highly important not only for the quality of the solution but also for its successful implementation. We would certainly more willingly accept a solution which we were asked about, and we feel to be ours, than a “perfect” one that was imposed on us. This is not about tactical maneuvering and “manufacturing consent”. For example, the protests of the Croatian academic community in 2011 prevented the implementation of the government’s policy for science and higher education despite the fact that a formal platform of horizontal coordination already existed. However, the Ministry’s working groups during public hearings ignored most of the remarks, which consequently led to a blockade of the universities, and the government eventually had to withdraw its proposal. All those who would be affected by a certain policy - particularly those who have to implement it - are entitled to take part and present their accumulated knowledge of what and how things should be done.

When we need to achieve a goal - or to resolve a problem that is seen as a departure from the goal - we will probably want to know how someone else did this in the past and/or somewhere else. These solutions are usually described and analyzed in books, hence it is not surprising that we often call for the help of scientists and various experts. They offer us, not only alternative solutions based



## Knowledge



## EX ANTE ANALYSIS

*Ex ante* policy analysis attempts to answer the questions of the effects a policy will have on all stakeholders before its implementation. If the simulation shows negative effects [on some stakeholders that are close to us], we can prepare countermeasures in advance [patches], trim the edges, or choose a better solution. In any case, our expertise will furnish us with a good arsenal of arguments, not only to defend our policy, but also to present quality objections and remarks to our opponents.

on knowledge or experience – “we can do it one way or another” – but also an analysis of each of these solutions for example “as for the first approach, we could say that this is good in one area, but creates insurmountable problems in another,” etc. However, not all the cards should be placed in the hands of those whom we call experts [Petak, 2008].

**Policy is never politically neutral, but always reflects certain needs, demands and political ideas.** The alleged neutrality of experts is often a – conscious or unconscious – mask concealing a specific political interest. What, for example, to social democrats is opposing neoliberal economic policy [or they should at least recognize it as such], to their university-based economic advisor may simply be the “economy”. He was taught this way and sees nothing in it but “scientific neutrality” [as always when a neoliberal economic solution is in question: without any alternative].

The knowledge required to plan a policy can be acquired through self-education [after all, what is the purpose of politicians if, for example, they leave all economic decisions to the economists?]. We should be sufficiently informed to see whether or not a cer-

tain proposal [an expert one or otherwise] fits within our political goals.

The statement that “politicians as general practitioners” are, generally, “no practitioners” is wholly in line with the notorious statement of a prominent leader of the Balkans’ nationalist wars of the 1990s: “I have no idea, I do not represent any concept, and I agree to everything”.

Politicians with no knowledge of economic, social, educational policy ... will be doomed to reactive action. Incentives for public policy will come from various *stakeholders*, pressure groups or, more frequently, social movements.

### **What do public policies consist of?**

Discussion begins by placing a certain item on the agenda. Problems, actually, always exist.

#### *Agenda*

Public policies – they exist only when politicians decide to deal with them, and that depends on their political priorities.

For neoliberals, the problem of a lack of primary schools, for example, is not a problem that should be dealt with by the government: if there is an interest from parents for a new school, this will be recognized – without the interference of the state – by a private entrepreneur, and a private school will be built. A low employment rate among women, for example, is not a problem for a conservative government either: they already think that the issue of the education of children would best be resolved with stay-at-home moms. The agenda will often be shaped by a demand set outside the party sphere – in trade unions, movements, or interest groups. A good example is the demand for totally free education at all levels, which was launched in the spring of 2009 in Croatia by an independent student initiative, and the social democrats have hardly been able to ignore it since then.

## *Discussion of possible solutions*

Then we should look at the options at hand. What solutions are being offered? What are the pros and cons for each of them? How do particular solutions fit into our long-term political goals and the entirety of our political work? Do we have the resources and the time to apply them? Of course, it is impossible to obtain these answers from behind closed doors, from a small number of people sitting in a commission, regardless of whether this commission is primarily a “political” or an “expert” body. Political priorities and goals, desires, needs, different interests and knowledge can be aggregated into a solution that will be considered *ours* only if we have taken part in the discussion. Deliberations on the alternatives should not be brief, nor should they be conducted at one level only - for example, at meetings of local party organizations. Deliberations should allow the involvement of all who could be affected by the problem and its solution, even though, perhaps, they may not have been interested at first. While the discussions are going on, it is necessary to assess whether there is enough money to implement the policies. Public procurement (sometimes called public commissioning), as in the case of elementary schools, is one of the most common means of implementing public policy, and this often implies an increase in public funds through taxes. Again, the question arises of what kind of taxes, who loses and who gains? These issues probably mean that more interested parties should get on board

### **How are public policies implemented?**

- Through laws and regulations
- Through public procurement and taxes
- Through education

for the discussion. Further, to implement an approach, it will often be necessary to change several laws, regu-

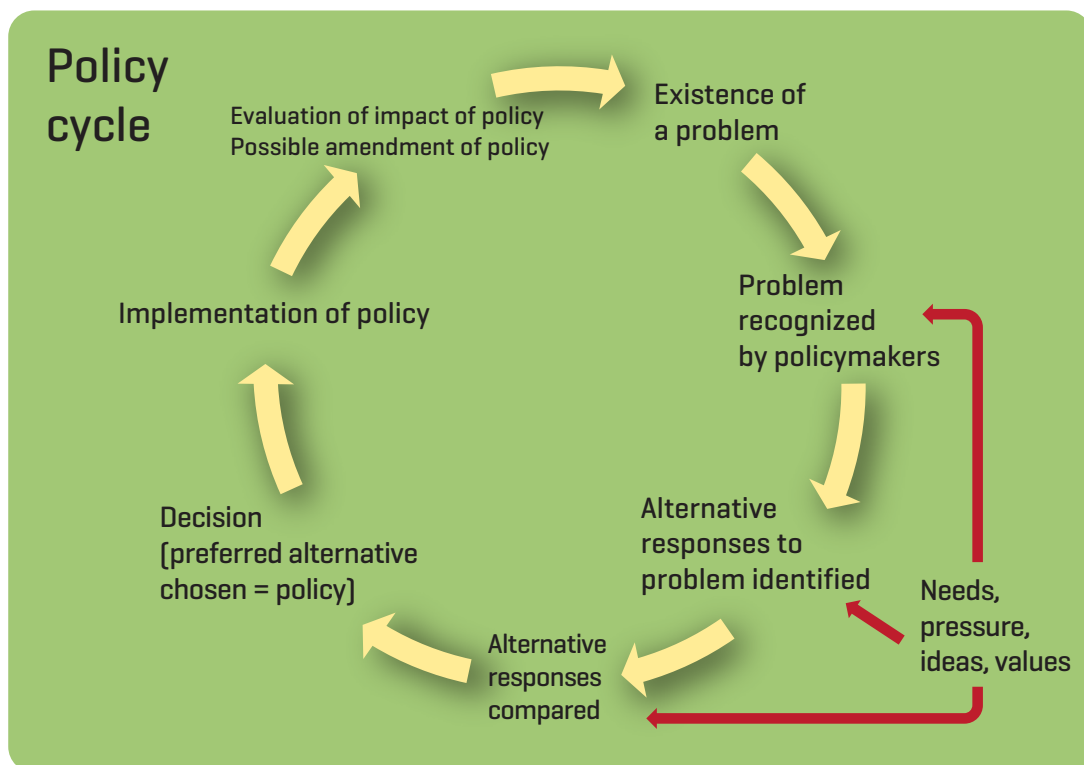
lations, etc, and thus it is necessary to assess whether we have sufficient political resources so that our policy does not remain a dead letter. Is it enough to have a majority in the city council, or does the specific way of solving a local issue also require the support of national parliament? Finally, policy is implemented through education and by persuading people to change their behavior when it comes to some issues. This is why public debate is not only necessary for the selection of a common policy, but also to start its implementation. Under the assumption that we are in power, and that we have the political tools and the necessary public funds at our disposal, and that we have already drafted proposals for all amendments to the law, the implementation of our policy starts with the decision that we will solve a problem in a clearly defined way. There will be no impression of inefficiency or delay as all the laws and regulations are ready. If we have duly adopted the constructive contributions of a serious public debate, it is reasonable to expect that the interested public will not block implementation. However, in the real world, we will often await the outcome of elections, as well as of various coalition agreements, to begin implementing our policy. Negotiations on forging a majority might often change some of our solutions, or at least disrupt our policy coordination. If we failed to widen the discussion while we were in opposition by proposing appropriate amendments to the law, by collecting all data, conducting calculations and assessing the effects, there will most likely be delays in implementation. New problems will be put on the agenda, and when the application of our policy starts (slightly too late), not only will the context be changed, but we will apparently not have the time to monitor the quality and real effects of its implementation.

**Decision:**  
*The selection  
of our solution*

*Policy implementation*  
*Performance monitoring and evaluation*

The general impression is that governments and parties

sometimes invest more efforts to convince the public of the success of their policies through the media than in their evaluation and correction, if that proves necessary. No matter how long and often contentious the path is, starting from placing an issue on the agenda, conducting discussions, making a decision on the selection of the preferred solution to the implementation of the policy, it is necessary to invest additional efforts in evaluating what has been achieved. As has already been mentioned, this is not just a matter of tracking quantitative indicators, but also of the ability to admit an error, when necessary.



[Colebatch, 2004: 48]

## **What does this look like in the real world of government and party?**

When they place a specific issue on the agenda, governments have at their disposal ministries and agencies to prepare and lead a discussion on the available options, to change necessary laws, and, ultimately, to implement and follow-up on the policy. Different public institutions are helpful, such as statistical bureaus or research institutes that can prepare data, suggest possible solutions and analyze their effects. At the beginning of 2000, the Croatian Government established an office for strategic coordination which - in addition to harmonization activities - dealt precisely with collecting data and ex ante analysis. Parties in opposition compensate for these functions by establishing programming committees. In the Social Democratic Party in Croatia, they are traditionally called councils, and in the British Labour Party, policy committees: for economic policy, for education, for social policy, etc. Perhaps these committees should be understood - instead of as closed forums of distinguished individuals with a preferential status in discussing policies - as specific working groups responsible for the preparation and intermediation of discussion among members and other interested parties. The function of these working groups is not to "clarify" policy by themselves and only among themselves, and then present or lobby the prepared electoral program to the party leadership. No, their main function is to properly prepare the discussion at "ordinary" meetings of the party, to follow-up the discussion and its conclusions (but also doubts and dilemmas), and include them in the next version as a basis for the next round of discussion - and so on, until they produce a symbolic document known as the election program. Only in that matter the party will pass the inevitable part of the route of participatory democra-

## PARTS OF THE DOCUMENT FOR DISCUSSION

1. **Challenge:** the problem that the party wants to resolve - how it fits into our general goals, what its relation with other policies is.
2. **Situation:** details and proof of how the problem affects different groups of citizens. A summary of previous consultations or discussions could be added if there were any.
3. **Our political position:** the approach we are advocating, our solution or the options available. An estimate of resources, time and effects.
4. **Dividing lines:** why our approach is better for citizens than the solutions offered by others.
5. **Follow-up:** what are next steps?

cy. Party members and all other participants will bring their different starting positions and interests closer, often becoming active advocates of policies, but also informed intermediaries in numerous debates about common things for the people in their working communities, and among their families and friends.

