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Part I

Europe's Present Condition:

A Diagnosis

In Part I, 'Europe's Present Condition: A Diagnosis,' we start from the most recent developments in Europe and look back upon the great European (and more broadly, Western) project of the last 250 years – the escape from poverty, in which a market economy/ capitalism was an important driver. This system turned out, however, to have destructive tendencies as well, and therefore was and still is in need of correction and political and social embedding. This insight has tended to become lost in recent decades. The balances between markets, states, and civil society/communities were once again abandoned in favor of 'markets alone.' This eventually led to a number of distortions that require a new response, a new phase of correction and embedding of the market economy. European nations and their cooperative association, the European Union, have to reorient their market economies to make them ecologically and socially robust, while at the same time (re)connecting with their own populations and reckoning with a new geopolitical constellation in which the US, China, and Russia have each recently adopted new positions. To navigate these challenges, a new sense of shared values within Europe is essential.

Chapter 1

Introduction: From the Challenge of 2015 to the Shock of 2022

2022, and the Seven Years that Preceded It...

It is always risky to mark a certain year as 'historical,' but it may well be that 2022 will qualify as one of the important turning points in modern history, along with years like 1948 (the Declaration of Human Rights after the end of World War II), 1989 (the fall of the Berlin Wall, marking the end of the Cold War that had divided the world in the decades prior to that) and 2001 (the attack on the New York World Trade Center, a sign perhaps that the post-Cold War order would not be as peaceful and harmonious as was assumed after 1989).

In February 2022, Russia invaded Ukraine. In itself, the Ukraine war could have been interpreted as a 'regional conflict,' of which there have been – and still are – many in the world. That, however, is probably a severe underestimation of its significance. It seems to be the better part of wisdom to see this war as a turning point for Europe, for the Western world in general, and even for the world. But its significance for Europe – and the serious challenges it creates – can only be gauged against the background of the seven years that preceded it.

The seven years, the 'septennium,' from 2015 to 2022 may later well come to be considered crucial for defining the long-term future of Europe – the European nations individually, the European Union, and the European continent – in the world. Let us briefly recapitulate, starting with that most remarkable year of 2015. (In the various sections along the way we will formulate some key observations that will inform the remainder of this book in italics.)

The 2015 Agenda: A Clarion Call

In 2015, the United Nations formulated the Sustainable Development Goals, with 2030 as its time horizon – an ambitious global agenda. The earlier Millennium Development Goals, formulated in 2000, which called for – among other things – a 50% reduction of poverty by 2015, were largely met and in some respects even exceeded. This induced confidence in the realizability of the new set of goals that focused less exclusively on the ‘underdeveloped’ Global South but also targeted the ‘overdeveloped’ North, calling for a global effort:

1. No poverty
2. Zero hunger
3. Good health and wellbeing
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation, and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals

Moreover, in May 2015, Pope Francis issued his most important encyclical by thus far, *Laudato Si'*, in which he called for new, swift global action to save the world's precious ecological system that he described as “our common home.” As an integral part of his message, he also called attention to the fate of the world's poorest people: they are estimated to suffer the most from

ecological problems and have no resources to shield themselves from them. The Pope thus intricately connected ecological and social issues with each other. This remarkable year concluded in December 2015 with the landmark Paris Agreement, or Paris Climate Accords, that was adopted by no less than 195 countries, including all European countries, and the European Union itself. The agreement could be seen as well as a response to the Fifth Synthesis Assessment Report of the International Panel on Climate Change (IPCC) with its alarming message on global warming, published in November 2014. The message of 2015, the '2015 agenda,' was clear, and hence our first key observation:

The world, and hence Europe as one of the largest, if not the largest, economies (and therefore also one of the biggest polluters in the world), has to reorient its market economy to long-term social and ecological sustainability for itself but also for the world as a whole and future generations. This requires global cooperation.

In the meantime, Europe had already started to respond to this agenda. To mention just two examples: in December 2019 an ambitious 'European Green Deal' was proposed to make Europe carbon neutral in 2050, and in February 2022 the EU Corporate Sustainability Due Diligence Directive was issued, stimulating large companies to pay attention to the human rights and sustainability issues in their entire production chain.¹

...And Beyond (2016): Brexit and a Fragmented Populace

In June 2016, however, Great Britain decided to leave the European Union. The decision sent shock waves through Europe. Of course, every country has the right to leave the EU, but the reason for Britain's exit was worrying for the entire project of European cooperation: apparently, there were large groups in Britain that felt disconnected from the European project. 'Taking back control' was the motto that inspired the Brexiteers. Perhaps, it was feared,

similar groups of similar size with the same attitude would emerge in other countries that could be easily mobilized by those known as ‘populist’ politicians, resisting international cooperation in a world and time that urgently needs it. The UK was indeed no exception. In November that same year, Donald Trump was elected President of the United States. This sent further shock waves through Europe. It felt like a repetition of Brexit. Evidently, there are large groups in society that look to the nation state for the shelter and protection they do not find in the rapidly globalizing economy. A similar message was sounded in 2018 in France in the ‘Yellow Vests’ protests, which in some way confirmed the message of Brexit: this time not targeted against Europe but against the national leadership itself. It made clear that even a ‘green’ policy, that is, making an economy sustainable in the long run, can only be achieved if the economy is (re)connected to the population. Comparable anti-establishment and/or nationalist movements can be seen in other countries such as the Netherlands, Austria, Poland, and Italy. Democracies – in Europe and worldwide – seem to be coming under increasing pressure. Autocratic tendencies are on the rise. Although the causes for these developments are not only economic, it is clear that a sense of economic insecurity and marginalization plays an important role. The message, again, is clear, and, hence, our second observation:

Europe has to organize its market economy in such a way that people feel protected and connected, or else people may turn against the ‘elites’ and may even turn against long-term goals like sustainability, even if – ‘objectively’ seen – a long-term sustainable economy is urgently needed and can be brought about only through national and international cooperation.

