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The Corporatist Economy and the Nanny State

GREEN EUROPEAN FOUNDATION

About the author:

Gerhard Schick is a German economist and politician. Schick joined Alliance 90/The Greens in 1996 and was elected Member of the German Bundestag in 2005. Since 2013, he has been the Deputy Chairman of the Bundestag's Finance Committee. Furthermore, he has been a Member of the Parliamentarian Financial Market Body since 2008. Gerhard Schick holds a PhD in finance from the University of Freiburg, Germany.

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Coordination and final editing: Aldo Caruso
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Production: Micheline Gutman

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1 A Political Dilemma

To what extent should the state intervene in the economy? Political debates on this issue often follow a false dichotomy. We take for granted that the Left favours a high degree of state intervention, while conservatives are associated with support for free markets. This juxtaposition is not only wrong; it entirely misses the essential point. The important question is not the extent of state intervention but rather the nature of the legislation that we must adopt in order to best serve the interests of the broad majority.

Reducing state regulation does not serve to liberate the markets – instead, it has quite the opposite effect: it bolsters the power of a few large corporations. The supposed remedy – state intervention – too often fails. Through underperformance, governments often cause situations to deteriorate rather than provide effective remedies. A quick look at the behaviour of state-owned banks in the recent financial crises is sufficient to sow the seed of doubt about their capacities to manage risks effectively and better serve the economy than their private counterparts. Too often, state actors adopt policies that do not serve the interests of the broad majority but rather those of big business. In consequence, the state is no longer capable of assuring fair competition. Its regulatory powers appear to be so limited that economic policies remain unchanged from government to government. It comes as no surprise, therefore, that left-wing parties suffer politically when they call for more state intervention.

The reason for the state's failure to meet the needs of the majority of its citizens is that the balance of power between the state and business is skewed. The market economy has become a corporatist economy.[1] In market economies the state acts as an independent rule-setter, thus ensuring economic competition. When financially powerful interest groups are able to exert tremendous pressure on the state, however, state actors are often drawn to take the side of these groups rather than speaking on behalf of their citizens. This is particularly the case when the complexities of policymaking grow beyond the competence of governments, leading to dependence on the expertise of external interest groups.

This leads to a formidable political dilemma. Many citizens have lost their faith in government and in politics, believing that the state is on the side of the rich.[2] Increased regulation is therefore not an option, because state agents seem to be neither willing nor able to enforce rules that benefit the people.

I share the view that the state is serving the wrong interests in many ways. State actors have failed to successfully regulate the market economy, for example in the context of the financial crisis. We therefore need an innovative political strategy that takes a new approach to balancing the state and the economy. As citizens, we need to reclaim the state and ensure that it serves our interests, those of the people – and not those of the corporatist economy.

Similar to the 'progressive movement' in the USA at the turn of the last century, these new policies must promote a state with actual regulatory power capable of transcending the interests of big business. In order to defend us from hidden influences on policymaking, the processes leading to policy decisions must be rendered more transparent, ensuring that our governments are subject to scrutiny and are monitored – both by opposition parties and by the general public. The employees of our public institutions must be sufficiently qualified to meet with representatives of large corporations on an equal footing.

The adoption of any new, progressive strategy needs to generate more competition within our economies in order to control the corporatist economy. Governments alone cannot be responsible for planning all economic activity. We need to impose frameworks which ensure that markets generate outcomes that serve our interests.

Finally, this new progressive movement can only be a European one. Given the complex economic and political

1 Schick, Gerhard. 2013. *Machtwirtschaft – Nein Danke*! Campus Verlag.
2 ISF München (2012): *Krisenerfahrung und Politik*, p.61.

realities on our continent, we need to join forces. If we want government regulators to meet on equal terms with market players, we must operate at a European level. Regulations must be applicable across national boundaries; only then can they prevent the degeneration of the state into the 'self-service store' of the corporatist economy. This is essential in order to ensure that the state is once again able to work in the service of its citizens.

2 Failing State Actors

The financial crisis supplied numerous examples of market failure: the incompetence and greed of managers, rip-offs, and economic crime. The first, almost automatic response is to call for more regulation, for the nationalisation of banks, and for a 'bigger state'. These measures would be met with little enthusiasm, however, given the numerous cases in recent times of state failure in the effective regulation of economic institutions. In my opinion, this is even worse; state-run banks, for example, were created specifically as an antidote to greed in the markets, but now we are forced to recognise that they were often no better than private banks. We tax profits so that the burden of financing public services is shared fairly and the concentration of capital is corrected by the redistribution of wealth, but we see that the tax system is in fact used to redistribute wealth in exactly the opposite direction: from bottom to top, from small to large. This is outrageous!

2.1 Tax Flight

Taxes are used to redistribute wealth and to fund public goods and services. Without taxes, neither roads nor railways would be built. There would be no police service to ensure our safety and security, essential welfare programmes would no longer exist. Taxes are a core element of modern, democratic societies. We all participate in the system because we all benefit from it. It is therefore even more upsetting when companies benefit enormously from this arrangement and then make every effort to sneak their income past the state and avoid paying their own contributions.

In November 2014, the International Consortium of Investigative Journalists revealed that, between 2002 and 2010, more than 340 multinational corporations including Amazon, Deutsche Bank, Pepsi, and IKEA engaged in tax flight to Luxembourg.[3] With the enthusiastic participation of the Big Four auditors (PwC, KPMG, Ernst & Young, and Deloitte) several schemes were developed which made it possible to withdraw profits from European countries without paying tax – with the full knowledge and cooperation of the authorities in Luxembourg.