It is hard to discuss policy when someone at the beginning of the meeting just exclaims “The discus-

sion is open!” Proper preparation means explaining why an issue is on the agenda and what its dimensions and implications are; how it is connected with our other objectives: why the lack of schools is our problem; what others think about it and, of course, what solutions are available? Working groups should prepare documents for discussion as if they were complete ready-to-use policies, while leaving enough space for alternatives and modifications.

More ambitious working groups can add a foreword by a prominent politician, and a touch of authority at the beginning of the

document. Some parts can be expanded with additional texts and analyses, but the indispensable parts are always the same: **problem - options - solution**. From the point of view of their intermediator's position in the party's life, it is clear that working groups, when preparing the discussion of a policy, should include representatives of the party in parliament (or local council) who have already specialized in certain issues, but also representatives of various interested parties and of the expert community: people from various social movements, NGOs, trade unions and academia. However, their knowledge and views on the issue will often need to be complemented by a collection of various data, indicators, and results for the purpose of discussing specifically ordered applied policy studies (for which, of course, a certain amount of funds are needed).

It would be a good thing if the media, such as the press, radio and television, contributed more to informing and educating the participants in the discussion. Less time and nerves would be wasted on bringing irreconcilable affinities closer and mastering a common language. However, as we know, the mass media are mostly focused on the clashes of political individuals, and less on the actual roles, political background, problems and solutions - in brief, on everything that we are talking about when we talk about policy. The internet can help a great deal. Various mailing lists and online forums are tools that are increasingly used as channels of discussion and supplements to systematic political education through various political academies, thematic conferences and seminars. From the times of the assemblies on the Athenian Agora until today, however, the main medium of democratic debate on common matters is a disciplined but lively discussion at meetings, public debates or public rallies.



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## 4

## What do we need to know about... economic policy?

Political organizers and activists, but also anyone who wishes to speak relevantly on a topic, must first clearly define the concepts and terms they are going to use. Since the economy is often an inevitable topic of political debate, let us begin by defining it, and then try to sketch the economic policies of the state. We hope to be able, at least partly, to demystify some of the concepts necessary for debate of the economic part of a political program. Economics is the science that studies how societies use and allocate scarce resources] for the purpose of production, distribution, consumption and exchange of goods and services. Different societies have various economic systems at their disposal: a market-based system [free and decentralized markets which make decisions about production and consumption], a command economy [where the government makes all the important decisions] and a mixed economic system.

### **Problems with the market**

The mixed market economy today [after the command economy system was abandoned in the Soviet Union and the countries of Eastern Europe in 1989] is the choice of most countries. However, certain errors, so to speak, are inherent in the market as well. The individualism of the unfettered market system of *laissez-faire* very often leads to situations in which the actions of individuals harm the welfare of the other.

The most obvious example of such, suboptimal outcomes is known as the tragedy of the commons, such as fish stocks. Self-inter-

## PROBLEMS WITH THE MARKET

The key deficiencies of the market, which justify the role of the state, are:

- **Inefficiency** [the problem of public goods and externalities, information asymmetry, monopolies and other forms of imperfect competition]
- **Inequality in the distribution** of income and wealth
- **Macroeconomic fluctuation** [growth and decline of unemployment, inflation rates, GDP, business cycles...]

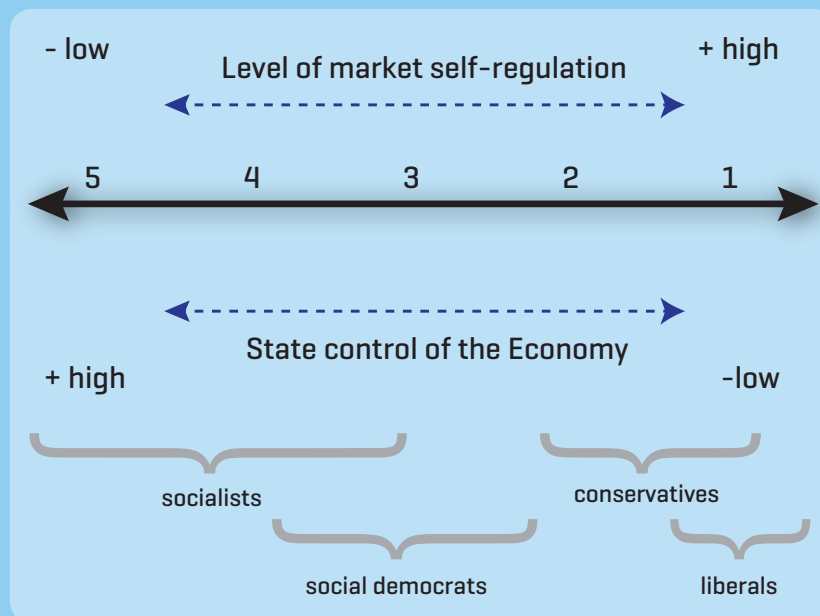
ested individual who wants to maximize his catch and profits will not voluntarily agree to a closed season to allow fish stocks to replenish, because no one can give him the guarantee that other fishermen will observe the closed season. The example of monopoly shows how profit maximization is secured by supply lesser quantity at a higher than optimal price: the monopolist is the only player in the market – there is no

competition to correct this behaviour. *Information asymmetry*<sup>1</sup> can be observed in the used-car market. Assuming that there are only two groups of cars in the market, good quality and poor quality cars, and that the customer, and this is very often the case, does not have enough information to distinguish between them, then his rational decision is to offer the same price for both groups of cars [e.g. 25 percent higher than the actual value of the poor-quality car, but 25 percent lower than the actual value of the good-quality car]. In this case, the sellers of poor-quality cars will flood the market with their products. The market will allocate resources in a non-optimal way: only poor-quality cars will be sold.

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<sup>1</sup> Unequal information, thus the unequal power of actors of market transactions regarding the level of risk.

## CONCEPTS AND MODELS OF STATE INTERVENTION



[Block, 1994]

According to this classification, different “mixtures” of market self-regulation and state intervention form five models of state intervention:

- [1] Public goods state
- [2] Macroeconomic stabilization state
- [3] Social Rights State
- [4] Developmental state
- [5] Socialist state

Now, what will our three systems of political ideas choose? - [Neo] liberals and libertarians would advocate the models on the right of the Figure, or even beyond it, for the model of the minimal state as a “night watchman” of property rights and security of citizens, leaving all other economic functions to the market. Conservatives, led primarily by a desire for stability, would advocate models 1 and 2, depending on the context and conflicts on the political and economic scene: macroeconomic stability and economic efficiency are equally important to them. Social democrats will advocate the three models, on the left of the scale, of increasing state intervention in the allocation of resources. However, by giving up the socialization of ownership of the means of production as a goal of their struggle, most socialists and social democrats in Western Europe after the Second World War *de facto* stayed with models 3 and 4.

The problem of *externalities*<sup>2</sup> and *public goods supply*<sup>3</sup> also drew attention to the errors of market allocation. In the case of negative externalities, such as pollution, for example, the market has no mechanisms designed to punish a local brewery, whose production is polluting a nearby stream, and the same is true when it comes to positive externalities: the market has no mechanisms to reward a neighbor whose beautifully landscaped garden provides a feeling of pleasure (and possible financial benefits through an increase in property value) to all the neighbors in the street. If public lighting (a public good financed through taxation and/or “parafiscal levies”) was not provided by the state, the market could not provide it in such a way that all parts of the town were illuminated all night. Publicly funded higher education can provide university education and well-paid jobs to students from less affluent families, leading to a reduction in income differences within the national economy (which would not be the case if education was a market category unavailable to students from poorer backgrounds).

All these deficiencies legitimize private, social (e.g. local or non-governmental), or state intervention in market competition. The selection of the method that the political elites choose to apply to resolve these market deficiencies identifies them as liberals, conservatives, or social democrats.

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<sup>2</sup> Externalities are activities that positively or negatively affect people, but which they do not have to pay for (for example, shade provided by a nearby fruit stand), nor do they receive any compensation for them (such as pollution of the environment).

<sup>3</sup> Public goods (e.g. forests, parks, national defense and the police) are goods whose benefits are indivisible among community members, regardless of whether particular individuals want to consume the public good or not. The police protect all community members regardless of their wishes.

## The tools of state economic policy

The tools available to the state to correct market deficiencies are taxation, public expenditures (government spending) and regulations (laws and controls), and the state uses them to:

- **reduce economic inequality (redistribution of income through taxation and government spending);**
- **ensure macroeconomic stability;**
- **improve economic efficiency (functional justice system ...);**
- **allocate resources and actively promote economic growth;**
- **implement international economic policies.**

Through *taxation*, the state reduces private incomes, and ensures funds for public expenditures (e.g. salaries for police officers, teachers, etc.). Through taxation, it also penalizes “bad” (excise tax on cigarettes and alcohol) and encourages “good” activities (lower taxes and subsidies for energy generation from renewable sources). Through *transfer payments* (government handovers to individuals, for which they do not have to provide any service or favor: for example, social welfare or unemployment benefits), and *public expenditures* (road construction), the state reduces inequalities and directs economic activities and, where necessary, imposes sanctions through *legislation* for actions that reduce social wellbeing (limiting the amount of pollution generated by a particular company, for example). The stabilization of the economy through *macroeconomic policies* (*fiscal* and *monetary policy*) resolves market problems that are the result of business cycles (unemployment, inflation, and GDP decline), trying to maintain a balance and mitigate the inevitable crisis to which the market economy is prone. An *efficient judiciary* and *clear laws* (which regulate, for example, bankruptcy proceedings and the collection of debts) provide a legal framework that guarantees equality to

domestic and foreign business entities. Finally, thanks to tools such as *tax policies* and *subsidies*, the state can promote industries in developing areas [for example, mountainous regions or islands] to reduce regional development disparities. In international relations, the state has *exchange rate* or *trade policy* measures which may be used to protect jobs and industries that the community cares about. Trade negotiations with neighbors can thus provide the tax-free export of certain products, while a fall in value of the domestic currency [depreciation<sup>4</sup>] can lessen competition from imports.