...And Beyond (2017): Trump and ‘America First’

The election of Donald Trump had another impact on Europe. In his inaugural speech on January 20, 2017, Trump made it

immediately clear that his motto from now on would be 'America First,' effectively abandoning America's postwar role of 'leader of the free world' and even as 'leader of the world – period.' In his encounters with European leaders, both in the context of EU–US economic relations and in the context of NATO, he made it clear that he would no longer be willing to have America act as the great fixer of Europe's problems and the guarantor of Europe's security, nor would America act as the world's policeman. No longer would Europe be the natural and preferred partner of the US. To be sure, Joe Biden replaced Donald Trump in 2020 and immediately started to reconnect with Europe and to take an active global role (for example in the Ukraine crisis), but this does not alter the possibility of a Trump-like figure (or even Trump himself) becoming president again. And even Biden himself has somehow continued parts of Trump's 'America First' policies, as is evident from the 2022 Inflation Reduction Act that clearly favors American companies and helps companies reduce emissions on the condition that their production takes place in the USA itself – 'America First.' A rock-solid geopolitical partnership that has lasted for decades suddenly seems to be faltering. Therefore:

Geopolitically, and geoeconomically, Europe has to learn to stand on its own feet.

...And Beyond (2020): Covid, Vulnerability and Europe's New Strength

In 2020, the Covid crisis broke out, a health crisis of a magnitude the world had not seen for decades. At first, the responses in Europe were very nation-based. Later on, governments increasingly came to realize that a more internationally coordinated approach regarding medical supplies and vaccines, for example, would be much better for all individual nations. Only together would they be able to stand up against the new 'big powers' of today's world – in this case, 'Big Pharma.' The crisis also became a

geopolitical chess game, with China and Russia trying to provide medical supplies and vaccines both in Europe and worldwide and thus investing in new relationships. In general, European nations started to realize that only a coordinated, solidary effort would suffice to deal with the economic consequences of the Covid pandemic. A large 'rescue package' was negotiated in a relatively short time. And the already emerging discussion on 'strategic autonomy' entered a new phase. The lesson:

In today's world, European nations need each other, or else they will be set against each other by outside players, both countries/empires (China, Russia) and 'Big Business' (e.g., 'Big Tech,' 'Big Pharma,' 'Big Finance') which would, on balance, weaken all of them substantially.

...And Beyond (2022): The Ukraine War and a New Geopolitical Constellation

And then came 2022. Russia decided to invade Ukraine, starting the first interstate war on the European continent since the end of World War II. As noted above, the Ukraine war in itself could have been interpreted as a 'regional conflict' (and many countries in the world prefer to see it that way, to the surprise of Western countries). The long-term geopolitical implications are becoming all too visible, however. Russia had secured the support – a 'friendship with no limits,' of the rising superpower, China (for whom, perhaps, this war was an interesting test case for how the world would respond to a possible invasion of Taiwan). Other important countries in the world stayed 'neutral,' such as India, South Africa, Indonesia, and Brazil, unwilling to condemn what was a clear break of the post-World War II international order. Under President Biden, the US took a leading role in orchestrating the Western response to Russia, and Europe was more united than ever before in recent years. NATO was revitalized. But it also became clear that the war prefigured a new constellation

in which the non-Western world, often under the leadership of autocratic rulers, is going to claim a larger role in the world and will no longer simply comply with the international order that was created after World War II. The sovereignty of nations and human rights as basic principles seem to give way to the clashes and claims of empires. The Western world responded with unprecedented sanctions against Russia. But at the same time, it became evident as never before that, in an interconnected world, the boycott of a large nation is backfiring: it not only hurts the target nation but one's own nation as well and creates immense economic risks. It is a new world in which Europe has suddenly realized how vulnerable it is, given its dependence on foreign oil, gas and many other raw materials from all over the world, as well as on a constant flow of consumer goods produced in China. The question arises whether market globalization is always the best solution. Should European nations not be able to produce some essential supplies themselves (an issue that arose as well during the Covid crisis)?

What the Ukraine crisis also revealed is that Europe and the US – say, the Western countries or the global North – cannot count on any automatic loyalty and support worldwide. On the contrary, they are increasingly seen as former colonial powers that still profit from their earlier position and should somehow play a different role in the world than the leading one they had in the postwar international order and previously in colonial times. Whatever the exact outcome of the Ukraine war will be (if there will ever be a more or less clear outcome), many countries seem to think that perhaps China should take that leading role, and China itself seems to think this too.

Comparable patterns emerged during the COP27 conference in Sharm el Sheikh in November 2022. Global South countries displayed a new self-consciousness, demanding compensatory payments for the climate damage caused by CO₂ emissions in or on behalf of the Global North (70% of global emissions are related to Northern production and consumption, including emissions that are taking place in the Global South but are part

of production chains of Northern consumer goods). Instead of reduction of emissions tabled by the North, this request for compensation initiated by the Global South became the key point on the agenda. Pakistan claimed \$30 billion US to repair the damage caused by recent floods, the severity of which was ascribed to climate change. Therefore our fifth observation is:

The European economies have to reposition itself economically in a new geopolitical constellation in which the non-Western world is assuming, and will continue to assume, a new, self-conscious role.