The example of Apple illustrates the extent to which corporations systematically misuse European tax laws for their own ends.[4] It appears that Apple's gift for innovation does not only cover computers and tablets; the company also seems to be very creative when it comes to dodging taxes. Tim Jenkins, a finance manager for Apple in the 80s and 90s, reports that the company has been fine-tuning a scheme which has become known as 'Double Irish with a Dutch Sandwich' since as long ago as the late 1980s. Thanks to these schemes, Apple's tax burden might be described as 'manageable'. In 2011, Apple paid only 3.3 billion US dollars in tax on profits of 34.2 billion dollars – a tax rate of only 9.8%.

All of these activities are entirely legal. They are made possible by European tax laws that accept tax rates of close to zero. No one who knew anything about tax laws was at all surprised by the Luxembourg leaks. What is new about the revelations is not that tax evasion has been pervasive in recent decades, but that documentation is now available showing who is doing it, and how. For years European governments have knowingly allowed large corporations to virtually excuse themselves from the obligation to pay taxes at the expense of other taxpayers (small businesses and employees). Tax laws have therefore given big business a significant competitive advantage. Through its actions,

3 http://www.icij.org/project/luxembourg-leaks (1.12.14).

4 In 2012, the *New York Times* did some impressive research into the dark side of the enterprise with the biggest fortune in the world and even won a Pulitzer Prize for its reporting. One article in the series deals especially with tax dodging. Apple's innovations and the accompanying economic success have caused the company's earnings to multiply dramatically in recent years. "How Apple Sidesteps Billions in Taxes", *New York Times*, 29.4.12.

the state has facilitated the distortion of the market in favour of the corporatist economy.

When it comes to illegal bank dealings, the situation is significantly worse. In his book, *Ces 600 milliards qui manquent à la France* ('France's Missing 600 Billion'), Antoine Peillon gives an impressive description of how UBS systematically encouraged French entrepreneurs and leading politicians to secretly transfer their capital to Switzerland. UBS put together a form of 'handbook' for its 120 advisers which included a guide on how best to smuggle wealth past the French tax-collecting authorities. In the course of his research, the journalist gained access to secret documents from the French authorities and the bank itself. This enabled him to calculate the estimated loss to the French state. Around 600 billion euros, i.e. more than half of France's annual tax revenue, went astray, thanks to the activities of the Swiss bankers. The most shocking aspect of his findings, however, is not that people tried to cheat the tax authorities – and, in so doing, the citizens of France. What is absolutely intolerable is that we are told that the French government received clear proof of these illegal activities but did nothing to stop them. Leading politicians were themselves mixed up in these deals and blocked the investigations. It was only in response to public pressure that the state started to take action against the French branch of UBS.[5]

The biggest recent scandal in Germany was related to the so-called 'cum/ex' dealings. This was not simply a case of large corporations or millionaires paying less tax than was required by law. It was actually much worse than that: the tax office became the means whereby the super-rich robbed ordinary citizens of an estimated 12 billion euros. The state simply looked on while it was being used as a means to redistribute wealth from the bottom to the top.

Several aspects of this case are particularly noteworthy. Firstly, the 'investors'(millionaires and banks operating independently) showed no remorse whatsoever. It was clearly an acceptable business model to take the whole of society for a ride. Now investors are even complaining that they would be subject to a 'witch-hunt' if the state attempted to get the money back, while flooding the tax authorities with spurious claims in an attempt to silence tax officials and delay proceedings.[6]

Secondly – and this is even more appalling – legislators are partly to blame for this sad state of affairs. The government had already found out about the loopholes a long time before. Back in 2002, social democrat (!) finance minister Hans Eichel was told about the legal loophole by the Association of German Banks – and did absolutely nothing. It was not until five years later that any action was taken, and then an ineffective legislative amendment was made which allowed the whole business to continue. The investors continued to fool everyone until the loophole was finally closed ten years later.[7] To this day it has not been possible to establish whether this was due to ignorance and incompetence, or whether it was a deliberate effort to help the banks and the super-rich.

Thirdly, publicly owned banks, i.e. a whole list of German regional banks including HSH Nordbank, WestLB, and LBBW, actively exploited the loopholes and offered to do the same for their rich clients. State-owned banks helped millionaires to help themselves from the public coffers; the state cheated its own citizens for the benefit of the super-rich. Incidentally, something similar happened with the credit-swap deals, in which German regional banks did the dirty on district authorities – in effect the taxpayer was cheating him- or herself in the financial markets.[8]

2.2 Bailing Out the Banks

The rescue of the European banks ended up as yet another example of the redistribution of wealth from the poor to the rich. It furthered the interests of the wealthy at the expense of ordinary taxpayers.[9] If you ask German citizens to identify who is rescuing whom in Europe, the intuitive response is that Germany, first and foremost, is supporting Ireland, Spain, Portugal, and Greece. But if you ask people in the crisis-hit countries, they see things rather differently. Is the world upside down? Are those who are seemingly being rescued actually rescuing the rescuer? Are those who