### **Four goals of macroeconomic policy**

By defining the macroeconomy as an analysis of the behavior of the whole national economy, we can identify four objectives of macroeconomic policy:

**(1) production**

**(2) employment**

**(3) price stability**

**(4) foreign trade stability**

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<sup>4</sup> Depreciation is the exchange rate swing where the value of domestic currency weakens in relation to foreign currency [when it is necessary to spend more units of local currency for one unit of foreign currency]. Appreciation is the opposite process.

We can follow foreign trade stability through the stability of the exchange rate and the balance of payment (BoP)<sup>5</sup>, price stability through the inflation rate<sup>6</sup>, and employment through the employment rate<sup>7</sup> and the unemployment rate.

We can follow production through *gross domestic product (GDP)*, which represents the value of all final goods and services produced in the country in a specific period. There are three ways of calculating it - through the flow of production, the flow of income/expenses, and through gross value added - they always give the same result. The calculation of the flow of production, commonly used in analyses, is presented by an equation which says that the value of all produced goods and services (GDP) is equal to the total consumption of domestic and foreign companies at the point of balance:

$$BDP = C + G + I + NX$$

C [*citizens*] = personal spending, G [*government*] = state spending,  
I = investments, NX = net export [difference of import and export]

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<sup>5</sup> BoP consists of a current and capital account, and by definition it is always zero, so that a deficit on one account equals a surplus on the other account. The current BoP account includes a trade balance (balance of imports and exports of goods and services) and a net factor income, and the capital account includes net capital flows (balance of inflows and outflows of financial capital) and the change in foreign exchange reserves. For example, a situation in which the national economy is importing more goods and services than it is exporting (i.e. it is experiencing a deficit in the current account) will mean that it achieves a surplus in the capital account (it has a positive inflow of capital from abroad with which it pays the difference for the imported goods that are more valuable than the exports; in other words, it borrows abroad).

<sup>6</sup> The inflation rate is the percentage of annual increase of general price level.

<sup>7</sup> The employment rate is the ratio of the number of employees and the number of the working-age population multiplied by 100, where the number of the working-age population is equal to the number of the employed, unemployed, and all those who are not part of the labor force (not looking for a job).



## **Macroeconomic policy instruments**

The above-stated four goals of macroeconomic policy (production, employment, price stability and foreign trade stability) are accomplished through the following macroeconomic policy instruments:

**(1) monetary policy**

**(2) fiscal policy**

**(3) revenue control policy**

**(4) foreign trade policy**

**Foreign trade policies** cover a wide range of exchange, trade and exchange rate policies. The central bank is in charge of exchange rate policies by following the value of domestic currency in relation to foreign currencies and – for example, in the case of a deficit or surplus in the current balance of payment account – mitigate the fluctuations to a greater or lesser extent depending on the type of exchange rate regime.<sup>7</sup> We can often read in the newspapers that the nominal exchange rate (the one from the exchange rate list daily published by the central bank) is overvalued (appreciated), which favors imports, or undervalued (depreciated), which favors domestic production and exports. However, the question is: in relation to what is the currency rate undervalued or overvalued? The real exchange rate (RER) is the nominal exchange rate adjusted for inflation, i.e. the ratio of prices of equivalent products in the country and abroad. It shows us what amount of domestic goods/services can be exchanged for comparable goods/services abroad.

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<sup>7</sup> If the exchange rate is dependent entirely on the market, it is known as a “floating rate”, and if it is determined by the central bank by binding it to a foreign currency it is known as a “fixed rate”.

$$RER = \frac{E \times P}{P^*}$$

E [exchange rate] = nominal exchange rate, the value of foreign currency in domestic terms, P [price] = domestic price level<sup>8</sup>, P\* = the general price level abroad [or in a trade partner country].

When they say that the nominal exchange rate is undervalued or overvalued, economists have in mind the long-run equilibrium real exchange rate. Assuming that a buyer for the same amount of money should get the same value of goods or services in any part of the world, that is, purchasing power parity [PPP] should apply in the long-run. So, if P grows faster than P\*, we can expect that E will depreciate. If this does not happen, as in the case of Croatia for the decades around the turn of the century, and E does not increase by the ratio of P/P\*, then we can say that the domestic currency is overvalued.

Thus, if the nominal exchange rate of the Croatian Kuna [hereinafter: HRK] in relation to the Euro [hereinafter: EUR] is HRK 7.3 for EUR 1 [that is EUR 0.14 for HRK 1], and the price of, say, one litre of average domestic beer is HRK 10 in Croatia, and in Germany it is EUR 1.4 [i.e. HRK 10], then the real exchange rate is

$$\frac{0,14 \times 10}{1,4} = 1$$

and customers would not care [of course, if we ignore the preferences of taste] where they buy beer. And now imagine a situation where the nominal exchange rate did not change in 10 years. The price of a litre of average domestic beer has increased and

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<sup>8</sup> Price levels, or the consumer price index, are imaginary daily prices for a certain set of goods and services [“food basket”]. It is usually published by national statistics offices.

now amounts to HRK 20, and in Germany it has also increased and is equal to EUR 1.7 [HRK 12]. The real exchange rate is then

$$\frac{0,14 \times 20}{1,7} = 1,64$$

and the price of beer in Croatia is 64 percent higher. This suggests that HRK would be 64 percent overvalued in relation to EUR. Clearly, exporting in such conditions is unprofitable.

And not only this: we can expect that even domestic beer drinkers will buy beer in Germany. Economic theory tells us in this case that Croatian consumers will then change HRK to EUR to be able to buy German beer and thus cause a greater demand for EUR, which will result in the appreciation of the Euro and the depreciation of HRK. If the above depreciation occurs, and the new level of nominal exchange rate is HRK 11.76 for EUR 1 [EUR 0.085 for HRK 1], the story goes back to the beginning, and the exchange rate is in equilibrium, but if depreciation does not occur, then we can say that HRK is overvalued.<sup>9</sup>

The real exchange rate on a daily basis and in the short term can be directed by the central bank, for example, reducing the interest rate or issuing a lot of money – then the expansionary monetary policy will result in the depreciation of the domestic currency – but it can also be shaped by expectations in the real and financial markets. In the long run, the real exchange rate is the result of the relative prices of goods and the macroeco-

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<sup>9</sup> Of course, this is a simplified example: a calculation which we could rely on concerning real policy-making of the central bank would require more comparisons of many more equivalent goods and services. In addition, this example does not take into account that Croatia has large foreign currency inflows through external borrowing, or revenues from tourism.

conomic cycle: it depends on whether the national economy is in expansion or in recession. The real exchange rate is, therefore, a measure of price competitiveness: a high nominal exchange rate of the domestic currency can create the impression of its high value (and our high purchasing power), but only the real exchange rate, which is dependent on the state of our economy, shows the real situation.

**Trade policies** include customs tariffs (taxes on each unit of imported goods), quotas (quantitative restrictions on imports), and other non-trade barriers to imports (ISO and health standards, temporary bans ...) with the aim of balancing the current account of the balance of payment. Since these instruments, with the possible use of the exchange rate policy, serve to control excessive imports, they protect the domestic producers. However, consumers may be forced to pay higher prices. The key issue of economic policy is to see whether the costs of the protectionist measures are lower than the potential benefits? Besides customs revenues, some potentially legitimate arguments for the introduction of protectionist measures are, very often, also the battle against unemployment, or the protection of emerging industries (*infant industry*).

**Revenue and price control policy** - in a wide range, from non-binding guidelines and recommendations, to full regulation and control, revenue policy is one of the government's cheapest instruments. It is most frequently used in unstable economies. By intervention in the process of setting and adjusting the wage levels, the state may try to influence the aggregate demand and inflation, while success depends on the cooperation with the labor unions, due regulations, exemptions and penalty provisions.

**Fiscal policy** uses different forms of taxation and government spending to implement the overall economic policy. Its primary task is to collect sufficient revenue so that the state can fulfill its different missions. Some of the instruments of fiscal policy, for example progressive income tax or unemployment benefits, may serve as *automatic stabilizers* through which the public sector mitigates changes in the income of the private sector. During a period of growth - when there is a fear of inflation and of the national economy "overheating" - more and more individuals will end up in the highest tax class of a progressive tax system. In this way, they will have less cash for personal consumption, and experience the possible "reheating" of inflationary expectations, while leaving more income to the state. In the recession phase, every individual will automatically begin to receive benefits and will be engaged in social programs by registering at employment bureaus and thus mitigate the negative effects of the crisis on aggregate demand, without any special regulations or decisions - which is why such instruments are called *automatic stabilizers*. The government's decisions to introduce changes in tax rates, or completely new types of taxes [e.g. a tax on financial transactions or SIM card taxes], public works, etc., are known as *discretionary policies*. When new taxes are introduced, aggregate demand is being diminished [which in turn decreases the overall output, price level as well as employment]. On the contrary, if there are intensive public works being introduced, output, employment and, in certain cases, prices grow. So discretionary policies are government's responses to unfavorable economic trends.

The instruments, effects and the overall direction of fiscal policy will be reflected in the state budget: a systematic annual review of the planned revenues and expenditures.

## **PUBLIC DEBT AND DEFICIT**

Did you know that some of the oldest written monuments, such as the Egyptian hieroglyphs and the clay tablets from Mesopotamia (cca. 3500 BC) were precisely about who owed how much and to whom [Graeber 2012: 38]?