Beyond 2022: A New World Order, New Questions and the Need for New Responses

A new world order is emerging. Crucial questions are now forcing themselves on all global players about the economic order they would like to establish for themselves and what type of world they would like to see. Some of them seem to have already formulated clear answers that differ substantially from each other: from a US-led market-oriented capitalist order to a state-oriented capitalism dominated by China.

The European nations and the European Union also urgently need to answer these questions: What role does Europe want to play in the 21st century? What type of economy does it want to pursue internally? What type of economy does it want to see in the world at large? What kind of geopolitical order does it want to see (and thus help bring about)? Who are its most important allies going to be? Will it let itself be marginalized in a clash between 'the West and the rest' – ultimately, between the US and China? Will it become nothing more than an extension of the American economy and American capitalism? Will it want to become part of the New Chinese Century that is developing as a counterpart to what was once called the New American Century? Will it let itself be torn between the US and China, with some European countries leaning toward the US and some

leaning toward China? Or does Europe want to pursue its own course, in relative independence?

If so, for what reason? What does it want to bring to the world, not just in terms of power but also in terms of ideals, of values? What is Europe's mission going to be? Will it indeed choose to become an incubator for furthering the '2015 agenda' of the SDGs and the Paris Agreement? And if the answer is yes, what does this imply? Or will Europe, under the pressure of the shockwaves of the Ukraine war, quietly sideline the '2015 agenda' and adopt a 'survival mode,' making sure that its way of life can be continued as before, and nothing else? Will 2022 trump 2015?

This was certainly not the first response; on the contrary, the Ukraine crisis seems to be accelerating Europe's green ambitions. At the same time, however, the use of coal has also increased, and Germany expanded a lignite mine in Lützerath, despite heavy protests by environmental activists. And what will happen when, via various chains of effects, Europe will witness continuing economic hardships with further inflation, new financial crises, rising debts, increasing poverty, an energy crisis, perhaps even a new immigration crisis due to food shortages in Africa and an avalanche of political crises in a substantial number of European countries? How strong, how 'connected' will Europe show itself to be? We have to reckon with the possibility that the Ukraine war won't be over soon and that Russia will give itself all the time it needs to test Europe's resolve, its unity, and its financial and economic resilience again and again. It may well be enough to stoke relatively minor unrest every now and then, play at *divide et impera*, and in that way try to break the unity of European nations. If Russia breaks the will of Europe after a couple of years, it will not only have eliminated one contender in the superpower arena, but it will also have taken a major step toward isolating another one, the US. And – an added bonus – Russia may have effectively sidelined the 2015 agenda with its goal of complete independence from fossil fuels, a goal that is close to an existential threat for Russia.² The stakes are high for Russia, way beyond Ukraine, and Europe should be aware of this.

In our view, as we will argue later in this book, Europe has no choice but to show strong resolve not to give in but to stand firm together, not just for the continuation of its own position and interests but just as much for the future it wants to see in the world, its values and ideals – and even be prepared to suffer for it.

One of the central messages of 2022 is that a new, grimmer, era has begun, and it will require a new response from Europe, a response in which Europe has to find its own place in the new world order and still promote global cooperation as much as possible in order to save and further the 2015 agenda. The year 2022 is also the year in which the sixth period of the IPCC, the Intergovernmental Panel on Climate Change, came to a close with a series of highly alarming reports, culminating in the 6th Synthesis Assessment Report (published in the spring of 2023). This report once again makes clear beyond any reasonable doubt that the earth is in very dire ecological straits.

The Challenges Ahead: Reorientation, Reconnection, Repositioning, Revaluation

Against the background of these defining seven years, this book argues that Europe, both the European nations individually as well as their cooperative structures such as the European Union, have to deal with unprecedented challenges that are arising from this ‘septennium’ and have to restructure their economies in such a way that they simultaneously:

- 1. reorient** their economies toward a circular, or even regenerative, economy in Europe itself that is in long-term harmony with the ecological resources of the planet but at the same time play a leading role in furthering this goal worldwide as the ecological challenges are truly global challenges;
- 2. reconnect** and reintegrate the economy with different layers of the European population, and with key institutions such as governments and civil society, establishing a new ‘social contract’

or 'covenant' between people and elites, and building an economy 'of the people, for the people, by the people (to use Lincoln's description of democratic government to the economy) and also 'with the people,' within ecological boundaries;

3. reposition Europe in the geoeconomic and geopolitical world of the 21st century, recognizing the drastically changing power relations in the global economy and squaring its own interests with a long-term global orientation.

In a number of publications since 2000, the economist Dani Rodrik formulated the 'globalization paradox' or the 'globalization trilemma'.³ It is hard, if not impossible, Rodrik claims, to combine full economic globalization – he uses the term 'hyperglobalization' – with national sovereignty and democracy. One can only have two of these completely – the third will always lose out. Rodrik's warnings should be taken seriously. In recent years, an autocratic regime in China has presented the semblance of economic effectiveness by rigorously directing its production toward the globalizing economy at the expense of democracy. The USA has recently started to reconsider globalization and to reclaim its sovereignty ('America First'), and even risked its democracy at one point. And Europe may also have been playing the card of hyperglobalization too much, at the risk of losing legitimacy with important parts of its own populations. All those who claim that 'the markets require...' or 'the markets force us to ... so and so' cannot at the same time promise that 'the people may decide on ... so and so.'