5 French Criminal Tax Probe Of UBS – Talk About Déjà Vu, Forbes, 6.4.2013, http://www.forbes.com/sites/robertwood/2013/06/04/french-criminal-tax-probe-of-ubs-talk-about-deja-vu/ (7.1.14).
6 "Fiskus fordert jetzt erbarmungslos Geld zurück", *Die Welt*, 24.11.2014.
7 Banken warnten Regierung vor Milliarden-Steuerbetrug", *Süddeutsche Zeitung*. 12.06.2014.
8 Schick, Gerhard. 2013. *Machtwirtschaft – Nein danke!* Campus Verlag. Kapitel 3.
9 Regarding similar redistributions of wealth from poor to rich through quantitative easing see: Schnabl, Gunther. 2014. "Negative Umverteilungseffekte und Reallohn-repression durch unkonventionelle Geldpolitik". *Zeitschrift für Wirtschaftspolitik*, 94(11), pp.792-797.

are supposedly doing the rescuing actually the ones being rescued? Let us simply follow the flow of money.

Ireland's banks invested in a huge property bubble. When it burst, the banks were in debt and creditors faced huge losses. But who were these creditors – ordinary Irish savers, or perhaps daredevil hedge funds? Not quite. German banks alone had invested more than 100 billion euros in Ireland between 2005 and 2008 – a sum equivalent to about two thirds of the economic output of this small country.[10] While these creditors were spared any losses when the banks' debts were taken on by the state, the financial markets were quite rightly doubtful about the financial stability of the Irish state. Believe it or not, the state had taken on debt from the financial sector equivalent to 41.6% of GDP;[11] in Germany this would amount to 1.1 billion euros! With this level of debt, Ireland could only obtain further credit on the capital markets at very high interest rates. This explains why Ireland was able to slip under the European umbrella and obtain the famous bail-out, which was guaranteed in part by Germany – not for free, but with interest charges of 5.5% and 6.5%.[12] The bail-out money went initially to the Irish state, but was then passed on to the banks, which paid it directly to their overseas, largely German, creditors. In this way, significant amounts of the emergency credit soon ended up in Germany. And the circle was closed. Ireland has become a major 'bureau de change' in which billions of euros appear briefly before disappearing abroad once again. But there is one big difference: the debts now have to be paid by the people of Ireland – through higher taxes or through massive cuts in public expenditure.[13]

Irish economists and politicians agree that the externally enforced bank bailout was a big mistake. It is easy to assume that everyone had learned from this experience, but in Spain prior to summer 2012, budgets for education, health, and social welfare were chopped drastically in favour of bank bail outs. Europe had become like a broken record. First the national government guaranteed the banks' debts, then it found itself forced to rescue individual institutions, and finally it was unable to obtain sufficient funds from the capital markets and had to apply for emergency credit from Europe.

The situation could have been avoided. According to Spanish experts, if the creditors of the ailing banks had made appropriate contributions, there would have been no need for a European rescue package.[14] This is also the view of the International Monetary Fund, as expressed in its November 2012 report on Spain. And the new Spanish restructuring act lays the foundations for the broad involvement of creditors.

At one stage, the IMF calculated how much support had been given to the financial sector by taxpayers in individual countries. Between 2008 and 2011, Germany spent more than 12% of GDP (316 billion euros) on stabilising ailing banks[15] – more than the annual budget of the federal government. In comparison, total development aid worldwide comes to around 100 billion euros. The USA, on the other hand, spent only 5% of GDP. This is because more than 450 regional banks have closed down since the outbreak of the crisis without their debts being transferred to the state. This is how things should have been done in Europe.

When we know that more than 60% of monetary wealth belongs to the richest 10%,[16] not only can rescuing the wealth of the banks' creditors in Europe be described as 'the biggest robbery in all of human history';[17] it is probably also the biggest programme of redistribution from the poor to the rich that democratic states have ever undertaken.

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10 Guido Fawkes' Blog (2010): Is the ECB Forcing Ireland to Protect German Investments? http://order-order.com/2010/10/15/anglo-irish-bondholders-should-take-the-losses-is-the-ecb-forcing-ireland-to-protect-german-investments/ (2.10.2013).

11 International Monetary Fund (2012): Taking Stock. A Progress Report on Fiscal Adjustment, p.53. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf (2.10.2013).

12 Cf. Answer of the Irish deputy finance minister, Michael Noonan, to a question in the Irish parliament on 15.6.2011, p. 364. http://debates.oireachtas.ie/dail/2011/06/15/unrevised2.pdf (2.10.2013).

13 This effect is shown very well in the film "Staatsgeheimnis Bankenrettung" (State Secret: How the Banks were Rescued) by Harald Schumann and Arpád Bondy (2013), for which they won the German Television prize in the best documentary category.

14 Credit Sights (2012): Bankia: What If the Bail-Out Had Been a Bail-In? Rallo, J.R. (2012): A Better Way to Save Spain's Banks. http://online.wsj.com/article/SB10001424052702303822204577464601755598634.html (8.10.2013).

15 International Monetary Fund (2012): Fiscal Monitor (October), p. 42. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf (8.10.2013).

16 Deutsches Institut für Wirtschaft, 2014. Wochenbericht, Nr. 9. http://www.diw.de/documents/publikationen/73/diw_01.c.438708.de/14-9.pdf (7.1.2015)

17 Weik, Matthias und Marc Friedrich. 2012. Der größte Raubzug der Geschichte. Warum die Fleißigen immer ärmer und die Reichen immer reicher werden. Tectum Verlag.