Despite the fact that it is as old as civilization, it was only in the economic system built around the market [i.e. capitalism] that debt assumed the main role in the production process [Varoufakis 2018]. Although entrepreneurs sometimes really do inherit, save or just come into possession of the capital to rent land, tools and hire a workforce, this is most often not the case. Nowadays, most production processes start with a loan from the bank which, as shown time and again by financial collapses and crises, can hardly function without state regulation. Any entrepreneurial endeavor is carried thanks to the workforce skills and knowledge provided by the state, reaching its clients via railways and roads, which have again been built with public funds. However, this is not to say that entrepreneurs are happy to pay taxes and have the state regulate their loans and oversee their financial transactions. The opposite is actually true; there is a steady aspiration to reduce taxes against state expenses, thus the state can do nothing but, to the satisfaction of bankers, become indebted itself. Mathematically speaking, the difference between public expenditure and incoming taxes is called public deficit. If a state has an annual deficit of EUR 1, then, in ten years' time, the accumulated debt will be EUR 10, plus interest, says Yanis Varoufakis [2018], who is not just a mathematician and economist, but also the former finance minister of Greece, well familiar with public debt issues. Therefore, if state budget expenditures exceed revenues, the difference is known as budget deficit. Accumulated liabilities of the state and public sector – the deficit of the state budget, along with deficits of local budgets and pension and health insurance funds – create public debt to foreign

and domestic creditors and owners of government bonds.

Advocating better information for citizens on the origin, causes, structure and financial terms of public debt, Greek-British economist Costas Lapavitsas reminds us of “public debt [being] at the heart of the Eurozone crisis. The global crisis of 2007-2008 resulted in huge costs, partly due to rescuing the financial system, partly due to falling output and rising unemployment. In the eurozone, things were made worse because the common currency had weakened peripheral economies, giving rise to large current account deficits”.\*

Although the current growth of public debt is not a consequence of “spendthrift” government, but of the economic crisis caused by financial speculation, its burden was loaded on the shoulders of citizens who, in many cases, remained jobless, or with lower salaries and pensions, and still with poorer healthcare, education and other public services. However, public debt may also be a good thing. Owing to public debt and deficit, states can, for example, fund the construction of public roads, bridges or the work of school teachers, all resulting in economic growth. Economic growth, for its part, causes higher public revenues, so the nominally higher debt is actually a lesser burden on the state budget. Therefore, let’s stop being overwhelmed with the moral panic brought about by all those “counters of public debt” and radical adherents of a “minimal state.” Instead of pursuing the policy of radical austerity and indirect taxation, deficit and public debt can be taken as usual instruments of fiscal policy in times of crisis. Since buyers of state bonds are also foreign investors, public debt also represents a form of foreign direct investment.

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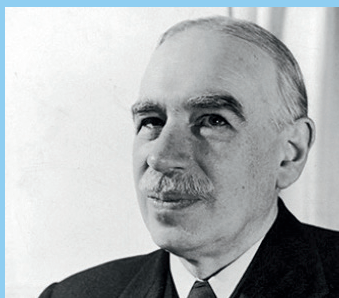
\* Lapavitsas, Costas. 2011. Support the campaign to audit Europe’s public debt, Guardian [online]. Available at: <https://www.theguardian.com/commentisfree/2011/mar/03/audit-europe-public-debt>. The current account of balance of payments records the country’s imports and exports.

In his economic manifesto of the “good society”, John K. Galbraith notes three distinctive categories of public expenditure: those which protect the current condition; those which enhance the future well-being and, finally, “those which serve no visible present or future purpose”. As for the last, of course, the task of truly public governance would be to stop it, however easier it may be said than done. “That is a task which is enormously complicated by the long-established tendency to describe as waste what, in fact, beneficially affects some other and needier part of the public community,” warns Galbraith. For current expenditure, such as enforcement of law or routine conduct, there is “no economic or social justification for borrowing.” Instead of adding interest charges to the total, taxes and other current revenues should be set in such a way to cover the current cost. However, when it comes to expenditure which serves the future well-being, Galbraith is convinced that “borrowing is not only legitimate but socially and economically desirable [...] Where public expenditure promotes or, indeed, is essential for the future growth of the increased production, employment and income from which to sustain future public revenues, borrowing is fully acceptable. This cannot be considered loading costs on future generations, for they will be the beneficiaries and it is appropriate that they pay.” Borrowing to build transport or energy infrastructure is just the most obvious example. Even apparently “current” investment in public healthcare, for instance, may significantly diminish the future medical cost. “Children protected and rescued from poverty by welfare will become productive citizens” while “nothing will so improve future income and output of the economy in general as the educational qualifications of the people [...] Such current outlay”, concludes Galbraith, “will nourish future productivity and yield the additional income that, when taxed, will pay the in-



terest and amortization of the increased debt” [Galbraith, 1996]. The creation of the tax system is based on the principle of fairness, as well as on the principles of efficiency and solvency. The liberals and the conservatives will demand the tax burden to be equivalent to the benefits that an individual receives from publicly funded services [public roads, parks, public media, health-care, education], while the social democrats will require that the tax burden be varied from individual to individual according to their income and wealth, thus emphasizing the principle of solvency in the organization of the tax system. The principle of fairness is associated with benefits and solvency in such a way that “horizontal” fairness implies that those who are equal receive the same tax treatment, and “vertical” fairness implies that it is fair to treat individuals unequally in unequal circumstances, i.e. to enable the less affluent to pay lower or no taxes.

Tax policy decisions refer to the breadth of the tax base, the introduction or elimination of certain types of taxes [e.g. property tax or capital gains tax], as well as decisions on the amount of tax burden and its distribution among workers, entrepreneurs



**John Maynard Keynes [1883 – 1946]** is considered the founder of macro-economics thanks to his major work *General Theory of Employment, Interest Rates and Money [1936]*. He had a major effect on post-war economic policies, particularly among the social democrats. Other important works include: *The Economic Consequences of the Peace [1919]*, *A Treatise on Monetary Reform [1923]* and *The End of Laissez-Faire [1926]*.

or pensioners ... A higher tax burden - which will be reflected in the budget by an increase in revenue - will provide the state with more funds to reduce economic inequalities and/or to promote economic growth and development through government spending.

In contrast, a reduction of the tax burden will leave more funds to the private sector. However, as noted by John K. Galbraith, “no one is believed to be so inclined to desuetude [...] as the affluent taxpayer” [Galbraith, 1996]. The basic division which allows us to analyze and discuss different taxes distinguishes between

**Direct taxes**

[e.g. taxes on income or profits]



paid by all legal or natural persons under their own name

**Indirect taxes**

[e.g. VAT, excise]



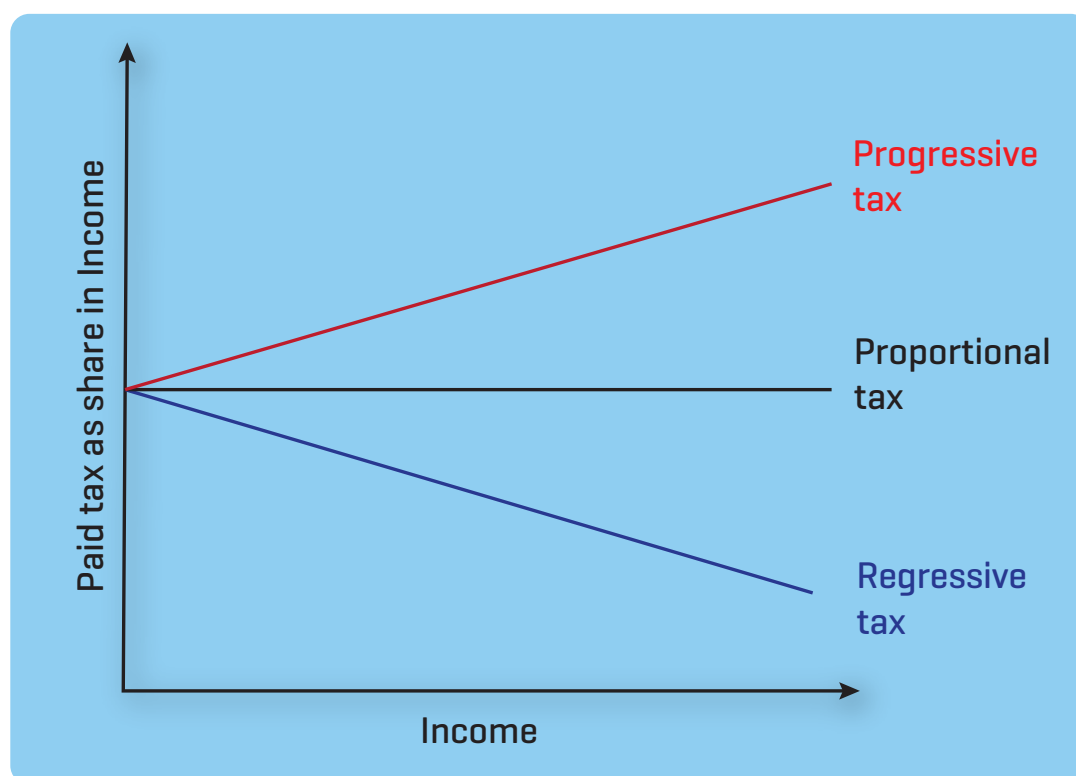
we pay them when we buy goods and services on a daily basis

It is clear that personal taxes can easily adapt to personal circumstances, i.e. the different purchasing power of different individuals, so they much more successfully meet the principle of fairness of taxation policy. The advantage of indirect taxes, on the other hand, lies in the effectiveness and the lower cost of tax collection.<sup>10</sup>

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<sup>10</sup> The greater the lack of tax discipline in the country, the greater the share of indirect taxes in the overall tax revenues because the possibility of avoiding paying them [tax evasion] is somewhat smaller, while, at the same time, this does not require many tax officers for their collection and processing. It is more difficult to avoid paying VAT for bread and milk than income tax.

The effect of taxes can be seen in the graph.



Depending on whether individuals with a higher income allocate a higher, the same, or a smaller part of their income to taxes compared with less affluent citizens, particular taxes will have progressive, proportional or regressive effects. The social democrats will advocate progressive taxation (an increase in income also increases the share of income tax) whose ultimate goal is redistribution. The (neo)liberals would advocate the same tax rate regardless of the income level (proportional taxation) in order not to disturb the efficiency of the economic system and the freedoms of individuals, while the conservatives would advocate regressive taxation that would be aimed at the preservation of the existing social structures and relations (even though many pragmatic conservatives would today advocate a tax system that is as simple as possible, with a fixed tax rate).

