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Hartmut Elsenhans

Deepening European Integration in Order to Get Realistic Options for the European Left

Reflection Paper

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Preface by Roland Kulke

With this publication, *transform! europe* presents a discussion paper by Prof. Hartmut Elsenhans on the EU's economic and monetary policy.

Our object is to advance the political and strategic discourse on European integration on an intellectual level, and to this end, we would like to highlight contributions from the broad left and progressive spectrum, even if these do not always represent our own opinion. However, we believe that Hartmut Elsenhans' contribution is both remarkable and worthy of consideration.

Elsenhans confronts the fundamental question of how to better shape and secure the lives of European citizens with an unequivocal plea for deeper European integration. Adopting a trade union-oriented view of the economy, which combines Keynesian economic analysis with a Marxist class analysis, he criticizes both the neoliberalist stance of the conservative parties and the social democracy of the "Third Way" à la Blair and Schröder in equal measure.

Introductory words

The European integration process is at a crossroads. Either the political forces in Europe succeed in deepening integration or they will be forced to accept re-nationalisation as suggested by the extreme right. Without efficient Union-level institutions based on democratic majorities to legitimize the EU's authority, the EU is becoming increasingly powerless to implement the decisions required for managing the European Union economy in the interest of the great many. While re-nationalisation may appear as a means for providing more legitimacy, the European nation states are not only highly enmeshed with one another, but many are also too small to withstand the pressure of globalisation without a unifying European Union identity and corresponding institutions. Populist promises of

Whether or not the argument that capitalism is the best option for workers to secure their rights and their own share of the social product is a valid one, remains up to the reader's judgment. However, one thing is clear: more than 10 years have passed since the devastating global financial crisis of 2008 erupted in the EU. Many elections, governments and European Commissions later, the EU has still not succeeded in making its economy storm-proof. European economic and social institutions are still brazenly vulnerable to the next financial crisis, and the damaging social impact of the last one remains unresolved.

The completely inadequate structure of the Eurozone is still a work in progress. How to tackle the structural lack of demand and the resulting mass unemployment within the EU is of integral importance to any valid left-wing policy. The aim of this text is to provide answers, addressing which social, economic and political institutions should the left use, and which political and social-transnational coalitions should it forge, to achieve its goal of a social Europe.

re-nationalisation and domestic resistance to the increasingly unchecked strategies of big business are doomed to failure. Although a select number of smaller countries enjoy dynamic growth possibilities due to their proximity to larger economic spaces – such as the finance sector in Switzerland and Singapore, the oil sector in Norway, the geostrategic position of Iceland and Singapore, or Estonia or Ireland's access to the large European Union market –, such possibilities will not be available to the larger European Union members if all of them try to develop on the basis of such niche positions.¹

The current article is based on Keynesian political economy. Capitalist growth depends on expanding markets which

¹ Finalizing the discussion on wage-led or profit-led growth, Onaran (2016:64) shows that although all countries grow wage-led, i.e. on the basis of their internal markets, small countries can beggar their neighbours by growing "profit-led", i.e. by spending out of the economic surplus. For two countries normally quoted for the viability of small countries, this economic surplus is fed to a significant degree by rents, in the case of Norway in the form of oil rent, and in the case of Switzerland by the monopolistic incomes accruing to the finance sector.

in turn depend on rising internal markets and continued competitiveness on the world market. Economic influence, as exercised by state and collective action in the interest of labour, would aim to achieve high levels of employment² rates on the basis of demand primarily by stimulating the internal market and creating an internal environment conducive to technological innovation. Both goals can be achieved more easily internally in larger markets instead of in competing foreign spaces.

Capitalist growth does not depend primarily on capital accumulation as the capital-output ratio does not increase during the growth process (recently D'Adda and Scorcu 2003). Capitalism is not capital deepening when relating the stock of capital to the value of production and the income of labour. The neoclassical and traditional Marxist insistence on the necessity of capital accumulation can only lead to a rent-based economy or ultimately to an end of growth, as argued by Rosa Luxemburg.

Keynesians following Kalecki do not argue that high wages automatically trigger profit. They argue that profits depend on net investment spending, and net investment spending depends on expanding demand. Without expanding demand only rationalisation investment is economically efficient, which reduces total consumption. Even higher profits have to be consumed by owners (which requires easing of competition) as they can only temporarily be used for the creation of new capacities of production by spending on plant and equipment.