2.3 Infrastructure Construction Projects

Examples of state failure and preferential treatment of big business are not exclusive to the financial sector; they can also be found in many other sectors. This is especially well documented in the construction industry. Apart from the state, very few other clients would accept poorly planned and overpriced projects, delayed completion and escalating costs. Disastrous planning certainly does not only happen in southern countries, as some Germans might like to imagine; there are also notorious cases of state failure in Germany when it comes to the coordination of major construction projects.

German examples

Although a new major Berlin airport was supposed to open in 2012, air passengers arriving in Berlin still ordinarily fly into Tegel Airport. The opening of the new airport was initially postponed until 2013, and then until 2014. Now it is expected to take place in 2017. If you talk to someone from Berlin about the project, they will just shake their heads. As there is a shortage of public funds in many areas in Berlin, its residents are particularly aggrieved when they see evidence of the irresponsibility of the city's senate in relation to the management of a major project into which billions of euros have already been poured. In August 2013, more than 65,000 faults were found at the airport.[18] Berlin's citizens again have the feeling that the state is not up to the job. But equally serious are the countless excuses and the cover-ups of planning mistakes, technical problems, and – a key issue – continuously escalating costs. The only responses can be anger or cynicism.

In Stuttgart, the city's citizens reacted with anger. The key issue in the protests against the 'Stuttgart 21' project to build a huge new central station – besides saving trees in the Castle Gardens, the demolition of a wing of the existing main station, and debates among experts about the safety of the tunnel which was to be bored – was much more than just a railway station: the public was dismayed by the arrogant attitude of those who were responsible for the project and felt that they had been totally ignored. The object of the protesters' discontent was the alliance of property and construction firms and politicians formed in support of the project, which was pitted against the majority of the population, who had to pay for the project with their taxes. The fact that the cost estimates of the former regional government and Deutsche Bahn were incorrect for years on end was grist to the mill for the protesters. The Bundesrechnungshof (Federal Audit Office) regularly published higher estimates that later turned out to be correct. The citizens must therefore have gained the impression that the information provided by a state-owned enterprise – which formed the basis of the decisions taken in the regional parliament and government – was never accurate, and that some trickery was going on to satisfy certain desires. The dispute over Stuttgart 21 would never have grown to such proportions if it were only about transport policy. It is essentially also a dispute about whether a government and its leaders are deliberately deceiving its citizens.

Spain

Another dramatic example of poor project planning on a large scale is the construction of an airport near the Spanish city of Ciudad Real. An estimated 10 million passengers per year were expected to transit through the airport, completed in 2009, and its 4km runway – the longest one in Spain – was sufficient for even an A380 to land there. The problem is that in 2012, only three years after completion, the airport was closed because of a lack of demand. It turned out that in 2010, only around 55,000 passengers passed through the airport rather than several million. That is not very surprising, since the city of Ciudad Real has 72,000 inhabitants and is situated in a rural province, Castilla-La Mancha. The estimate of up to 20,000 new jobs also seems to be overly optimistic.[19]

While the airport may well have been a private project initially, around 550 million euros of public money was invested in the surrounding infrastructure.[20] The investors were initially refused credit as no normal bank considered the project to be sufficiently viable. The publicly-owned bank Caja Castilla la Mancha thought otherwise, however, taking a 70% stake in direct and indirect investment in the airport. The bank's board of directors included local politicians from both main parties, the Partido Popular and the Partido Socialista Obrero Español. One might have expected those politicians to have been familiar with local conditions. It should have been obvious to anyone that

18 Tatje, C. (2013) Im Blindflug in *Die Zeit*, 14.8. http://www.zeit.de/2013/34/ber-flughafen-maengel-mehdorn (2.10.2013).
19 Don Quixote's phantom airport, *El Pais,* 31.10.11.
20 "Airport a silent witness to Spanish boom", *Financial Times*, 24.2.11.

a 70% share in the financing of the airport was far too much. A report which was produced in the course of insolvency proceedings against the bank came to a clear conclusion as regards who was intended to benefit most from the project: the main beneficiaries were not the local population but the construction companies contracted to build the airport.[21]

3 Research into the Causes

No one who serves the state, whether as a politician or as a civil servant, gets out of bed in the morning and says to themselves, 'Today I'm going to do some things which will be really bad for everyone.' And yet the state is systematically co-opted to serve particular interests that are not in the common good. How is that possible? I think there are two main causes. On the one hand, the professional lobbying industry is engaged to a large extent in obtaining systematic benefits for the companies it represents by shifting the costs of their profit-making activities onto society. On the other, there is often a dangerous symbiosis between the state and big business. Developments are driven by an ideology that weakens the state exactly where it should be strengthened, as the champion of its citizens' interests.

3.1 Profits for the Few at the Expense of the Many

The realm of the state is by no means foreign territory for the corporatist economy. The strategy of using state institutions to promote particular interests is often highly beneficial. Why make an effort to find additional customers when more profit can be made by means of a change in the law? Why take the risk of innovating and making investments when the state can protect outmoded technology?