Monetary policy of the sovereign state is the task of its central bank. It manages money supply, maintains the stability of the financial system, and regulates the behavior of commercial banks. The instruments available to the central bank are: *open market operations* (buying and selling government bonds), the *discount rate* (interest rate on direct borrowings of commercial banks from the central bank) and the *reserve requirement rate* (the percentage of each deposit that commercial banks must hold in reserve). Monetary policy does not have the problem of time lag - the period from the adoption of

a decision to its application is very short - thus governments prefer to have it in the short term for the needs of stabilization policies, as opposed to fiscal policy, which works slower. By increasing short-term interest rates, for instance, monetary policy directly influences investments (reduces them) and indirectly affects consumption (it also decreases it) and net exports

### **WHY SHOULD SOCIAL DEMOCRATS ADVOCATE LOWER VAT?**

Take, for example, a worker who spends her entire salary of, let us say, HRK 4,000 on food and housing, i.e. goods and services with value added tax. If the rate of that tax is 25 percent, this means that she spends one quarter of her salary on this tax. In contrast, a manager with a five times higher salary can hardly spend five times more on food and housing. Let us say that he spends twice as much as the worker: in that case, the share of tax in his income will not be higher than one tenth. This is why value added tax is an example (perhaps the most common example) of regressive tax: the higher the income, the lower the income share spent on this kind of tax.

[exchange rate appreciation results in negative net exports].<sup>11</sup>

### **How to manage macroeconomic policy?**

It can often be heard or read that fiscal or monetary policy is *expansive* or *restrictive*. This depends on the main goal of macroeconomic policy (remember the four goals mentioned above). If the goal is to boost production and employment, then fiscal and/or monetary policy should be *expansive*.<sup>12</sup> This means that, for example, within fiscal policy, state expenditure rises (schools, hospitals, wind power plants...), which will have *multiple* effects on the growth of production and all employment in all the productive sectors involved in these projects. At the same time, a monetary policy with low discount rates, for example, would ensure that the state's indebtedness for funding these projects does not become too expensive. This is the social democratic approach. Alternatively, it is possible to cut the tax burden (tax rates or tax base) which should free private initiatives and leave more money to the private sector in order for it to be able to invest – this would be the conservative and neoliberal approach. However, as

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<sup>11</sup> Montenegro, for example, waived its monetary sovereignty due to euroization: first by having the exchange rate of 1999 linked to DEM in a “dual currency system”, and then, from 2001, the only means of payment in Montenegro was DEM, which was later replaced by the Euro. Therefore, the Central Bank of Montenegro is not implementing a monetary policy, and neither is it the “last resort” for commercial banks which would guarantee savings deposits. In a small, open economy in the regime of flexible exchange rates fiscal policy often remains the sole weapon of economic policy.

<sup>12</sup> Of course, the combination of expansive fiscal and restrictive monetary policy is also possible, especially to keep inflation pressures at bay.

## WHAT IS MULTIPLIER AND WHY IS IT SO IMPORTANT?

Discussion on economic policy is full of abstract models and technical terms that sometimes give the impression of not having any other purpose but to eliminate all non-economists from discussion – which often means from making decisions on how we are going to live. One such notion is probably the mysterious *multiplier*. Embedded in the foundations of the Keynesian approach to macroeconomic policy, the multiplier is a yardstick for the successful impact of change in any of the components in aggregate demand on GDP. An easier way of understanding how the multiplier works is to imagine for a moment a stone thrown into a lake. Falling into the water, the stone makes concentric circles. Not one, but several – so more than one wave will lap the shore. Thus, if the state spends 1 million on building a new hydro-power plant (remember, this is the “G” component in the GDP formula), GDP will grow by, say, 2 million. Just as in the example of the stone, the impact will multiply. In our example, the multiplier is 2. The explanation is very simple. As GDP is spending, then it is clear that the initial million is part of the increase, but that is not the end of the story. Every worker in the power plant construction site gets paid and spends it on food, drink or housing. This means that their spending (the “C” component in the formula) also increases GDP due to the construction. But that is not all: their spending sends out a signal to the tourism and catering sector to replenish their stocks and capacities (component “I”). At the same time, everything is developing in various directions: for instance, suppliers of equipment and construction material for the hydro-power plant follow the same pattern of behavior... In a nutshell, the “stone” (the “G” component) gen-

erates more waves ["C" and "I" components] to lap the GDP "shore" together. Formally put, the government *expenditure multiplier* [Mg] indicates the amount of GDP growth due to an increase of government expenditure [G] in the amount of one monetary unit. It is calculated as

$$Mg = \frac{1}{MPS}$$

where MPS is a marginal tendency to save [MPS = change of savings / change of income].

On the other hand, the tax multiplier [Mt] is calculated as

$$Mt = \frac{MPC}{MPS}$$

with MPC being the marginal tendency to spend [MPC = change of spending / change of income].

It follows that

$$MPC + MPS = 1$$

Now, if we assume that  $MPS = 0.2$ , and, if we take up our paper and pen, we can calculate that  $Mg = 5$ , while  $Mt = 4$ . This means that, with the state expenditure growing by one billion, GDP growth will be 5 billion, while the reduction of tax burden by one billion will lead to GDP growth of 4 billion only. In this simple example, we can see that social democrats would prefer the growth of state expenditure rather than a tax reduction if they want to increase both production and employment.

Galbraith put it, “here again the hope is at odds with the reality; there is no certainty that the funds released by tax reduction will be invested or spent. [...] Tax reduction can serve only what John Maynard Keynes called, in a noted phrase, liquidity preference. The desire to hold cash or its equivalent does not add effectively to aggregate demand. As a way to stimulate demand in times of negative growth or stagnation, there remains only direct and active intervention by the state to create employment” [Galbraith 1996].

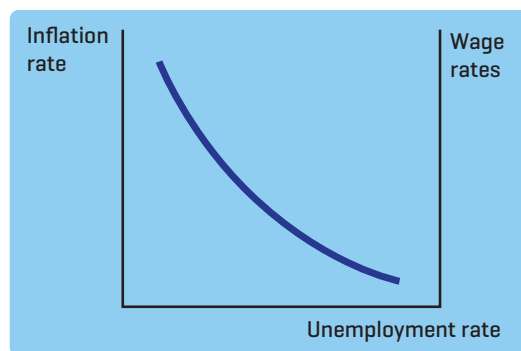
Yet, if the main goal of economic policy is to *fight inflation*, then monetary policy will reduce the money supply, increase its price [interest rate], and thus in a multiplicative process reduce aggregate demand: private consumption, investment spending and net exports, so GDP as well. In addition, freezing wages and the prices of certain goods and services can also have positive effects in the fight against inflation. Fiscal policy can contribute to balancing the budget, either by cutting spending [cutting wages, pensions, transfers, infrastructural investment], or by increasing the tax pressure. Such a policy is known among economists as a restrictive policy [or a *contractive* one, because it causes a contraction, or a reduction of the scale of the national economy]. Obviously, it should be noted that the objectives of macroeconomic policy are often mutually exclusive. A party that emphasizes full employment as its goal [social democrats] will often have to pay for this with a higher price level [inflation rate] because the increase in employment will immediately lead to a growth in consumption, which will result, after a shift of the demand curve to the right, in a higher general level of prices and GDP. In contrast, price stability – which [neo]liberals and conservatives will emphasize as one of their major goals – will very often be paid



for by a rise in unemployment.<sup>13</sup>

Neoliberal economists, such as Friedrich von Hayek and Milton Friedman, believed that every expansion of the state beyond the framework of protection of property rights and public safety is a certain “road to serfdom”. A minimal state should announce its policy and firmly hold on to it in all circumstances. Ignoring the role of fiscal policy – especially expansive public investments – in the stabilization of the economy, earned economists of a similar orientation the label of “monetarists”. On the other hand, the group of economists gathered around the legacy of the economist John Maynard Keynes considered that the active role of the state was crucial. In addition to regulating and supplying public goods, the state should direct the economy towards full employment, avoiding the Scylla and Charybdis to which the market system is inherently prone, which manifests itself in an unequal distribution of wealth and income, unemployment and inflation. Some of today’s most prominent economists, such as Joseph Stiglitz, Paul Krugman and Mariana Mazzucato – even those belonging to the opposing ideology, like Raghuram Rajan

<sup>13</sup> The inverse relationship between these two objectives of macroeconomic policy can be represented by the so-called Phillips curve in the short term. The curve is named after the New Zealand economist William Phillips who, in 1958, observed the inverse correlation between wage changes and unemployment



[i.e. higher employment goes in hand with higher inflation], which served as powerful ideological weapon against full employment for a long time. In contrast, post Keynesian economists like John Weeks prove that such a theoretical generalization of neoclassical economists is wrong, that is, more money does not necessarily cause a price increase.

- see a connection between the growth of inequality and the recent economic crisis, advocating the active role of the state in the microeconomic and macroeconomic field by stimulating aggregate demand. In their view, none of the objectives of macroeconomic policy [remember: production, full employment, price stability and the stability of foreign trade], nor a successful way out of the crisis will be possible just by relying on the market.

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## 5 *Economic policies in practice*

Now let us try to see, in specific examples, how the creators of economic policy, depending on the political ideas they advocate, would approach a situation analysis and the resolution of problems that have hit a small, open economy: namely, an economy where a large part of its GDP derives from imports and exports, while having no impact on world price levels and other terms of trade. We will try to analyze the differences between (neoliberal, conservative, social democratic) policies on the basis of the following criteria: recognition of the problems, the objectives, and, finally, the instruments and measures of economic policy.

### **Problems that sound familiar**

Suppose that our open economy in the last three years has recorded negative GDP growth rates, accompanied by a decline in industrial production and growing unemployment. However, the average annual rates of inflation are under control – they do not exceed three percent per year. The long-present budget deficit has doubled in the last three years, and this has resulted in an increase in public debt, which now exceeds 100 percent of GDP. In almost all international rankings, the observed state is recording increasingly poor results, particularly in the fields of competitiveness, public administration, the judiciary and problems with corruption, disorganized land registers, complicated and long administrative procedures with uncertain outcomes, and a poorly developed transport and energy infrastructure. Regional inequality, which is reflected in different rates of unemployment and living standards, is very prominent. We should also mention

that the opportunities offered by a wave of investments in the 1990s, in the period of transition from the socialist to the market economy, were missed, and that growth in the first seven years of the new century was achieved thanks to revenues from tourism and personal consumption, which was largely financed from borrowings. The service sector makes up 60 percent of GDP and accounts for 70 percent of the workforce. Industrial production [chemical, metal, food, agricultural and shipbuilding] has a long tradition, but is technologically outdated and inefficient. Taxes and other state revenues made up 50 percent of GDP in the last year, so that the business sector has been complaining that it is overburdened with parafiscal charges.<sup>1</sup>

### **Selection of problems**

The social democrats would emphasize the rise of unemployment as the key problem, the conservatives think that the decline of GDP and the worrying levels of budget deficit are to blame, and the liberals flag the budget deficit and public debt which prevent the economy from recovering due to tax increases, which are necessary to refinance the debt and reduce the deficit. In addition, the neoliberals would probably focus on business and competitiveness rankings, the inefficiency of public administration, administrative barriers to starting up businesses, the disorganized land register, and corruption.