State intervention in the interest of the masses requires large economic spaces. The European Union has succeeded in creating such a space by means of so-called "negative integration", i.e. the removal of rules established by national states. In order to overcome the pro-business bias of negative integration, regulation at the European Union level has to be intensified. This requires large, Union-wide political alliances in the tradition of the European left. However, these alliances will not be successful without connecting to the political centre. The Keynesian approach facilitates such alliances as Keynesians do not put into question the microeconomic efficiency of market regulation. However, microeconomically efficient business strategies do not necessarily lead to high levels of employment, fair distribution of incomes, and early engagement in innovation.

The state is the place for imposing the interest of the great number of working people from different walks of society by creating the framework through which high levels of employment and high levels of innovation can be promoted.

Business does not ask for rising mass incomes but capitalism is based on rising mass incomes. Defending the interests of the great many, then, does not require the outright rejection of capitalism; rather, it calls for its embedding in overarching structures for the general social interest to save it from the dominance of unbridled capitalist influences. The European Union is a space where the defense of this general social interest can be organised.

1. The necessity of large economic areas if state power is to be used to correct the market.

For the great many, their state and their collective organizations have two basic tasks to fulfil: sufficient effective demand *for high levels of employment* and sufficient incentives for innovation to ensure future competitiveness in high earning branches of production. Insufficient demand from the private sector can be compensated by government-financed demand in the forms of state-financed investment or redistribution on the basis of state support for collectively imposed higher mass (wage) incomes.

New industries can be launched if the cost of the development of new products and new technologies can be distributed on large quantities of the new products to be sold. A country which is first in new technologies and new products remains competitive even at high prices in the initial phase. The subsequent cost decrease and associated readiness to engage in new products and technologies increases with the size of expected available markets. Accordingly, large markets promote technical innovation, as

² Practically full employment, as there is always some frictional employment

shown in the competition between the United States and Germany in the late 19th century (Schlesinger 1925). Being first, so important according to strategic trade theory,³ becomes easier with a ready market.

A country which has fallen behind in a new technology will face competition from lower cost producers from the very beginning. Operating on an at least mildly protected, large enough market allows distributing the higher costs of this initial phase on a larger number of locally marketed products. The first theoretical approach for using a protected internal market for becoming internationally competitive was Rudolf Hilferding's (1968: 423f.) theory of imperialism more than 100 years ago. As the colonial era belongs to the past, the protected market has to be composed of politically equal units. Since 1945, the European Union and its forerunners have been serving such a function.

The founders of the European Union were aware that to catch up technologically with the then leading industrial power, the United States, their markets needed to be put together.⁴ This is illustrated by the early conflict between France and Germany on the openness of the Common Market. France rejected the idea of directly opening Europe to the world market, supported then by the German Minister of the Economy Erhardt and the German industrial complex (Milward 1992:174-198), and opted instead for a more protected Common Market.

An intervening state entails state-set incentives. This includes a variety of areas of counteracting the pursuit of the most immediate interests of business: a regulatory state's industrial policy, for example, would aim to reduce the profit of some enterprises for the benefit of other enterprises in more desired specialisations. This type of limits to capitalist interests can be imposed more easily with a larger level playing field.

Moreover, the distribution of national income in favour of rising mass consumption for sustaining growth is not realized by business: when the assumption that businesses

will invest available financial resources whatever the development of mass demand is dropped, unemployment will emerge due to low purchasing power.

When local income rises, however, business tends to hop around to places where labour is cheaper. Cheaper places will only ultimately be forced to increase their labour costs because of full employment either by nominal wage increases or by rising exchange rates, not before reaching high levels of employment. Until then, though, business will export joblessness to the economies with higher labour costs. Economic integration could solve such issues by agreeing on concerted wage increases – that is, provided that state power in the area of integration is under the political influence of labour.

The main mechanism for disciplining capital that tries to play off different regional labours by producing where labour is cheapest and selling where wages are high is the necessity of access of this capital to markets with purchasing power. The larger the market, the more interesting for business it is, and the more easily restrictions on business can be imposed.

From the point of view of costs and income, large markets are necessary for the defence of the general population's interest. The choice lies not between smaller protected nation-wide markets and the Union-wide market, but between opening to the world market without the possibility of state intervention or a Union-wide large market on which the political power of the Union can intervene in the economy.