However, Rodrik's formulation of the trilemma may be a bit too harsh and may not be entirely able to meet the present challenges of Europe. It seems wiser to speak of a balance that every political actor has to find between globalization, sovereignty, and democracy time and again. The European nations and the European Union have to constantly find and keep this balance as well. And the European Union can be a crucial player in this respect as a community of sovereign nations, each of which individually runs the risk in today's world of being marginalized but together are able to shelter their citizens from the winds of globalization

and, even more, to influence the nature and direction of the world economy itself.

Moreover, Rodrik's scheme is in a sense rather abstract. It does not distinguish between what types of globalization can be pursued, nor does it say much about the way 'democracy' should really function to maintain its legitimacy. And what can full sovereignty actually mean in today's highly interdependent world? So, the actual dilemmas for European nations run more along the lines of: Is it realistic to assume that relatively small nation states in today's world can keep their commitments to their own people without associating with likeminded nations? Can Europe expect globalization to go in the desired direction sketched by the SDGs and the Paris Agreement without the European Union taking on a role comparable to the world's so-called superpowers (and hence developing its own global agenda)? Is it acceptable to incur a certain amount of loss of GDP by restricting globalization for the sake of protecting once's own citizens (against economic theory in which David Ricardo's so-called 'law of comparative advantage' suggests that unlimited globalization is a recipe for wealth)? What type and which degree of sovereignty is possible and needed for nation states in an interconnected world for states to be able to act in the interests of their own citizens? And: How can the cooperation between nation states, large or small – but particularly smaller ones – be organized in such way that it becomes a resource for all, precisely because all have their own strength?⁴

What is also missing from Rodrik's trilemma is the responsibility and role of the private sector itself – in particular business and finance – in supporting the legitimacy of a country and its economic order. He gives the impression that government bears sole responsibility for the social and moral infrastructure of a country and of the world as a whole. Research has indicated that political turmoil is often the result of a financial crisis, and the most recent financial crisis was not induced by governments but originated in the banking sector itself.⁵ It is unfair to make governments alone responsible for the globalization dilemmas

– the private sector has to face these dilemmas as well. Business companies are citizens, too (as we will argue).

One of the basic convictions of this book is that the time when we could separate the economic from the political, the social, or the ecological is past. As Feike Sijbesma, a former CEO of the Dutch chemical corporation DSM, once said, “Nobody can be successful in a world that fails.”⁶ This adage has some quite far-reaching implications: ‘No government can be successful in a world where business fails’; ‘No business can be successful in a world where governments fail’; ‘No business nor government can be successful in a world that fails ecologically.’ And if one brings civil society, families, educational institutions and media into the equation – which we should – the number of formulations grow exponentially. So the task of ‘reorientation, reconnection, and repositioning’ is a *multiactor endeavor*, as will be argued in this book. As the late British rabbi Jonathan Sacks said, “Society is a home we build together.”⁷

Moreover, the current challenge for Europe is no longer how to attain as much globalization as possible but to (1) reorient our economies toward sustainability and inclusivity, to develop a new form of capitalism, and to approach the question of globalization from that angle. But in this process, it is (2) crucial to organize this as a common project for all strata of the population, protecting them from economic and geopolitical turmoil within their different nation states while (3) pursuing a geopolitical and geoeconomic strategy that furthers the global renewal of the economy and at the same time keeps Europe in a strong economic position, defending its own interests. Instead of Rodrik’s trilemma, we would therefore propose a triangle of three goals that have to be met at the same time and within which policies constantly have to move, sometimes leaning toward one point and at other times toward another. But the third corner can never be abandoned. We call this a ‘thorny transition triangle’ or ‘triangular challenge.’

For this huge and ever-recurring task, a fourth challenge may turn out to be key (one that is not mentioned by Rodrik but may well

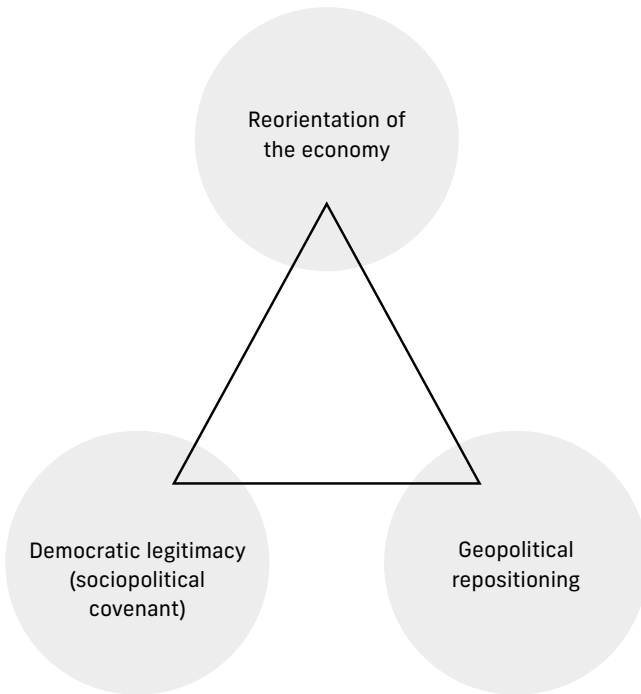


Figure 1a (preliminary version): *The Thorny Transition Triangle*

prove to be essential for dealing with this trilemma): to formulate one's own values and goals, tell a story about what it means to be 'European' and what European nations, apart and together, want to be, a 'European dream' of sorts (which should also acknowledge Europe's dark sides!). Only if one has a clear sense of what one considers to be truly valuable can one find the overall direction in which to navigate within the 'thorny triangle' just sketched. So, the fourth challenge for the European nations and their economies is to

4. reevaluate Europe's own leading principles, values and sources of inspiration and to reorient its economy accordingly. Human dignity, inclusivity and ecological sustainability, together with an emphasis on co-creativity and innovation, can be seen as key values for Europe (as we will expound later on).