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<sup>1</sup> Like tax, “parafiscal” is compulsory charge, but, unlike tax, it is earmarked for specific purposes by a certain regulation. That is the reason why such charges are officially, instead such a derogatory label, defined as “revenues according to specific regulations”. These revenues may be payments for public services with autonomous funding [roads or forests administration, public service broadcasting etc.], health and pension insurance contributions, or membership fees to trade associations.

## **(Neo)liberal economic policy**

The liberals understand the capitalist market as the best instance to make economic decisions. In the market, self-interested individuals who want to maximize their profits will be in contact with other such individuals, and thus all of them will benefit without the need for state intervention. Trying to act in their best interest, each individual will thereby unwittingly create benefit for the whole society. For example, an awning mounted by a cafe owner near a bus stop, installed there in order to attract more guests, will also provide shade for those who are not customers of the cafe, but who are simply waiting for a bus - economists would call this a positive externality. The role of the state is considered unnecessary and dangerous because it can “distort” incentives and information sent by the market, reduce economic efficiency and, finally, wellbeing of all.

According to the neoliberal view, the economy should consist of small and flexible companies ready to respond quickly to any changes that are happening in global, regional, national and local markets. These are companies that operate in the services and manufacturing sectors, and which base their competitiveness on innovation and knowledge. They find capital generally in capital markets, which, as well as business owners, seek a quick and high return on investment. By virtue of flexible labor market, workers are poorly protected, and wage bargaining is conducted at the individual or at the company level.

In the field of **fiscal policy** neoliberals will advocate fiscal consolidation. It typically involves reducing government expenditures that are the most burdensome for the budget: public sector wages, transfers, expenditures for pensions, health and social security, and public investments. Liberals will accept a tax increase only in extreme circumstances, if the government is no

## **AN EXAMPLE OF NEOLIBERAL ECONOMIC POLICY: TRANSITION OF THE POLISH ECONOMY FROM THE NINETIES**

Radical transition from a command to a market economy, as carried out in Poland in the early 1990s, is recorded in economic science as shock therapy. Confident to improve the country's economic performance and citizens' wellbeing, shock therapy sought, in the words of then economic advisor to the governments of Poland and Yugoslavia Jeffrey Sachs, "decisive and rapid" transfer of control over the economy from state to private hands.<sup>2</sup> The theoretical grounds of this approach are contained in the original ten points of the Washington Consensus specified by the economist John Williamson: fiscal discipline, redirection of public spending, tax reform, **liberalization** of interest rates, a flexible exchange rate regime, liberalization of foreign trade, liberalization of foreign direct investments (FDI), **privatization, deregulation**<sup>3</sup> and the protection of property rights.

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<sup>2</sup> Before he became an acclaimed philanthropist, the American economist Jeffrey Sachs claimed that "the main debate in economic reform should therefore be about the means of transition, not the ends. Eastern Europe will still argue over the ends: for example, whether to aim for Swedish-style social democracy or Thatcherite liberalism. But that can wait. [...] The economic and political complexities of the transition to a market economy argue strongly for a decisive and comprehensive approach, such as the new Polish economic programme, introduced on January 1st. [1990., two week before publishing this programmatic opinion, using the same title Lenin borrowed from Nikolay Gavrilovich Chernyshevsky's novel"]. Sachs, Jeffrey. 1990. *What is to be done?* The Economist. Available at: <http://www.economist.com/node/13002085>.

<sup>3</sup> As the expression of the spirit of economic liberalism, deregulation entered the late 1970s as a trend of cancelling or cutting down the state regulation of the economic processes so as to make more space for the free market.

The Balcerowicz Plan<sup>4</sup> (then Minister of Finance and Deputy Prime Minister) included ten laws which - with the exception of the privatization of public companies, deferred to November 1995 - coincided with the recommendations of the Washington Consensus. The immediate abolition of government regulations, of price and foreign exchange control, and of subsidies to state-owned companies, with the simultaneous liberalization of foreign trade, resulted in successfully bringing down hyperinflation and balancing the budget. Besides, very soon after the establishment of a market economy, the problem of the shortage of goods in the market was resolved, but at the cost of a large drop in GDP and, especially, of a growth in unemployment. The key lever in combating hyperinflation was an extremely restrictive fiscal policy (salaries were not adjusted in conformity with the inflation rate). Income taxes were sharply reduced with the simultaneous introduction of new taxes (e.g. VAT). The central bank also implemented a restrictive monetary policy, keeping a high discount rate (30 percent) and by abolishing the financing of the state budget deficit. Despite large and growing unemployment, no specific policies were applied in the labor market, but, instead, early retirement was often used as an option for dealing with “surplus workers”.

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<sup>4</sup> The initial proposal of the plan was prepared by Sachs within two weeks in July 1989. The plan was strongly supported by financial aid of the stand-by arrangement with the IMF and the World Bank, as well as cancelling a huge part of Polish debt under auspices of Paris Club.



## FLAT TAX

It is a kind of tax with the same rate applied regardless of the income. Its effects are regressive [except if there is a tax-exempt part of the income in place, which may result in progressive effects]. In countries of Central and Eastern Europe that went by rather radical reforms of the tax system, the same, flat rate is extended to VAT and profits tax. Slovakia had a flat income and value-added tax rate of 19 % from 2004 to 2013.

the fall of interest rates and the expected reduction in the tax rate [enabled after cutting budget expenditures], and health and pension contributions [labor costs], which, combined with international competition, should result in growth. It is important to mention that for neoliberals, the only role of fiscal policy is ensuring price stability and exchange rates through a balanced budget and the

servicing of external debt. The objective of the government's fiscal policy is not economic growth or full employment: these are the tasks of the market, i.e. individuals and companies who are free to compete. Furthermore, the neoliberals will apply the motto *rules rather than discretion*: pre-defined and known rules of conduct of the state, instead of discretionary decisions that always bring unrest and uncertainty in competition. This ensures a *level playing field* [Friedman, 2007] for all participants. The tax system will be as easy and low-cost as possible, designed according to the principle of utility, with an emphasis on indirect taxation. The neoliberals will advocate the reduction of the rate of direct taxes, such as taxes on income and profits, also supporting the reduction of subsidies to certain sectors and industries that have no economic justification. Under ideal circumstances, the neoliberals will promote the idea of the *flat tax rate*, that is, the in-

roduction of the same proportional tax rate for all types of taxes. The motto *rules rather than discretion* will be particularly pronounced in the sphere of **economic policy**: the central bank is independent of the government, and the governor announces in advance the goals [e.g. a targeted inflation rate], and the instruments to be used during the given term of office. The only objective of monetary policy is price stability and the fight against inflation. The instruments that monetary authorities have at their disposal are universal: *reserve requirements* and discount rates.<sup>5</sup> As in the case of fiscal policy, employment and economic growth are the responsibility of market players, while state authorities provide a legal framework and equal conditions for all market participants.<sup>6</sup> In our example, since inflation is under control, monetary policy has done its part of the job very well. The neo-liberal view is that budget consolidation will result in the necessary decline of interest rates, which will be used by market participants to initiate new projects and stimulate economic growth. By building on the principles of their fiscal and monetary policy, the neoliberals believe that the exchange rate is the result of market developments, and its stability is the basic precondition for economic development [naturally, if foreign exchange speculations begin to threaten the central bank's primary objective - the fight against inflation - there is always the possibility of foreign exchange interventions]. Generally, within the **exchange rate policy** advocated by the neoliberals, there is no room for exchange rate manipulation for economic purposes [to encourage exports and restrict imports].

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<sup>5</sup> See the basic remarks on monetary policy above.

<sup>6</sup> Remember, these are the first two models according to Block's country classification.

## NEOLIBERALS

### Fiscal policy

- Objective: economic stability
- Passive policy (fiscal consolidation)
- Balancing the budget by cutting public spending
- Indirect taxes (VAT)
- The principle of tax utility
- A simple and inexpensive tax system
- Rules rather than discretion
- Flat tax rate

### Monetary policy

- Objective: price stability
- Independent central bank
- Universal instruments of monetary policy
- Rules rather than discretion

### Exchange rate policy

- Exchange rates are the result of market developments (as long as they do not endanger the primary objective of monetary policy)
- There is no exchange rate manipulation for economic purposes

### Industrial policy

- Privatization of natural monopolies, public enterprises and activities
- Ensuring a "level playing field" for all participants
- Reform of public administration and the justice system
- Against state interventionism
- Entrepreneurship is the key to economic growth and employment
- Small and medium enterprises
- Financing through capital markets

### Regional policy

- Only geographical and social conditions are important
- Entrepreneurial initiative

### Labor market policies

- Objective: legislative amendments to create a dynamic market
- A weak safety net
- Passive policies (time-limited)
- Bargaining at enterprise level
- Free entry to employment brokers

Neoliberals would openly advocate the privatization of natural monopolies, such as the production and distribution of electricity, gas and water, the privatization of public enterprises, prisons, schools, hospitals and all other activities that they believe the private sector can perform as efficiently as the state. In this way, they want to abolish the practice of covering the losses of these enterprises from the state budget, and thus - with privatization-generated income - they want to contribute to a balanced budget, but also make room for private initiatives. The **industrial policy** is thus reduced to ensuring equal conditions for all in the market [transport and energy infrastructure, property rights, tax and legal treatment ...]. This will probably mean the start of cadastral reform, reorganization for the more economical and more efficient public administration, the simplification of procedures and a shortening of the time required to start up a business, obtain building and other permits, etc. In any case, the central government does not become involved in the market: industrial policy is guided by market impulses and profit motives that will determine what will be produced and in which sector the workforce will be employed.

In the field of **regional policy**, there will be no centralized-bureaucratic preferences given to specific regions for certain types of industry. The existing geographical and social conditions have created comparative advantages, and it is up to each individual whether or not to use them.

In the **labor market**, there will be no great safety net for those who are unemployed or for those whose entrepreneurial venture has failed: neoliberals do not consider unemployment a key issue. The state will implement passive policies [such as unemployment benefits, but with a clearly defined duration], and, through possible adjustments of the law, this will contribute to

a more dynamic and flexible labor market, which implies easier hiring and firing, a limitation of the duration and reduction of the rights provided for in collective agreements, etc. The neo-liberals will advocate direct wage bargaining between employers and workers, without union intervention. They will also enable the development of various private employment agencies.