Economists call this kind of strategy 'rent-seeking' (looking to gain privileges or profit from state activity). This contrasts with 'profit seeking (attempting to profit from participation in the market), in which companies aim to achieve market success with better products or more efficient processes. Profit-seeking is good for consumers because it allows them to obtain better or cheaper products. Rent-seeking, on the other hand, does not benefit third parties; indeed it often does them harm. This is because rent-seeking is about making money, without giving anything in return. Profit is generated not by any added value but by the redistribution of resources within society. This is not a conspiracy theory, but rather the result of economic analysis by Anne Krueger, former Chief Economist of the World Bank and Managing Director of the IMF.[22]

But how exactly do the few manage to benefit from harm done to the many? In 'The Logic of Collective Action'[23] economist Mancur Olson describes how small interest groups are very good at manipulating the state for their own ends. The possibility of profit or the risk of loss from a planned policy change usually becomes clear to members of these interest groups at an early stage, giving them plenty of time to mobilise and to take the necessary action. The businesses concerned are, of course, willing to pay for influence to be exerted on the state in the interest of the group. These are 'the efficient ones'; those who are present in the daily lives of politicians and government representatives, and who know how to integrate their concerns into government policy – whether loudly and clearly or silently and effectively.

'The many' who lose out as a result of the ensuing redistribution of wealth, e.g. citizens who are affected by pollution in various localities, are often unable to organise themselves well enough to oppose the machinations of the few. Individuals are also often unaware of whether they are benefitting or losing out as a result of a particular state policy.

In 1982, in *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*,[24] Olson argued that rent-seeking has the potential to lead whole nations

21 Quoted in "The white elephants that dragged Spain into the red", BBC, 26.7.12.
22 Krueger, Anne (1974). "The Political Economy of the Rent-Seeking Society". *American Economic Review* 64(3): 291-303.
23 Olson, M. (1968). Die Logik des kollektiven Handelns, Tübingen.
24 *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press. 1982. ISBN 978-0300030792.

into the abyss. When interest groups are organised for the purpose of rent-seeking, this reduces innovation and productivity. I do not wish to be misunderstood: in a democracy it is, of course, normal for individuals to promote their own interests, and for companies and associations to do the same. Problems arise, however, when the balance between various interests within a society is lost, when individuals have too much influence over political decisions, and when power in our democracies is slowly but surely removed from sovereign institutions.

In a recent study, political scientists Martin Gilens and Bill Page demonstrated that in fact this happens systematically.[25] They examined 1,779 cases of legislation in the USA between 1981 and 2002, and identified which ideas had the greatest influence over the political outcome. Was it those of the majority of voters, of large representative interest groups, of the social elite, or of lobbyists and the economic elite? Using some clever data analysis, the authors were able to show that it is the last of the four; organised interest groups are in control of policymaking.

3.2 Regulatory Capture

The image of lobbying as a means of exerting uncertain influence over the state and its actors falls short of the whole truth. I would even go so far as to say that it would be great if this *were* the case; if lobbyists really had to exert influence on the state from outside. Often it goes much further. George J. Stigler, a Nobel laureate in economics, described how companies systematically infiltrate regulatory authorities and coined a term for this process: 'regulatory capture.'[26]

Stigler described how companies shape the rules of the state in order to increase their profits. In extreme cases, the state is no longer able to enforce legislation because its institutions have simply been taken over by those who ought to be subject to them.

Regulatory capture is particularly efficient when the regulator and the regulated have such a close relationship that the boundaries between the two are no longer clear. This tends to happen when the people on both sides are from similar social spheres and share a working environment that is much the same. They often attended the same universities, eat together at lunchtime, and have lively discussions about the results of new research. The only difference between them is that one is supposed to supervise nuclear power stations, while the other is trying to run them as profitably as possible; one is supposed to prevent banks doing risky deals, while the other is trying to earn as much money as possible from these same risky deals. This cannot go on for long without a major disaster.

3.3 A Dangerous Symbiosis

Public-private partnerships, PPPs for short, are another mechanism that is of mutual benefit to politicians and big business. The concept is simple: instead of borrowing money to finance major projects and then running them itself, the state delegates the construction and running of projects to the private sector. In return, the state, over the course of perhaps 30 years, pays a form of hire charge or rental using the income from the project.

Sounds good? Actually, this is only half of the story. This arrangement promotes a way of financing projects that systematically prevents what would be a cheaper alternative over the long term. Once again, taxpayers end up paying for the profits of private enterprise. This is a result of different levels of interest on debts: the state can always borrow money from banks or wealthy individuals at a cheaper rate than can be secured by private companies.[27]

Those who profit include the companies that are awarded the contracts, the banks that provide credit at high rates of interest, and the consultants and lawyers who help to draft the contracts – as do the politicians. PPPs work like an ancillary budget; citizens can be persuaded that there is relatively little new debt because the state is not formally taking out credit. But it is madness to believe that this is a cheaper way of financing projects. That cannot possibly be the case, because the state has to continue paying the construction companies for 30 years – in the end spending more money than would have been required to repay a debt of its own.

In order to truly understand the situation, these various different examples must be seen in their totality. It is not an

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25 Gilens, M., & Page, B.I. (2014). Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens. Perspectives on Politics, 12(03), 564-581.

26 Stigler, G.J. (1971). "The Theory of Economic Regulation" in *Bell Journal of Economics*, 2(1), pp. 3-21.

27 Rechnungshof beklagt teure Fehler bei Großprojekten, *Focus*, 25.5.2013.

adequate description of the problem to say that individual lobbyists simply approach decision makers and try to influence them. Instead, it is often a question of a mutually beneficial symbiosis between state and economic decision makers. Changing alliances around common interests are continuously being recreated from the close-knit network at the interface between political parties and large corporations. Company directors and representatives of business associations are quite often members of political parties and, as such, have privileged access to decision makers in parliament and government, who in turn seek their friendship and support.