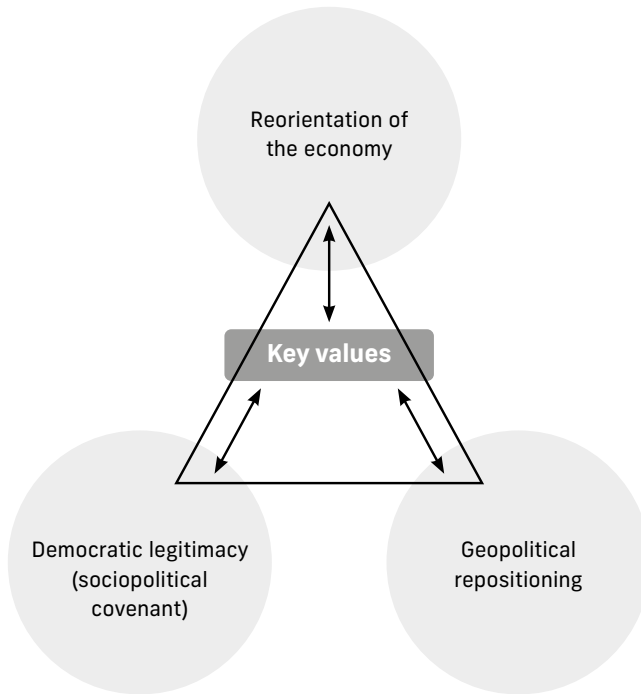


Figure 1b: *Value-orientation within the Thorny Triangle of the Transition Towards a Sustainable, Inclusive and Innovative Economy*

New Intellectual Resources: Rethinking Capitalism

With this fourfold challenge we are engaging in what can be called ‘reflexive modernization’: not simply taking the economy as it has emerged in modern times at face value but, given the problems it has created, engaging in ‘rethinking our economy,’ what needs to be kept, what needs to be changed, what new direction can we find?⁸ The challenge may easily cause a sense of powerlessness. In this endeavor, however, we have at our disposal a true avalanche of recent literature, mostly by economists, that breaks through the sometimes rather dogmatic sterility of economic thinking in earlier decades and breaks new ground. After the credit crisis, new reflection on the nature of

capitalism started, consisting at first of more direct analyses of 'when did what happen and how did it go wrong.' Later on, this was expanded and deepened by fresh analyses of the ecological problems caused by our current economy. It then developed into more in-depth analyses of capitalism and proposals about how the idea and reality of a free market can be reoriented toward furthering the common good, instead of undermining it.

This new literature has promulgated new terms like 'responsible capitalism,' 'moral capitalism,' 'conscious capitalism,' 'progressive capitalism,' an 'economy for the common good,' 'regenerative capitalism,' 'doughnut economics,' 'economy of arrival,' 're-imagined capitalism,' 'democratic capitalism,' or whatever term one wants to use.⁹

What this book intends to do is to reap the harvest of this new body of literature and apply it specifically to European nations and their central cooperative organization, the European Union. Moreover, we intend to sketch ways to actually get there, steps that can be taken by all of us, a multiplicity of actors, such as citizens, businesses, and governments. In this vein, it sketches a possible 'European Economic Approach' as distinguished from both unfettered capitalism and autocratic capitalism – continuing and renewing the typical European search for a 'third way' (see below). We prefer to call this 'responsible capitalism' but sometimes will use other phrases such as 'an economy for the common good.'

Much of the literature on 'rethinking capitalism' focuses on either the ecological agenda or the social agenda (inequality) but has difficulty integrating these two, let alone taking the geopolitical context into account. However, the latter is the context in which a new economic order actually has to be developed. As both the SDGs and Francis's encyclical *Laudato Si'* – both mentioned earlier as landmarks of 2015 – strongly emphasize, it is impossible to separate the ecological from the social and vice versa. And realism demands that we look as well at the geopolitical arena in which a renewed capitalism has to take shape. This book therefore intends to take steps toward integrating these various elements

because they are all crucial elements of the transitions ahead. It becomes increasingly clear that, in some sense, each element functions as precondition for the others.

Another theme that is often missing from the literature on 'rethinking capitalism' is reflection on what 'European values' are and why Europe should be a leading agent in this process (at least as long as others are not taking that role). One of the outcomes of our public discussions with leading economists included in the input for this book was that almost all, including those with an American background such as Stiglitz, Sachs, and Rajan, pointed to Europe as the continent that needs to take a leading role in the global reorientation toward a more sustainable and inclusive type of market economy.¹⁰ In this book, we aim to substantiate this claim by outlining moral, and sometimes also spiritual, resources that have developed in Europe and may provide the needed orientation for a new future (while not closing our eyes at all to the darker sides of Europe and its history).