## **AN EXAMPLE OF CONSERVATIVE ECONOMIC POLICY: THE CDU/CSU IN GERMANY**

The economic program of the German sister parties CDU/CSU, known as *the social market economy*,<sup>8</sup> is a combination of market economy and social responsibility, i.e. a corporate system of economic management through a tripartite partnership of government, workers, and employers. Within this model, the role of the state (the so-called *Ordnungspolitik*) is close to the liberal concept, but with the addition of regulatory components (countries under numbers 2 and 3 on Block's Scale) aimed at ensuring freedom of trade and contracting, market transparency and free access to foreign markets, as well as the fight against monopolies, cartels, and other market barriers. The foundation of the social market economy is the free and socially responsible entrepreneurship of SMEs incorporated into the local community.

The objective the balance between high rates of economic growth, low inflation, and acceptable levels of unemployment, with a high level of social well-being. Besides, every institution is independent and targets a pre-defined goal. The central bank implements monetary policy aimed at price stability independently of the government, while the government implements fiscal policy by keeping the budget in balance. Tax and other revenues are used to fund public services, such as the construction of infrastructure and social benefits. In principle, a consistent economic policy is conducted (rules rather than discretion), so that the state does not interfere with market processes. Also, the goals of subsidiary (individual - family - community) social policy<sup>9</sup> cover employment, housing and various educational policies, as well as additional training throughout the working life, while environmental protection does not rely on the state, but on the moral and social responsibility of every individual.

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<sup>8</sup> Alfred Muller-Armack explains the above-mentioned concept in his book published in 1947 entitled *Wirtschaftslenkung und Marktwirtschaft*. Together with Ludwig Erhard (the then Minister of the Economy), he is considered the father of this model.

<sup>9</sup> See the table Three regimes of the welfare state above.

## **Conservative economic policy**

The conservative view of economic policy is primarily determined by pragmatism and a desire to preserve social cohesion from which entrepreneurial impulses will generate economic growth and development. The conservatives place special emphasis on small and medium enterprises and family businesses, networked and connected in “clusters” with other similar businesses. They are also committed to the preservation of traditional, mostly manufacturing, industries. Enterprises, besides economic goals, take on other socially responsible functions, so there is no need for excessive state interventions, regulations and supervision. Entrepreneurial ventures are financed mainly from banking sources in the form of long-term investment loans, and the relations of businesses with the banking industry are good and long lasting. The conservatives will mostly advocate a state of macro-economic stabilization aimed at ensuring the freedom of contracting and trading - the fight against monopolies and market barriers.<sup>7</sup> Similarly as neoliberals, conservatives will advocate a private alternative to state provision of public goods, be it through a public-private partnership, outsourcing, or outright privatization of as large a part of public services as possible. Since they are particularly concerned about the budget deficit, in our example, the conservative **fiscal policy will emphasize**, as with the neoliberals, fiscal consolidation, with the difference being that in this case - along with cuts in public spending because conservatives tend to reduce the size and role of the state - it is based on an increase of direct taxes. This is essential for maintaining cohesion and a sense that “everyone bears the same burden”.

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<sup>7</sup> See Block’s classification above.

A balanced budget will be the basis of price stability and the economic system as a whole. The tax system will be based on the principle of usefulness for the payment of public goods and services financed at the local level [e.g. a communal utilities company]. According to the principle of subsidiarity, local authorities would be given greater rights and obligations to use public revenues and expenditures [this is known as fiscal decentralization], while the central government would retain control of legislative and repressive mechanisms. The basic vision of the conservatives is a small, efficient government with a balanced budget that creates a safe environment for entrepreneurs who will then create added value and growth. Reducing public expenditures and transferring “responsibility for failure” from the state to the individual/family will release state finances and reduce the tax burden of the real sector.

Another feature common with neoliberal economic policy is reflected in **monetary policy** where the conservatives will advocate for an independent central bank whose only goal will be the stability of prices, currency and the purchasing power of the population. In achieving this, the central bank will use universal measures aimed at controlling and monitoring financial and banking systems [e.g. the reserve requirement and the discount rate policy].

An active **exchange rate policy** will also not be implemented: the conservatives believe that the exchange rate is the result of market movements, as long as it does not jeopardize the primary objective of monetary authorities [price stability].

In the field of **industrial policy**, the conservatives will put more emphasis on the development of entrepreneurship as a base for economic growth and employment. Small and medium enterprises and family firms, as bearers of employment and eco-



## CONSERVATIVES

**Fiscal policy**

- Passive policies (fiscal consolidation)
- Ideal: balancing the budget by increasing taxes (equal distribution of the burden of crises)
- Direct taxes
- The principle of utility

**Monetary policy**

- Objective: price stability
- Independent central bank
- Universal monetary policy instruments

**Exchange rate policy**

- The exchange rate is the result of market movements (as long as it does not jeopardize the primary objective of monetary policy)
- No exchange rate manipulations

**Industrial policy**

- Entrepreneurship is key to economic growth and employment
- Small and medium enterprises
- State subsidies and incentives for agriculture
- Traditional industries
- Big regional enterprises as a bearer of development
- Liberalization and deregulation

**Regional policy**

- Participation of local and regional authorities in the ownership and management structure of the holders of economic activity by region
- Interregional competition

**Labor market policies**

- Active and passive policies
- Important role of civil society rather than of the state
- Bargaining at an enterprise level
- Incentives for self-employment

conomic activity in the regions, deserve special “care” because of their rootedness in the community. Depending on the geographic and historical characteristics of the region, the conservatives will advocate incentives and subsidies for agriculture, fisheries and livestock breeding ... and associated industries, and large companies (if there are any in the region) will be closely associated with the local authorities. Traditional industries will generally be preferred [e.g. automotive, shipping, food ...]. This is also the direction in which tax and other incentives will be created as ways to attract foreign direct investments, either through multinational companies or through the repatriation of the immigrants’ capital. With GDP growth, it will be important for the conservatives to know *where* it grows, and what effects it will have on local communities. Although they support liberalization and deregulation, they will strive for the restriction of the financial industry and its services (such as financial derivatives), but also for control of the balance of payment’s capital account, and, in this way, they will require the reinvestment of the majority of the profits and/or their investment in local community development. Local and regional authorities will be represented in the ownership and management structure of the holders of local economic activity: **regional policy** and balanced regional development will be of extreme importance. Regional authorities can compete with each other in attracting foreign capital with the instruments under their control: municipal contributions, parafiscal levies, local taxes, leasing out land owned by the regional administration, etc.

**Labor market policies** will include active and passive measures to fight unemployment, with greater emphasis on the impact of local civil society organizations (religious organizations including) than on the responsibility of the central government. Its role in the labor market will potentially be reflected in incen-

tives for self-employment, such as tax and loan subsidies and reliefs. Wage bargaining should take place at the level of enterprises rather than at the national level.

## **AN EXAMPLE OF SOCIAL DEMOCRATIC ECONOMIC POLICY: REHN-MEIDNER'S MODEL FOR SWEDEN**

A model of two Swedish trade unionists, Gösta Rehn and Rudolf Meidner, established in 1951, strove to build “the people’s home for all Swedes” based on the values of equality, cooperation and security. Its goals were: a high level of production, full employment, equality of income and price stability. The basis of the model consists of a combination of (1) a restrictive fiscal and monetary policy, (2) a “solidaristic wage policy”, i.e. small differences in wages based on national agreement under the pressure of powerful unions, and (3) active labor market policies, i.e., additional training and retraining for job-seeking individuals).\*

The use of discretionary restrictive fiscal\*\* and monetary policies that kept aggregate demand under the level of full employment enabled the simultaneous achievement of full employment and price stability. The programs of additional training and travel-fee compensation for greater mobility between the regions, public works for the elderly and less mobile workers, and incentives tar-

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\* The difference between the Rehn-Meidner and the Keynesian model is that the latter implies an expansive macroeconomic policy (primarily a fiscal policy which affects the aggregate demand and devaluation of the currency) in combination with regulation and selective fiscal measures aimed at fighting inflation and keeping unemployment low. The “trade off” between the unemployment rate and inflation (see the note on the Phillips curve above) is resolved by income policies, i.e., by controlling the growth of prices and wages.

\*\* In the midst of a deep recession the countercyclical (anti-crisis) fiscal policy takes the key role (if the GDP is plummeting, the government expenditure should rise to keep the aggregate demand at the acceptable level), i.e. the budget deficit should be approved to pull the country out of the crisis.

geted at certain regions resolved the problem of what are known as “islands of unemployment” that may arise as a result of restrictive macroeconomic policies.

Fully funded by progressive taxes with high marginal rates, the welfare state of universal rights, generous transfer payments and comprehensive and high-quality educational, health and other social services was inseparable from the solidaristic wage policy: workers who performed the same job, regardless of the profitability, size or location of the company for which they work, were paid the same amount of money, while the salaries of usually discriminated groups - youth, women and workers with no qualifications or experience - grew. In the mid 1970s, when the employers’ association left centralized wage bargaining and the power of the unions was weakened, the functioning of the whole model was quickly called into question. How “different goals, restrictions and methods of the social democratic economic and social policy” constitute a coherent and consistent Swedish model has briefly been described by Meidner himself: “The values of highest priority are full employment and equality. Both come into conflict with other goals, notably price stability and efficiency. The conflict between full employment and price stability can be solved by a policy which combines restrictive general demand management and selective labor market policy. Equality pursued by a system of universal welfare, by a large public sector and by a wage policy of solidarity has to be compatible with the goals of efficiency and economic growth. The table below illustrates the main components of the model.