Any European power, including Germany, is too weak to constitute a potentially protected area where the state can correct the market. Those who demand more state intervention in order to embed the market have to opt for larger units than the traditional ethnic "national" state in Europe. The State, nowadays lacking an ethnic definition (as held by some of the new great powers such as India and China), has to be based on the European Union level.

3 The most nuanced discussion is presented by Krugman 1983: 131

4 For the early years the argument is well documented by Scitovsky 1958: 19pp., Balassa 1962; esp. 109, quoting approvingly Rostas 1948: 58p., who explained the much lower productivity in Western Europe in relation to the USA by the size of the market. For the 1980s, Struwe 1991: 37pp., and Cecchini et al. 1992.

2. Shifting from negative integration to positive assertion of the regulating state

The labour movement and the various left-wing forces have their share of responsibility in the European Union and its member governments favouring the enabling⁵ over the regulating state. National tendencies towards wage cuts and the downsizing of the welfare state have been greatly supported by the institutions of the European Union and their allies in the member societies, especially business-interest actors and their neoliberal ideologues. Labour and left forces failed to struggle for the creation of Union-level political institutions through which to exert their collective political weight for imposing welfare state regulations and minimum wages at the Union level.

This aspect of globalisation is not caused by globalisation itself, but by the instrumentalisation of globalisation by the business sector, and therefore it could have been avoided through appropriate policies. Although there are no available institutional possibilities for the labour movement and the left to collectively impose their interests at the global level, they exist at the Union level. However, instead of instrumentalising the institutional set-up of the Union to work for a different, more labour-friendly European Union, the labour movement used almost exclusively the already existing national policy possibilities despite its own cosmopolitan traditions and attributed the weakening of these traditions to European integration, which it considered the main vehicle of globalisation.

There are two reasons for the absence of the labour movement and its instruments at the European Union level: the implicit structure of the problems that need a Union-level solution and the characteristics of the resources on which labour and the left can base their power.

Across all European countries, state regulation consisted in creating accidentally determined solutions for mostly identical problems. Social security systems in all major European countries are highly different despite fulfilling similar purposes. For example, institutional harmonisation was a major challenge during the process of German unification despite a common heritage in this policy field (Lehmbruch 1990: 481ff).

The problem of the great variety of national, accidentally created norms in different European countries – each characterized by its own historical context and conditioned by the particulars of the compromises in the national class struggle from which they arose –, was solved by the European Union by simply scraping them altogether without replacing them with European norms and European regulations. This was called negative integration (Scharpf 2002: 645). The possibility of harmonising norms by negative integration, i.e. by simply abolishing them, was one of the sources of the strength of the neoliberals and probably the inevitable result of national rivalries about the valorisation of their respective histories. Bureaucrats tend to derive their relative importance from their capacity to defend their historical inheritance

At the European Union level the labour movement and the left have not managed to unite in the search for innovative, public-interest solutions in the struggle for harmonisation of norms. Moreover, no serious attempts at labour cooperation at the Union level and implementation by efforts for a labour-dominated European Parliament have been made.

In the climate of today's European integration process crisis, the call for European labour standards, European minimum wages, labour representation and social security structures would be the most efficient way of preserving labour rights. A stronger European left block could be the guaranty for higher social standards, at least inasmuch as the uneven levels of development within the Union permit it.

There are, however, impediments to the formation of such a counterweight block against big business that consists of labour and the left. These impediments are rooted in the resources on which labour can build its political activity, as opposed to those of capitalists.

The rules of capitalist behaviour are basically acultural. Maximising profit is every capitalist entrepreneur's micro-economic target. Differences in the pursuit of this goal are not really caused by companies' national characteristics

⁵ Knill and Lehmkuhl 2002: 88, Bevir 2003: 468; Hilpert 1993: 12, Reichardt und Röber 2001: 373.

but by national differences in the capital-labour relation to deal with.

The strength of labour movements is based on organisation and a sense of solidarity based on a common dedication to the general public interest and the possibilities for its implementation. Specific organisational patterns and convictions are the result of historical processes which led to different outcomes in different member states of the European Union. The labour movement has therefore more difficulties than capitalist actors in adapting its structures and deploying its resources against the challenges of globalisation. The task of the left is, then, to open up a process of convergence and the setting of priorities in its struggle against big business.