Thus, this book is an attempt to integrate various discourses that urgently need each other to make the move from dreams to reality: ecological, sociopolitical, geopolitical, and moral/cultural discourses. Why this attempt at integrating these discourses? Taken individually and on their own, each of these discourses risks creating its own 'bubble' and 'tunnel' and therefore runs the risk of staying on the margins of real developments. In retrospect, we can say that the ecological discourse as well as the protests against the growing inequality within countries has been relegated to the margins far too long. The wrong type of 'realism' prevailed: 'This is not how the real world works.' In our present predicament, however, the entire opposition between 'realism' and 'idealism,' between 'morality' and 'markets,' between 'a better world' and 'realist politics' is evaporating. In the present context, these former oppositions come together. If we don't work toward a more sustainable and fairer world, the world as we know it may collapse. As Paul Polman, former CEO of Unilever, has been saying at multiple occasions in recent years: "The price of doing nothing is now greater than the costs of acting." This concerns the

direct costs of climate adaptation but also the consequences of ecological degradation such as political instability both at a global level, resulting in, among other things, massive migration and, at a national level, in growing distrust and resentment that may threaten the democratic order. So ‘mainstreaming the margin’ is the call of the day. Idealism has become realism.

Some Working Definitions: Market Economy, Capitalism, Market Society, Market Ideology

Terms like ‘market economy’ and ‘capitalism’ can be defined in many ways.¹¹ We will not go into a lengthy discussion but will give some working definitions that can help us throughout this book.

Market Economy. We would describe a ‘market economy’ (anticipating some arguments presented later in this book) as an economic system in which:

- the means of production – labor, capital, natural resources, knowledge – are privately owned and brought together in ‘cooperative hubs’ of people with a diversity of talents, led by entrepreneurs/enterprises
- which together produce goods and services that are freely exchanged with buyers in free competition with other suppliers at a mutually agreed price (market)
- which enables the entrepreneur to make a profit, pay his employees, and cover other production costs, including the cost of capital, and
- last but not least, governments do not directly interfere in the market process but do ensure a legal framework within which the enterprises can operate, and in which the ‘external effects’ of the production processes are fairly addressed. Moreover, governments also play a role in defining and partly organizing or providing public goods that are not delivered, cannot be delivered, or may even be undermined by the market.

Capitalism. But why then speak of ‘capitalism’? ‘Capitalism’ is often used simply as a synonym for market economies, and we will sometimes use it in this loose way as well. But if one wants to be more precise, it may prove useful to reserve the term ‘capitalism’ for a specific phase in market economies in which the role of shareholders and other providers of capital becomes more and more important.¹² Financiers may become less and less interested in *what* is produced and for whatever reason and become focused more and more exclusively on whether something is able to produce a profit. A substantial assessment of whether a new investment is adding real value for people, for society, has become increasingly superseded by an assessment of what gives the highest return on investment, preferably in the short term, for the capital providers. The classic short formulation of this tendency was already given by Marx in *Das Kapital* where he describes the role of money (M) in ‘ordinary’ market economies as a means to facilitate the exchange of goods (G), hence $G \rightarrow M \rightarrow G$.¹³ In capitalist economies, however, the role of money and goods have swapped places. The exchange of goods facilitates the growth of money, hence $M \rightarrow G \rightarrow M^+$. If we look at capitalism in this ‘pure’ form, it then refers to an impersonal system in which the incentives for the financiers are clear: search the entire globe for investment opportunities that give the ‘biggest bang for your buck.’ In this vein, almost everything can become ‘tradable’ or ‘commodified.’¹⁴

Moreover, what we have seen in recent decades is that financial markets can become almost fully independent markets where derivative financial products are traded, with almost no reference any longer to underlying real value – ‘footloose,’ as it were. Money and financial assets become a tradable commodity themselves. The Marxian formula would then read: $M \rightarrow M^+ \rightarrow M^{++}$. Any connection with the ‘real economy’ of goods and services is lost. This results in the total amount of money in the world vastly outnumbering the value of the real economy. We will come back to this later when we discuss ‘financialization’ (chapter 3).

To conclude, we will sometimes use ‘capitalism’ and ‘market economies’ loosely as synonyms (especially when capitalism is

used with an adjective: ‘moral,’ ‘regenerative,’ ‘progressive,’ ‘responsible,’ etc.), but we will sometimes use it as a critical description of a market economy that has become entirely ‘financialized.’ In those cases, we will often employ adjectives like ‘unfettered,’ ‘unrestricted,’ or ‘disembedded’ capitalism (or ‘unfettered markets’).

Market Society. This brings us close to the concept of a ‘market society.’¹⁵ A ‘market society’ is one in which the market-type of transactions – and more precisely, a specific truncated subset of market relations, namely buying, selling, accounting, and private profitmaking – is increasingly institutionalized and viewed as the sole mode of interaction between people. Everything is for sale – even a Nobel Prize, if that were possible! A distinction is often made between the various ways in which societies or, better, people within societies coordinate their mutual activities: by living in communities where love, loyalty and cooperation are the primary means of relating to each other (without profit, so the mutual ‘gift’ is crucial), by organizing political bodies that can establish and enforce rules for everybody, and by market relations, in which people freely buy and sell, pick and choose, cash and carry.¹⁶ The theory on this often says that, in a well-developed, balanced society, all three presuppose and need each other, like three pillars for one roof.¹⁷ In a market society however, this balance is disrupted. The argument is often made that, in the long run, a market society is self-destructive: growing inequality, together with dysfunctional public institutions (‘private wealth, public poverty’) and marketized private lives instead of communities and cooperation, causing the social context for healthy businesses to be destroyed in the long run, resulting in a low trust society where transaction costs go sky high. From win-win-win, the dynamics swing to lose-lose-lose. This self-defeating dynamics of market societies will be our concern throughout this book.¹⁸

Market Ideology. The development toward a ‘market society’ is propelled by what can be called a ‘market ideology’: stories and intellectual reflections (we wouldn’t necessarily call them

scientific, although universities have played an active role in promulgating them) that state that markets always provide the best solutions to societal problems.¹⁹ All these narratives and reflections repudiate the importance of the role of states, communities, morality, spirituality, and other domains for a well-functioning economy.