Objectives	Full employment	Equality
Restrictions	Price stability	Efficiency
Instruments	Combination of restrictive general measures and selective labour market policy	Universal welfare Large public sector Wage policy of solidarity

Wage-earner funds

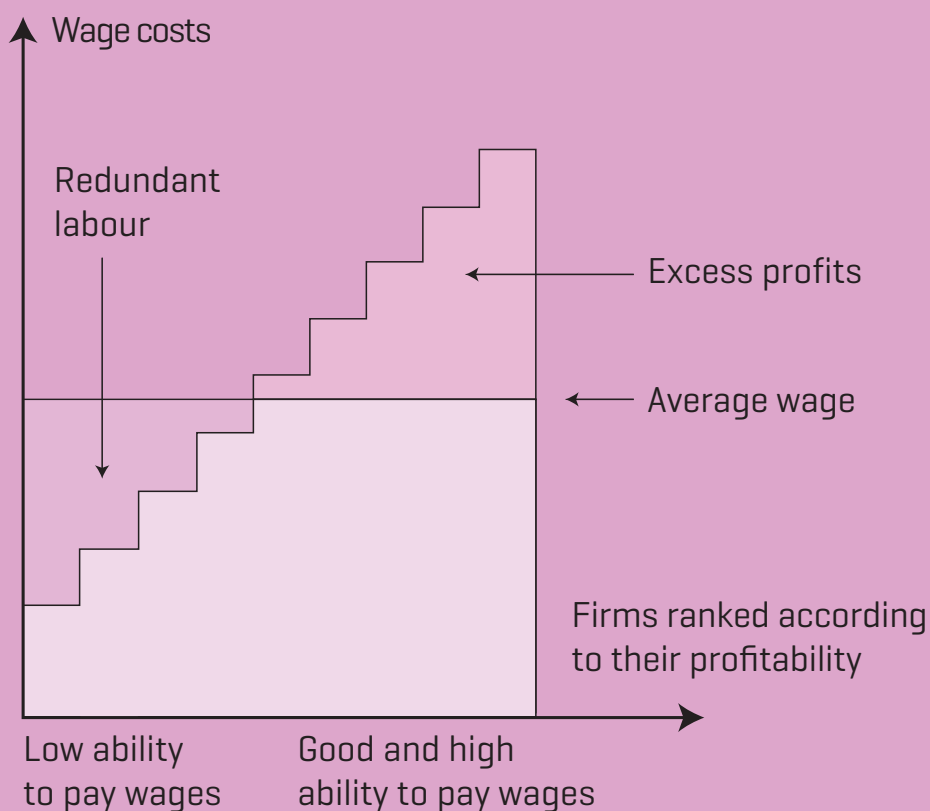
It is obvious that the model sustains those elements of socialist ideology which point beyond the limits of a capitalist market economy. Experience has taught us that the free market forces guarantee neither full employment nor equality. To give the highest priority to these goals means challenging the principles of the capitalist system which is based on the profitability of privately owned capital.

The formation of a large public sector as the guarantor of the universal welfare implies that a substantial part of the economy is withdrawn from market rules and that social needs are separated from people's purchasing power. The wage policy of solidarity separates wages from profitability and cushions the market. The union proposal for wage-earner funds has rightly been considered as a union attempt to share the fruits of capital accumulation with the capital owners.

The Swedish model, formulated in the version we have presented here, is reformist in the sense that private ownership and free markets are accepted to a large extent, but it is socialist in so far

as fundamental values of the labour movement are built into it. The model is based on a firm socialist ideology but recommends at the same time practical methods to attain the goals. The model combines visions and pragmatism of the traditional Swedish brand.” [Meidner, 1993: 217 – 219].

### Consequences of wage policy of solidarity for firms with different ability to pay wages



## **Social Democratic Economic Policy**

Social democrats are committed to the model of the social and/or developmental state.<sup>10</sup> In other words, the state will play an important regulatory and active role in their economic policy, particularly in the areas of taxation, public expenditures and investments, and income redistribution. Convinced that aggregate demand management is the key to macroeconomic management and pulling the country out of the crisis, the social democrats do not hesitate to use all policies and instruments available to the government. Objectives of their economic policy are growth of employment and production, social equality and environmental sustainability. Unlike their political rivals, the social democrats do not believe that the market is an ideal self-regulating mechanism. According to them, the right to private ownership implies certain social obligations as well.

**The fiscal policy** of the social democrats should actively encourage aggregate demand to increase not just GDP but above all employment, thus strengthening the social position of workers. The key instrument to do that is increased government spending [the G component in the GDP account] and investments that include budget deficit and public debt accumulation. Here lies the basic difference between the active fiscal policy advocated by the social democrats, and the passive fiscal policy advocated by the conservatives and liberals. Namely, the social democrats count that government spending is a higher multiplier of GDP than the reduction of the tax burden. Also, GDP growth automatically reduces the relative share of public debt in GDP: the debt may be nominally larger, but its “burden” is smaller in real terms.

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<sup>10</sup> See Block’s classification above.



The tax system organized according to the principle of fairness means progressive taxation and higher revenues from direct taxes (income taxes and profit tax). The non-taxable portion of the income will be additionally increased in order, on the one hand, to ensure the contribution of private consumption (component C) to stimulate aggregate demand, and, on the other hand, to increase equality by caring for those with the lowest personal incomes. In the spirit of the active concept of fiscal policy, numerous discretionary decisions will be adopted (e.g. public works) on the expenditure side of the budget, then subsidies and support to public enterprises also funded by the public debt of the central government. Expansionary fiscal policy will invest funds through public companies in green industries and infrastructural projects, thus creating the potential for further industrial development and employment.

In order to keep inflation under control, expansionary fiscal policy optimally pairs with a relatively restrictive **monetary policy**, although it is possible in times of crisis that the political left will strive for lower interest rates and expansive money supply – at times known as “quantitative easing” or “helicopter money”.<sup>11</sup> At any rate, the social democrats advocate the strong correlation and coordination of monetary and fiscal policy. In ideal conditions, the social democratic goal of monetary policy would be the growth of employment and production while maintaining stable prices. In the fight against a crisis, the central bank will use its usual instruments (interest rate policy and reserve requirements) and will opt for a selective credit policy for compa-

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<sup>11</sup> See Wren-Lewis, Simon. 2015. *People’s QE and Corbyn’s QE* [online] Mainly Macro. Available at: <https://mainlymacro.blogspot.hr/2015/08/peoples-qe-and-corbyns-qe.html>.

nies, industries and sectors that have the potential to lead the national economy out of recession.

This also includes cooperation between the central and commercial banks in terms of liquidity and monetary policy: the central bank can release part of its reserves to commercial banks if an agreement is made in advance in which areas and projects this money will be invested.<sup>12</sup>

As part of the **exchange rate policy**, social democrats will have a different approach compared to their ideological opponents: they will not hesitate to promote the more active role of the state [i.e. the central bank under its control] in the foreign exchange market in order to encourage exports by depreciating the local currency as needed. Also, foreign exchange reserves collected during periods of the defense of the established level of the exchange rate will be used to fund strategic business projects, at least until the appearance of an exaggerated fear of inflation.<sup>13</sup>

As in the fiscal, monetary and exchange rate policy, the impor-

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<sup>12</sup> Long-term refinancing operations function in a similar way. See: *ECB, 2016. What is TLTRO II?* Available at: <https://www.ecb.europa.eu/explainers/tell-me/html/tltro.en.html>.

<sup>13</sup> It is important to mention that the social democrats – despite the potential of the threat of a price increase together with the growth of employment shown by the Phillips curve – will not necessarily have problems with the equilibrium inflation rate. Therefore, it is possible to apply inflationary financing of the budget deficit. Tax systems with progressive taxation, in the case of an increase in inflation, generate higher budgetary revenues: since inflation increases nominal [but not real] revenues, more taxpayers enter the higher tax rate bracket. Particularly in a situation where we have a specific level of inflation, sub-allocated resources and the problem of insufficiently aggregate demand, the nominal depreciation of the exchange rate does not necessarily have to stimulate inflationary expectations, so it may appear on a social-democratic government's menu.

## SOCIAL DEMOCRATS

- Fiscal policy**
- Active fiscal policy that stimulates demand
  - Budget deficit and public debt as a means of development
  - Progressive taxation
  - The taxation principle of fairness
  - Discretionary government decisions
  - Subsidies and grants to public and strategically important companies
  - Multiplier effects of government spending

- Monetary policy**
- Goal: employment growth while maintaining price stability
  - Coordination with fiscal policy
  - Agreements on the interbank market
  - Selective credit policy
  - "People's quantitative easing"

- Exchange rate policy**
- Active exchange rate policy (depreciation)
  - Financing of projects by accumulated foreign exchange reserves

- Industrial policy**
- Investing in public infrastructure and sustainable industries
  - State subsidies and support for strategic industries
  - Selecting "national champions"
  - Focus on large enterprises
  - State development agencies and industrial zones
  - Financing in the banking market more important than financing through funds and investors in financial markets (sustainability and long term relationships)

- Regional policy**
- Defined at the national level
  - Incentives for selected regions and "champions" who operate in these areas

- Labor market policies**
- Active employment policies
  - Tripartite bargaining on the living wage at the national level
  - General collective agreements at industry level and national level (rather than bargaining at individual or company level)
  - Workers' participation in decision-making
  - Equality in terms of the amount of wage/salary, career mobility and responsibility

tance of investment in industries and sectors that promote social inclusion and environmental sustainability (renewable energy sources, service industries, local crafts) has already been emphasized, it would be important to add that the **industrial policy** of social democrats at state level will choose large companies - leaders of strategically important industries - to be supported through economic and industrial policy measures, such as state subsidies, tax relief, and other kinds of incentives. Thus, investments in public infrastructure, a prerequisite for any industrial development, will have an important place. With the activities of the state development agency for the promotion of exports and investment, the development of various industrial zones, and infrastructural, food and energy projects will be the first step in the formation of industrial policy coordinated between the government, trade unions, employers and educational institutions, especially for the engineering profession.

**Regional policy** will be defined at the national level, in consultation and with the participation of representatives of local governments and experts from the business and academic community. It will be optimally created according to the industrial policy mapping of the holders of industrial development in certain regions to which tax-generated and other incentives will be directed.

Given that the problem of insecurity and inequality is crucial in the social democratic approach to **labor market policies**, emphasis will be placed on active employment policies such as retraining and additional training, but - as in the Swedish Model - with the state really taking over the responsibility for finding the jobs. Within companies, the social democrats will advocate the participation of workers in decision-making through workers' councils, or the participation of workers' representatives in

supervisory boards, as well as additional training programs within office hours. They will pursue general collective agreements both at industry and national levels.

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While writing *Political Ideas and Public Policy: A Manual for Political Organizers*, the authors tried not to separate ideas from (political) action. That is how they achieved a homogenous approach, a rarity in this genre. They thus showed the deep connections between the (still) key political ideas of our time (liberalism, conservatism, and socialism) and “practice”, as well as vice versa – the inevitability of their permeation. This unification of “theory and practice” is presented through “scenes from life”, which are never left without their theoretical context. Since the manual *Political Ideas and Public Policy* is an informative and easy read, potential readers, besides political organizers, may also include a student of social sciences or two trying to orientate themselves within the reading list of their university course.

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