Uniting the European forces of the left requires the development of a shared analysis of capitalism and the possibilities for the defense of social interests.

The practical adoption of the main conclusions of neoliberal thinking by the central European labour organisations and a wholesale rejection of capitalism by some forces of the left in the south of Europe are both the result of the ideological sterility of the labour and left movements since the October Revolution. On the one hand, the Communist left had totally underestimated the growth dynamics of capitalism as demonstrated after the political shock of World War II, as well as the necessity for big business to find a deal with labour by guaranteeing higher mass incomes and more social security. On the other hand, the Social Democratic left has not understood the necessity of countering the tendencies of capital to destroy capitalism by blocking (mass) consumption for defending profit. Both ideological petrifications are the result of a concentration on the pre-Keynesian opposition of two equally outmoded interpretations of capitalism, the Marxist one and the neoliberal one. The Social Democrats accepted markets with only mi-

nor corrections and thus lined up with the neoliberal view on the necessity of protecting profit by low wage increases. The Marxists considered capitalism to be doomed based on a similar interpretation of profit as something labour had to respect if capitalism was to survive, as the neoliberals argued. Refusing to respect profit, Marxism claimed, led to the possibility of overcoming capitalism. When this hope vanished, the underlying economic analysis seemed to comply with the interpretations of big business.

Lacking a concept in which satisfaction of mass demand constituted the main driving force of capitalism, the Social Democratic left instead held on to the idea that the available surplus constitutes the limit to growth, as entrepreneurs invest whatever they get. It tried to align itself with neoclassical theory which, in principle, also considered that the availability of investable surplus constituted the limit to growth. The Hartz reforms were the logical result.⁶ The communist and ex-communist left initially talked about the inevitable crises of capitalism and politically suppressed all those proposals which wanted to marry competition for the rich and powerful with overarching democratic collective responsibility for macroeconomic equilibrium. If the social revolution was not on the agenda, unemployment had to be reduced by cutting the cost of labour.

Both currents of the left are currently demanding isolated measures in favour of some segments of the population but do not dispose of a road map for managing existing capitalist systems in the interest of the great many.

⁶ Implemented in 2003, the Hartz Reforms replaced unemployment insurance by social assistance measures as the main social security instrument for the unemployed. Unemployment insurance depended on previous levels of income and on contributions. After 18 months, the unemployed lose access to this support and hence receive very limited amounts of assistance calculated on low subsistence needs and contributions of family members. Eligibility is based on the liquidation of most of the personal savings of the applicant, including property in form of housing and cars. In order to be eligible practically any work has to be accepted.

3. The base of profits are rising mass incomes

We should never forget that in 1931, three courageous Social Democrats, Woytinsky, Baade and Tarnow, proposed a large employment program in order to overcome unemployment. Orthodox Marxists, under the leadership of the great theoretician of imperialism Rudolf Hilferding, turned it down with arguments based on their reading of Marx.⁷ Today, “reasonable” Social Democrats perform the same service for business by insisting on the necessity of respecting profit in the wage deal, especially by limiting demands for increases of the incomes of the great many. Neo-corporatists often praise the moderation of the German trade unions in the wage deal as one aspect of the superiority of German trade union strategies in relation to other European unions (e.g.: Nölke 2013: 1, 2017: 164). For leading German neo-corporatists, higher wages for labour represent capitalist concessions to a political deal which is no longer suitable by capitalist parameters (Streeck 2011, 2013: 50).

At least within the moderate left, any discussion about macroeconomics is stifled by moderate Social Democrats’ dangerous obsession with international competitiveness as the only conceivable strategy. (Beck and Scherrer 2005, Major 2014: 130).

We chose therefore two areas in which we can show necessity of totally overhauling inherited beliefs of the dominant discourses on the left: the economic basis of profit and the conditions of international competitiveness.

With respect to profits, the theoretical foundation cannot be elsewhere than in Kalecki’s (1942) theory of profit. The theory implies that there is a lot of surplus in historically existing capitalist societies which is not profit, which entails that that there is surplus which is not required for creating jobs by investment.