4 Ways Out of the Dilemma

For many, this state is no longer 'our' state. The state belongs to 'them', not to 'us', and some politicians are only too ready to organise the state for 'their' benefit. This is one of the reasons why we politicians have lost a lot of respect. We are no longer seen to be fighting for the interests of the broader population.

4.1 Left vs. Right is the Wrong Debate

In the debate between those advocating a stronger role for the market and those who speak in favour of the state, it is often assumed that each of these two positions occupies a clear position on the political spectrum. The myth perpetuated by the media, political scientists and even politicians themselves is that the friends of the market are to be found on the Right, while the friends of the state are on the Left. Among the former are liberal and conservative forces that promote a social order in which the free play of market forces leads to efficient and therefore desirable results. Among the latter are social democrats, socialists, and indeed most of us Greens. We campaign for a welfare state which admittedly makes society a little less free, but also rather more secure. But is this actually true?

The dichotomy between the state-oriented Left and the market-oriented Right is not only obsolete; in fact, such a separation has never really existed. Instead, it disguises what is really happening and pushes the Left into a defensive position. We should not allow this false perception to be imposed on us.

US economist Dean Baker's book *The Conservative Nanny State* was of key importance to me as I grew to understand the real political significance of this phenomenon.[28] Baker objects to the positioning of the Left in the traditional ideological 'market vs. state' debate. He gives numerous examples of instances in which the Left takes up market-friendly positions, while the Right defends state protection of private interests and disguises benefits and subsidies to the tune of billions with market-friendly rhetoric. The truth is that the 'nanny state' does care – but only for the few rather than for the many.

Conservatives – whether in the USA or in Europe – are in no way working towards a bigger market and a smaller state! Rather, they are in favour of a different state from that promoted by the Left; one that takes care of the upper classes and organises central government services in such a way as to best serve their interests. In stating that this approach simply allows the operation of free market forces, they create a false debate. According to Baker, the Left has gone along with this argument not only because of its pronounced faith in the state, but also because it has lost faith in the market. Instead of analysing clearly how conservatives, in spite of their market rhetoric, are indeed milking the state in the interest of the few, the Left still instinctively responds with defensive arguments and reacts with calls for a stronger state.

This approach is entirely wrong. Governments need to intervene at a much earlier stage by setting the rules of market operation so that it produces outcomes that are more just. In the words of Dean Baker: 'It is much easier to have the river flow in the right direction, than to try to block its path and have it flow backwards.'[29]

28 Baker, D. (2006). The Conservative Nanny State. Washington (DC).
29 Baker (2006), p. 107.

4.2 Controlling State Power

Independent of the question of whether the state is run by the Left or the Right, something has to change. We are all 'the state', and we must work together to reverse its exploitation and corruption by one-sided interests, and to help ensure that it is able to serve all of its citizens once again. We must restore the balance of power in the state. Buchanan puts it succinctly: 'Good games depend on good rules more than they depend on good players.'[30] We must now make the rules to serve the interests of society as a whole. Just as important as the content are the institutional conditions which ensure that, from the start, those who represent the common good are better able to push things through than those who represent particular interest groups.

Time for Progressive Politics in Europe

Reorganising the state, reducing the political influence of big business, creating a democracy which serves the people – these sound like unrealistically ambitious goals. And yet this vision is not unattainable. Moreover, there is even a historical precedent for such reform.

Between the end of the American Civil War in 1865 and the end of the 19th century there was a spectacular economic boom in the United States. One of the decisive factors behind this was the existence of large corporations making major capital-intensive investments and thereby becoming the driving force of the industrial revolution. The dark side of this, however, was the monopolisation of the markets. The corporations actively misused the state in order to strengthen their market position, just as they are doing today.

In reaction to this situation, social reformers from a broad array of backgrounds formed the progressive movement. United by the concern to save both democracy and the market economy, they tried to create a society in which people at every level would benefit from the progress made.

In order to bring the investment trusts under control, the Progressives introduced a series of comprehensive reforms. Public institutions, which until then had operated at state – rather than federal – level, were centralised. This included, for example, the founding of the Federal Reserve System (the US central bank) and the Federal Trade Commission (FTC). A second measure was to use the stronger state to actively protect competition. The Sherman Antitrust Act was passed, for example; this set new standards and was gradually strengthened and extended as time went on. Finally, in the wake of a number of big scandals following the free rein given to profit-maximisation, consumer protection was also reformed. All of these measures put the state in a position to develop policies serving the common good rather than big business.

What we now need is the development of a similar progressive movement in Europe. We must dismantle the existing political-economic power structures, and we must unite at the European level. Today as then, this requires the participation of mainstream society rather than just a few radicals. And, now as then, we must avoid falling into national rivalries; it is not the Germans who have a problem with the Austrians who are dodging capital gains tax, or with the Dutch because corporations can avoid taxes by having holdings in the Netherlands. No, the problem is between the few who benefit from a system in which the rich avoid or evade paying taxes, and the majority of European citizens who lose out. While many politicians would have us, the citizens, believe otherwise, this discrepancy exists in all participating states. In order to be able to meet powerful corporations on an equal footing, effective state institutions at the European level are essential.