Outline of the Book

This book is divided into three parts:

- Part I: Europe's Present Condition: A Diagnosis
- Part II: Europe's Mission: Developing Responsible Capitalism
- Part III: Europe's New Position: A Global Player for the Common Good

In Part I, **Europe's Present Condition**, we start from the most recent developments in Europe and look back upon the great European – and more broadly, Western – project of the last 250 years, the escape from poverty, for which a market economy/capitalism was an important driver. This system, however, proved to have destructive tendencies as well and therefore was – still is – in need of correction and political embedding. In recent decades, this insight has tended to become lost to view. The balances between markets, states, and civil society/communities were abandoned in favor of 'markets alone.' This leads to a number of distortions that require a new response, a new phase of correction and embedding of the market economy. European nations and their cooperative association, the European Union, have to reorient their market economies to make them ecologically and socially robust, while at the same time (re) connect them with their own populations and reckon with a new geopolitical constellation, in which the US, China, and Russia have each recently adopted new positions. To navigate these challenges, a new sense of shared values within Europe is essential.

In Part II, **Europe's Mission**, we sketch what such a new embedding of the market economy could entail. We lay out a

fivefold agenda of renewal, an agenda that revolves around five I's: renewing *Ideals* (1), renewing *Inspiration* (2), renewing economic *Ideas* (3), renewing economic *Indicators* (4) and renewing *Institutions* (5). We make this case against the background of an interpretation of European culture and European history, with all its ambivalences, its hope-giving upsides and terrible downsides. A well-functioning economy, from a European perspective, requires a broad range of actors who all play their own roles in cooperation and, if necessary, in conflict. Old oppositions like 'either market or state' are simply no longer up to the task. The 'multiactor approach' that we propose – as a further development of a stakeholder approach – runs the risk that each actor waits until the other takes the initiative, the risk that ethicists have dubbed the 'problem of many hands.' Therefore, we strongly emphasize the 'power of initiative': each actor – businesses, governments (local, national, international), consumers, civil society, intellectual and religious leaders, and so on – can, or even has to, take initiatives to address problems that they observe from their own perspective and build coalitions with other actors to deal with these problems.

In Part III, **Europe's New Position**, we discuss the attitude and strategy that Europe can follow in the geoeconomic and geopolitical context of the 21st century, as a self-conscious geopolitical and geoeconomic actor that is aware at the same time of the implications of the condition of a multipolar world order. In today's world, Europe is not an island. Formulating new ideals and nurturing new practices can hardly succeed if it is a 'stand-alone' exercise. We have entered into an age of globalization and there is no way back. Efforts for a reorientation of the market economy have to reckon with this new reality of living together in a multipolar world.

Our Intended Readership

The people we have in mind in particular as readers of this book are policy advisors, politicians, business leaders, thought leaders,

all those who are in a position to actually shape our future, old and young. But we could also ask: Who is not in such a position? Each of us individually, and each company or NGO (small or large) has, as we argue later in this book, 'the power of initiative.' Many of us who may feel unease or even outrage about our present economic system may also have a feeling that 'There Is No Alternative' (the infamous phrase uttered by Margaret Thatcher about capitalism). Many people, in all these positions, when they long for change, feel the urgency and are willing to take steps toward a different future, but may still lack a perspective on what this might look like and how another type of market economy can ever become reality. The current domestic political situation in quite a few countries as well as the geopolitical situation is a matter of great concern and may cause paralysis and pessimism among the younger generations or cynicism among the elderly. The almost natural response in such situations is to cling to the supposed certainties of a bygone era. This book aims to sketch new ways for an undoubtedly different, but certainly not worse and perhaps even better, future – for all humans, and for the earth itself, 'our common home.' There Are Alternatives.

The Title of this Book

We have called this book 'Capitalism Reconnected.' This refers first of all to the connection with the next generations. The generation that is in power right now has not given enough consideration to future generations and has broken what the conservative philosopher Edmund Burke once called the "partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born."²⁰ There is a lot of anger and anxiety among the younger generations, anger about the past, anxiety about the future. Greta Thunberg's activities and those of Extinction Rebellion can be seen as indicative here.²¹ This book intends to restore some parts of this contract, this covenant among the generations, perhaps turning anger into action and anxiety into hope.

But 'reconnected' also refers as well to the European nations internally. Almost all European nations face internal rifts and clashes. The economy has in recent decades propelled various types of inequality and by consequence divisions between 'winners' and 'losers,' a division that is sealed by a strong 'meritocratic' discourse: 'You only have yourself to blame.' More and more people are no longer buying into this and are starting to resist in various ways and starting – to borrow the language of the sociologist Manuel Castells – “to exclude the excluders,” which even threatens our democratic order.²² Reconnection is needed between economy and society, between political and business leaders on the one hand and voters and customers on the other.