The argument that profit is necessary for creating jobs via investment has long been used by the business sector to “convince” labour to accept low or no wage increases. Indeed, this argument has become the basis of a new fairy tale of business rhetoric, according to which wage increases – even if only in line with productivity increases – will lead to unemployment as the non-employed have a lower productivity than the marginal productivity of the employed. Economists pretend to have measured this phenomenon but have never provided concrete evidence (Sinn 2006: 56, Leibfritz 1998: 27). In fact, “too high” wages become demand, and thus increase demand. Therefore, the only consequence of “too high” wages could be inflation and not unemployment.

Profit depends on net investment spending, and is not a residue left over by labour. Consumption goods producers can sell the total of their output at a profit if there are wages which have not been paid in the production chain of the consumption goods producers. In very simplified terms, the government sector and foreign trade being in balance, consumption goods are bought by labour out of wages and all wages are used for consumption goods (Elsenhans 2011: 30-50). The additional wages then can only have been paid to workers who were employed in investment goods production at a production level higher than the replacement of worn-out equipment, hence constituting net investment. Enterprises in the consumption goods industry make profits if there is a demand for consumption goods beyond the wages they have paid directly or, in the manufacturing of inputs, indirectly to labour.

The consumption of the wealthy is considered as being paid out of their “wages”. In contrast to today’s sycophants of capitalism, Rosa Luxemburg early on credited capitalism for imposing restraint on consumption of capitalist entre-

7 Wladimir Woytinsky, Fritz Tarnow and Fritz Baade were economists close to the Social Democratic trade unions. In 1931, Woytinsky published an article (English translation of the article’s title: “Active Labour Market Policy”) in the trade union theoretical journal *Die Arbeit* (Woytinsky 1931). In this article, he called for state deficit spending for financing public works, together with state-guided credit expansion. A plan for action was proposed in early 1932 by these three authors and accepted by the Confederation of the Free Trade Unions (ADGB). It was rejected by part of the leadership of the Social Democratic Party, especially by Hilferding, who classified it as non-Marxist and therefore invalid (Gates 1974: esp. 216pp.)

preneurs⁸. Profit increases because of increasing net investment spending and decreases in crisis because of absence of net investment spending and not the other way around. For investments which entrepreneurs consider as yielding profit in the future, the banking system can always make available money by credit.

Profit is a particular category of surplus. Labour cannot destroy profit with its wage demands. Increasing demand requires increasing capacities of production at high levels of employment and any entrepreneur who proceeds to enlarge his capacities of production has to invest and create additional labour income by his investment expenditure, and therefore additional demand for consumption goods. Such a protection of profit does not apply to all other forms of surplus, especially politically appropriated surplus, which is called rent. The struggle in capitalism is not one of profit against wage but one of rent against wage and profit.

The distinction between profits and rents is not just hair-splitting. Rent can be redistributed without harming

growth. Profits cannot be redistributed, as capitalists can always proceed to new investment with the subsequent increase in wages if they perceive promising sales opportunities. By increasing net investment spending they may impose forced savings on non-capitalists, workers, but especially rentiers (Keynes 1936: 328).

Rising mass incomes beyond the capacity of production of consumption goods industries may lead to undesired inflation. They do not lead to the reduction of available profit in the hands of capitalist entrepreneurs. Rising mass incomes are important for profit, because they increase demand and trigger net investment spending, which in turn boosts profit. Additional investment spending requires rising (and not only high) demand under the conditions of imposing competition on the rich, thus raising mass incomes. Rising mass incomes, however, diminish rent. This allows some convergence of interest between labour and business against rentiers.

4. International competitiveness does not depend on low real wages

Rising mass incomes as a condition of capitalist growth (Elsenhans 1983) do not threaten international competitiveness. International competitiveness does not depend on real wages but on the exchange rate⁹. When labour becomes expensive in a national currency, it can lead to temporary lack of competitiveness which is corrected by devaluation induced by balance of trade deficits.