Changing the Balance of Power

What can be done? In my opinion, the state is too weak in relation to big business, parliament is too weak in relation to government, and the citizens are too weak in relation to professional politicians and political parties. And among the various interest groups, large corporations have the best chance of pushing through their concerns and making their views known in advance of policies being made. This 'balance' of power can and must be changed. State actors must be empowered. I once asked a senior manager of a global bank the somewhat banal question, 'Does the government authority that supervises the banks really know what the bank is actually doing around the world?' The manager's answer was admirably short and succinct: 'We make sure they understand.'

30 Buchanan, J.M., & Brennan, G. (1985). The Reason of Rules: Constitutional Political Economy, Indianapolis (IN), p. 167.

This single sentence represents a huge problem. Not only are the banks (and, incidentally, many other large corporations) far too big and complex, and their dealings too opaque; state institutions also often have insufficient expertise to deal with large corporations on an equal basis. Instead, they are dependent on their goodwill. It is therefore essential that we have our own expertise within state institutions. Only well-qualified personnel in government ministries can draft legislation that is independent of input from corporations and legal firms.

We must also strengthen parliaments. I gain first-hand experience of the unequal balance of power on an everyday basis in my work in the German Bundestag. In Berlin, the ratio of lobbyists to Members of Parliament is eight to one.[31] Of course, the lobbyists are not evenly spread across all areas of government policy; I guess that rather more are active in the fields of finance and health than in other areas. When large and complex pieces of legislation related to financial markets or tax appear on my desk, I cannot possibly grasp all of the implications of these new laws given that I have only a small team of staffers. The danger that one will resort gratefully to the explanations of well-staffed business associations is ever-present. In Brussels, there are as many as 20 lobbyists to every MEP.

Parliaments must be strengthened, not only in relation to corporations but also in relation to government. Through various 'checks and balances', parliaments are supposed to correct governments' bad decisions. In reality, both national parliaments and the European Parliament simply lack the resources that would enable them to do this job properly. Many legislative proposals originate from the government or institutions of the executive. Even in the case of smaller regulations, members of parliament belonging to the ruling parties look to ministerial staff to make sure that they do not put a foot wrong in parliament.

In order to strengthen parliaments, therefore, it is necessary to rethink the allocation of resources. Executive or European Commission employees should be transferred to the parliamentary committees that are responsible for actually passing legislation. In the USA the legislature has its own experts who are independent of political parties. Members of the legislature can ask them to check proposed legislation or draft legislation for particular purposes. Congress employs around 4,500 people in this capacity, including 750 in the Research Service alone. In contrast, the Research Services of the German Bundestag have just 60 experts to produce reports. We need a new culture of scrutiny here in the interest of the taxpayer. This will not eliminate mistakes altogether; it will, however, enable many of them to be discovered more quickly, thereby limiting the harm done to citizens.

Public Participation and Independent Expertise

We need to strengthen direct democracy. Citizens form the basis of society. The state is their association – a citizen's cooperative, as it were – not a higher authority ruling over them.

While decisions reached by direct democracy do not necessarily produce better outcomes than decisions reached by parliament, this approach involves more open debate and the inclusion of many arguments that might otherwise be neglected or ignored. The same applies to the planning of major infrastructure projects. The sooner citizens are actively involved, the more able they are to contribute their expertise, and the less protest there will be at a later stage.

Public participation should be strengthened via lobbies for the common good. Unfortunately, however, they are not so easy to bring together, especially on complex issues such as the regulation of financial markets. Finance Watch, an independent organisation, is one of the few exceptions. It was founded in 2011 by parliamentarians from all parties – including Green MEP Sven Giegold – as a counterbalance to the excessively powerful finance industry lobby. This was an important move; parliamentarians finally have an alternative to drawing exclusively on the biased expertise of banks, insurance firms, and hedge funds. Organisations such as Finance Watch refuse contributions from individuals or institutions that can be shown to have links with the finance industry or established political parties. Finance Watch is doing some very successful work, and has quickly become one of the key bodies to be consulted on the regulation of financial markets.

More Transparency

Political and governmental decisions must be reasonable and justifiable; otherwise democracy cannot function. Transparency is neither an end in itself, nor a cure-all; it is a precondition for understanding political decisions and,

31 Bülow, M. (2010). Wir Abnicker. Über Macht und Ohnmacht der Volksvertreter, Berlin, p. 181.

thanks to opportunities for participation in decision-making – feeling involved in the decisions that are being made.

Sometimes I am prevented from alerting people publicly to a problem – even though I would very much like to do so – because some of the information that is given to me by the government is 'secret'. In such cases a document may be brought to my office, where it has to be locked away, or I am asked to leave my office and go to a special top-secret area in the German Bundestag because the classification level is such that I cannot even take notes.

Every Friday when the Bundestag is in session, this confidentiality takes another form. Half a dozen colleagues from all parties meet together with specially authorised staff in the so-called 'financial market committee' or caucus. This is where the government has to account for the billions of euros of taxpayers' money that have been transferred to financial institutions (or set aside to underwrite guarantees) in the course of the bank bailout. An audible signal and a red sign over the door saying 'classified' show that no information obtained in this meeting may be used outside that caucus.