Furthermore, 'reconnected' is a key term in the relationship between human beings and nature. In modern times this relation was characterized by separation, by an instrumental view of nature, as some 'thing' out there that we can manipulate at will, not as a larger whole that we ourselves are part of and that we therefore have to respect and preserve. 'Reconnected' therefore also aims at a new relationship with nature.

'Reconnected' also refers to the European nations together that, inside or outside the European Union, share a continent together and have to live with each other and are in the same boat geopolitically, whether they like it or not. There is the risk that, in the present fearful geopolitical situation, after the Russian invasion of Ukraine and all that this entails and will still prove to entail and after an initial phase of unity, European nations will let themselves be played out against each other, some drawing closer to the US, others to China, others perhaps even to Russia. Given Europe's mission, as we outline it in this book, there is a need as well for a new long-term connection between the European nations, for what they have in common with respect to values, history, inspiration, and aspiration is much more and much stronger than whatever separates them (as anyone can tell who travels outside Europe and then looks at Europe from that outside perspective).

Last but not least, 'reconnected' also refers to the relation of Europe with the non-European world, especially the global South.

Up until the present, the world economy has been and is centered to a high degree around the global North. Although this book has a strong focus on Europe, that is not meant to stimulate European isolationism, on the contrary: Europe should design its economy in such a way that the global South is no longer exploited, but can really find its own just and dignified role in the global economy.

The Book in Three Figures

The content of the book can be briefly rendered in three figures, one of which has already been presented above.

First Figure:

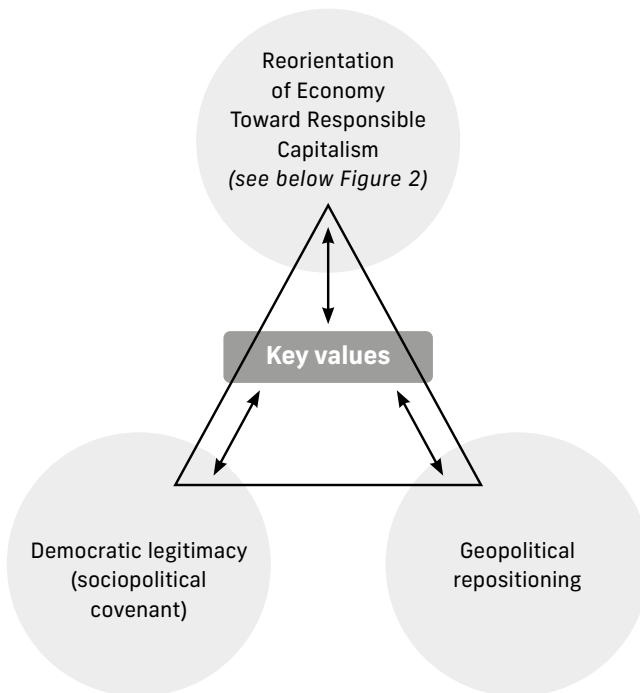


Figure 1: Value-orientation within the Thorny Triangle of the Transition Towards a Sustainable, Inclusive and Innovative Economy

Second Figure:

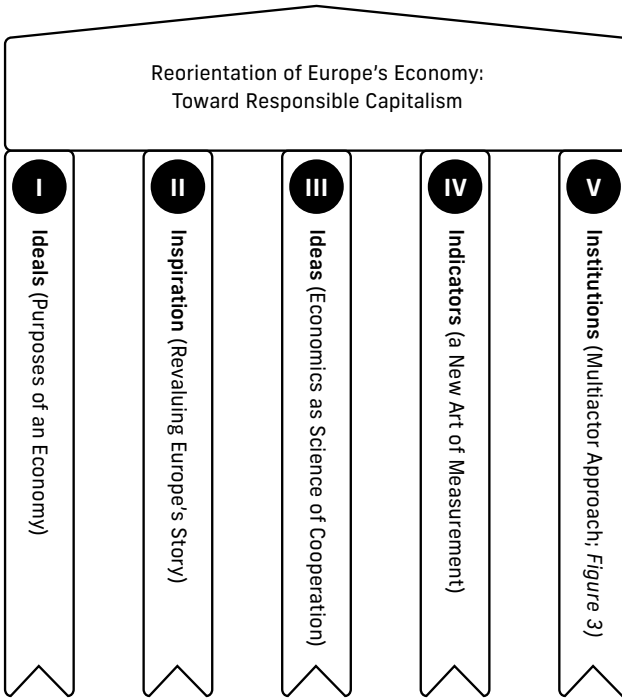


Figure 2: *The Reorientation of the Economy: Five Pillars of Renewal (5 I's)*

Third figure:



Figure 3: *The Institutional Platform of Responsible Capitalism*

How (not) to Use this Book

This book can be used in many different ways. One can of course read it from beginning to end and follow the argument from step to step.

But it is not a novel. One can also follow different paths through the book. The heart of our argument is found in chapter 3 (on the problems of today's capitalism), the final section of chapter 6 on the new set of common values that Europeans should adopt, and in chapter 9 where we outline the multiactor approach – and, of course, the 'Challenges and Recommendations' at the end.

People who are especially interested in the way businesses can operate in the context of 'responsible capitalism' can refer to chapters 8 and 10. Those who want to read more about the role of economic education and research can read chapters 7 and 12.

The geopolitical aspects are elaborated in chapters 13 and 14. People who are interested in Europe's history of dealing with economics can refer to chapters 2 and 6.

All this comes down to: Use the book as you see fit.