When an economy still has high costs in its national currency and resulting balance of trade deficits, its currency loses in value in the foreign-exchange markets. An economy which experiences a rising foreign exchange rate also experiences a decline in competitiveness. Devaluation

triggers trans-border capital movements, as observed before the introduction of the Euro within the European Union. When trade deficits become important and persistent, owners of financial resources will take the chance to shift their assets into currencies which they expect to rise in value after the devaluation of their own currency. The tighter the restrictions on small national financial markets, the more power such speculative capital movements have. On the other hand, financial resources are attracted more easily into immobile investment in plant and equipment for new products in the real economy by large markets. Leading economies have no means of imposing high exchange rates on emerging still less industrialised coun-

8 "Where is this continually increasing demand to come from, which in Marx's diagram forms the basis of reproduction on an ever rising scale? It cannot possibly come from the capitalists of Departments I and II themselves—so much is certain right away—it cannot arise out of their personal consumption. On the contrary, it is the very essence of accumulation that the capitalists refrain from consuming a part of their surplus value which must be ever increasing—at least as far as absolute figures are concerned—that they use it instead to make goods for the use of other people." (Luxemburg 1951: 104)

9 Krugman 1994: 32, 38, Flassbeck 1988: 258, Busch 1978: 44 Givens 1995: 19.

tries of the South. They cannot keep them from devaluing their own currencies even below purchasing power parity as long as there is unemployment in these weaker economies.

The indebtedness of the Southern member countries of the European Union has been triggered by balance of trade deficits caused by Germany's underselling these countries on the basis of wage increases below productivity increases and commonly agreed inflation rates. Being members of the Eurozone, these countries could not devalue. The neoliberals do not deny that competitiveness is mediated through the exchange rate; otherwise they could not have suggested that Greece should exit the Euro.

It is, therefore, clear that wage increases within the European Union do not per se decrease competitiveness vis-à-vis the rest of the world. In case of too high wage increases in relation to productivity increases, the European Union would have balance of trade deficits with the rest of the world, which would lead to exchange rate adjustments. The wage deal has little influence on international competitiveness, but instead impacts the distribution between capital and labour within a national economy. High exchange rates and low wage increases provide capital with additional surplus which is appropriated under market imperfections as rent and not invested as there is no additional demand. The high rate of investment financing out of amortisation in Germany is one of the results.

The competitiveness of the newly industrialising countries of East Asia has little to do with their wage rates, but much to do with their capacity to produce locally all those wage goods which a rising number of workers require when exports and employment in export production rise. This capacity to locally produce wage goods is linked to the local self-sufficiency in food production. That is why the very poor regions of sub-Saharan Africa are no threat to the European job market, as opposed to East Asia. While Africa is dependent on imported food products, Asia was already self-sufficient when the export drives started. The Green Revolution has led to rising rural mass incomes. These improvements in the situation of the lower classes triggered an additional, initially local-market-oriented industrialisation beyond the export industries.

One cannot fight by wage restraint against the increase of local wage goods production, especially in local food production.

Both examples show that the focal points of a strategy of the left that favours the masses are based on a superior understanding of capitalism against the neoliberals. This may allow ideological hegemony in the struggle with the Conservatives over the political centre.

5. Policies for social reform require large majorities, including the political liberals

Fighting back against neoliberalism does not necessarily mean fighting back against political liberalism. Social reform ultimately depends on alliances with the political centre, as one cannot impose major economic and social policy reorientations with only 51% of the electorate. This point was quite clear to the late Enrico Berlinguer, the father of Eurocommunism.¹⁰ In the struggle between the left and the non-left forces, it is only the internationalist option of the political centre which does not deprive the left of its identity.

Even Macron is a potential political ally despite his internal policies in France. He understands that internal market-based expansion in Germany is essential for restoring European growth. Applying Macron's approach to European policies cautiously checks the efforts of hard-core neoliberalism in Germany. Although the possibilities of an anti-Macron left may appear favourable if France leaves the Euro, the Mitterrand experience of 1984 has demonstrated that, despite Germany's severe problems in coping

¹⁰ Judd 2005: 521pp. A description on the debates on the "compromesso storico" with the democratic parties of the middle around the 11th party congress in 1966 is presented in Alf 1977: 291-293, Webb 1984.

with the strong Deutsche Mark (Marsh 1996: 399), Germany was always able to keep an exchange rate which was undervalued in relation to its productivity. This resulted in the failure to conduct an expansionist economic policy of Keynesian type within France alone (Cole 1999, Dyson 1999: 183).

If France's position on wage increases within the European Union helps German unions to justify their wage increases, not only in line with productivity increases but also in

line with inflation increases, this will constitute an asset in a strategy where German labour relieves labour in other European countries from the stifling weight of German austerity policies. This could provide the German labour movement with an important argument by presenting itself as a force with the capacity to save the European Union from its neoliberal destructors, who are undermining European integration process despite their lip-service to the contrary.