The consequences of this became clear to me when the European banks were being rescued. No attempt had been made to ensure that creditors contributed proportionately towards the costs of the financial crisis. Because of this, the facts were kept secret to avoid public debate. Ireland's finance minister, Michael Noonan, maintained that it was not possible to identify the holders of bonds issued by the banks. His Spanish colleague, Luis de Guindos, thought this information was 'not important'. Jörg Asmussen, a member of the board of the European Central Bank, classified this information as 'commercial secrets'.[32] This cabal of those who rescued the banks prevented us from learning the identity of any of these creditors and judging (after the event) whether or not they could have borne some of the costs. If this information were made public, it would be possible to have a public debate about the way in which the banks were rescued. Even today the governments are treating the identity of these profiteers as a state secret. I think this secret must be made public. Anyone who pays tax has a right to know where their money has gone.

Secrecy is unavoidable for really sensitive Information; 'market relevant' information cannot simply be aired in public debates. But often much more is filed as 'classified' than is truly necessary. As a parliamentarian I am often unable to talk about problematic developments without breaking the law. In these cases, attempts to control the government go nowhere.

Going beyond the subject of classified documents, parliaments must become more transparent and should publish more comprehensive information about their work online. We need a central information portal that highlights how issues are being addressed in Europe and in the Member States, and that records the initial drafting stages of legislation. There are already attempts at this, for example the dipbt.bundestag.de webpage in Germany, but this service needs to be extended. Furthermore, the agendas and minutes of parliamentary committees should be uploaded onto the Internet,[33] and it should be possible to follow public committee meetings as live streams on the Internet.

There is an even more important point: laws need a legal footprint. What exactly do I mean by this? Both as a parliamentarian and as a citizen, I would like to know who exactly has had a hand in drafting the texts that later become laws, and who submitted any early-stage amendments which have already been incorporated into the version which is submitted to parliament. I envisage each bill presented to parliament including an indication of the origin of each and every clause. This would reveal the 'coups' of the lobbyists who have little time for lengthy parliamentary procedures, rather preferring simply to dictate the 'correct' clauses at the beginning of the drafting process.

32 Quoted in Schumann, H. (2013). "Staatsgeheimnis Bankenrettung" in Tagesspiegel, 24.2.2013. http://www.tagesspiegel.de/wirtschaft/eurokrise-staatsgeheimnis-bankenrettung/7826402.html (8.10.2013).
33 Cf. Bündnis 90/Die Grünen (2013). Bundestagswahlprogramm 2013. http://www.gruene.de/fileadmin/user_upload/Dokumente/Wahlprogramm/Wahlprogramm-barrierefrei.pdf (8.10.2013).

5 More State to Contain a Stronger Market

State institutions that fail to do their jobs and allow themselves to be obviously manipulated, bureaucracies stand in the way of their citizens as opposed to serving them, ineffective government regulations, huge sums of money wasted, nepotism and mismanagement; as a citizen, I am often left speechless in the face of the many examples of state failure.

Market failure and state failure cannot be separated. But what can we do? It is not enough to simply ensure that precedence is given to political institutions, and that the markets are regulated more effectively. In the context of the views of state institutions and political decision-makers held by many citizens, this sounds like an empty promise. What strikes me in particular from the many discussions I have with citizens is the sentiment that 'the state can't do that (either).'

And this is by no means a uniquely German phenomenon. The Greeks have seen how their 'politicians' peddled falsified data and built up irresponsible debts. Incredulous Icelanders and Irish people continue to ask themselves how those in positions of responsibility in government and in regulatory bodies could allow such a crazy finance bubble to develop. In Spain, the public *cajas* continued to inflate the property bubble, although it had already burst in the USA long before. In consequence, we can see that 'politics' is being pilloried in many countries. Complaints about corruption and patronage and the failure of politicians to serve citizens' interests are perfectly justified.

This is exactly why the pendulum of public opinion does not automatically swing back to the state, even after experiencing the worst excesses of the market. In spite of the negative developments related to private enterprise, a state-run economy remains unattractive. Little hope is placed in regulation in spite of the billions lost through deregulated financial markets. Simply calling for a 'bigger state' will not solve the problem. How can we get people to put their hope in the state when it has failed so completely as an economic actor, as a planner, and as a regulator?

We have to recognise that we do not have to choose between a greater role for the market and a stronger state. In the face of the takeover of state and society by the corporatist economy, the answer is in fact to strengthen the market by strengthening the state. Saying 'Yes' to a bigger state and 'Yes' to a more competitive market is not in any way contradictory. The opposite of a market economy is not a planned economy; it is a corporatist economy, in which society has been taken over by a few oligopolies and the state and its citizens are misused in order to maximise profits.

Large corporations should not be allowed to dictate the conditions in which we live. We need an independent state capable of ensuring competitive markets – a state which is therefore also able to promote free and sustainable development for all.

The answer to the question of whom the state is working for, in whose interests it is acting, and ultimately to whom the state belongs, is of key importance. State power can be a problem when the state is controlled by the corporatist economy – then it easily becomes 'their state'. That is exactly what must be prevented. Democracy can only work so long as we can rely on our elected representatives to take our concerns seriously, laws are drafted in accordance with our wishes, and governments act as they should. The state must exist for our benefit once again; this must be the aim of progressive European politics in the years to come. The state must act in accordance with its responsibility towards society – not the interests of big business.