6. Using capitalism instead of lamenting it

These two arguments, i.e. that profit is not a residual leftover but rather the result of net investment spending and not just productivity increase, and that international competitiveness depends on the exchange rate and not on the wage deal, are not found in the typical discourses of the moderate and the more committed left.

Demands for higher wages and criticism of the European Union are usually attended by somewhat moralistic condemnations of capitalism and neoliberalism. The contradictions of capitalism as it actually exists today are not really addressed by the much of the left's stubborn and careless criticism of capitalism. However, they can be addressed by showing how to embed capitalism in an overall structure where the democratically legitimised state can modify the conditions for capital valorisation, setting market signals.

There is no chance of getting any majority in favour of replacing the market by small-scale associations, and certainly not by detailed production and price planning. There is no alternative to managing a decentralised economy where markets play an important role. The left has to "espouse" capitalism in order to work within it. There is no data on the acceptance of central planning in the contemporary left. That the opinion surveys done by DIW and Eurobarometer do not contain pertaining questions proves that the surveyors themselves might not see any significant part of the population in favour of it. This does not

exclude that a larger role of the state in the economy might be desirable, especially if mass demand becomes too weak and if self-declared capitalists tend to become rentiers.¹¹

Marx himself was not unaware of the advantages of capitalism, as shown by the Communist Manifesto and its praise of the bourgeoisie. Marx certainly would have not found similar qualifications for the Soviet-style bureaucracies of the post-Stalinist period.

The most important advantage of capitalism is its malleability. Even its fiercest critics do not deny that the political conditions which allowed rising mass incomes after 1945 contributed to the high growth rates in the first three decades after World War II.

Furthermore, spending on environmental conservation has the same consequences for profit as rising mass incomes. It is consumptive spending which contributes to positive investment by the capitalist sector, just as rising mass incomes do. The solution of the environmental problem is the latest frontier for profit making capitalism, because it contributes to rising demand. Slowing down productivity increases by setting higher requirements in environmental sustainability of production, as well as compensating measures against pollution, limit the need for increasing private consumption in order to achieve sufficient levels of effective demand for high levels of employment.

¹¹ There are no questions concerning the acceptance of "social market economy" in the Social Socio-Economic Panel (SOEP), data for years 1984-2016, version 33, SOEP, 2017, and the last available data of European Commission: Eurobarometer 89.3, June-July 2018, ZA No. 7483.

The possibility of reform has been neglected by all streams of left-wing thought: The more committed have underestimated capitalist resistance. The more moderate have been mesmerized by fanciful financial models with no basis on reality or explanatory power, including the idea that capitalism is a zero-sum game.

Such reforms are probably unworkable in Europe within the framework of national economies without destroying their international interconnectedness. On the national level, European trade unions will have difficulties in fighting against the argument that Portuguese workers are cheaper and German workers so much more efficient.

As stressed earlier, the role of large markets is a central asset for labour movements in their struggle with big business. If the overall power relations are in favour of increasing employment levels, capitalist integration at the regional level of the European Union certainly contributes to higher productivity and incomes. The large market of the European Union allows applying the mechanisms for keeping up in the race for technical innovation which will become predominant in the multi-polar international system which is replacing the bipolar system of the Cold War area.

The alternative would be envisioning each European country as a sort of 19th century Portugal in relation to the centre of Europe between southern England and the Alps. The situation of Portugal was far from enviable.

Labour's rights can only be defended by deepening European integration. For this, all European left-wing forces have to find a common platform for increasing labour's share in the national income, for improving work conditions, and for greater care for the environment. These political goals should allow the left to become hegemonic in the European discourse. The nationalist discourses which develop out of disappointment with the failings of the European Union can only weaken labour forces at the Union level without providing a compensating influence at the national level. Choosing deepening European integration by at least initially concentrating on climate change would allow to convince the Green parties of the necessity of massive deficit spending. This could have a large employment effect, especially in the European southern regions with their long coastlines and much more intensive levels of sunshine. In case of an improved overall employment situation within

the European Union, labour forces in the technically more advanced regions could be convinced to push for a more active policy of wage increases without having to fear loss of jobs to the southern regions. There are realistic possibilities for launching large political alliances on the left and centre left.

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