

Thatcher's Plot — And How To Defeat It

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Where can we find the most lucid compact description of the predicament of today's European Union? In a powerful plea for its creation written nearly 80 years ago. In "The economic conditions of interstate federalism" (1939), reprinted in his [Individualism and Economic Order](#), Friedrich Hayek explains why he finds a multinational federation, much later exemplified by the EU, a wonderful idea. This is essentially because it combines two features.

Hayek's trap

Firstly, there is the disabling function of the common market, i.e. the economic constraints on state-level policy that stem from the freedom of cross-border movement:

If goods, men, and money can move freely over the interstate frontiers, it becomes clearly impossible to affect the prices of the different products through action by the individual state.



This disempowerment of national governments would not be limited to price fixing:

As has been shown by experience in existing federations, even such legislation as the restriction of child labor or of working hours becomes difficult to carry out for the individual state. [...] Not only would the greater mobility between the states make it necessary to avoid all sorts of taxation which would drive capital or labor elsewhere, but there would also be considerable difficulties with many kinds of indirect taxation.

Alongside governments, all state-level economic organizations would be seriously weakened:

Once frontiers cease to be closed and free movement is secured, all these national organizations, whether trade unions, cartels, or professional associations, will lose their monopolistic position and thus, qua national organizations, their power to control the supply of their services or products.

Wonderful — for Hayek! But won't the capacity to act at national level be replaced by a capacity to act at the newly created level of the federation? By no means — and this is the second feature that, combined with the first, accounts for Hayek's enthusiasm. For there are two serious obstacles to the creation of such a capacity. Firstly, economic differences are likely to be far more pronounced in a large entity than in a small one:

Many forms of state interference, welcome in one stage of economic progress, are regarded in another as a great impediment. Even such legislation as the limitation of working hours or compulsory unemployment insurance, or the protection of amenities, will be viewed in a different

light in poor and in rich regions and may in the former actually harm and arouse violent opposition from the kind of people who in the richer regions demand it and profit from it.

Secondly, and more seriously, a multinational federation lacks the common identity and associated disposition to solidarity that nation states can rely on:

In the national state current ideologies make it comparatively easy to persuade the rest of the community that it is in their interest to protect “their” iron industry or “their” wheat production or whatever it be. [...] The decisive consideration is that their sacrifice benefits compatriots whose position is familiar to them. Will the same motives operate in favor of other members of the Union? Is it likely that the French peasant will be willing to pay more for his fertilizer to help the British chemical industry? Will [...] the clerk in the city of London be ready to pay more for his shoes or his bicycle to help [...] Belgian workmen?

There is no doubt, for Hayek, as to the answer. He concedes, however, that:

[t]hese problems are, of course, not unfamiliar in national states as we know them. But they are made less difficult by the comparative homogeneity, the common convictions and ideals, and the whole common tradition of the people of a national state.

Decisions in particular are less difficult to accept if the government taking them is regarded as consisting of compatriots rather than as consisting mostly of foreigners:

Although, in the national state, the submission to the will of a majority will be facilitated by the myth of nationality, it must be clear that people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions. It is, after all, only common sense that the central government in a federation composed of many different people will have to be restricted in scope if it is to avoid meeting an increasing resistance on the part of the various groups which it includes.

The outcome of the combination of these two features — economic constraints on state government and political constraints on union government — should be clear enough:

There seems to be little possible doubt that the scope for the regulation of economic life will be much narrower for the central government of a federation than for national states. And since, as we have seen, the power of the states which comprise the federation will be yet more limited, much of the interference with economic life to which we have become accustomed will be altogether impracticable under a federal organization.

Consequently, the creation of such a multinational federation is an essential and indeed a fantastic tool for the realization of Hayek’s “liberal program”, of what much later became “neo-liberalism”. Bluntly put:

the creation of an effective international order of law [in the form of a multinational federation] is a necessary complement and the logical consummation of the liberal program.

The road from the single European Act to Brexit

If there is one person who got Hayek's message perfectly, it is Margaret Thatcher. She campaigned for her country to confirm its membership of the then EEC in 1975. When in office between 1979 and 1990, she strongly supported both the further unification of the common market, particularly through the 1986 Single European Act, and the further expansion of its reach made possible by the collapse of the iron curtain in 1989. In accordance with Hayek's argument, the increased mobility created by the deepening of the common market further disempowered member states, while the increased heterogeneity created by post-1989 enlargements further prevented the federation from taking over the regulatory and redistributive powers that member states were increasingly unable to exercise. This is Hayek's trap, the trap we are in more than ever thanks to the 2004 and 2007 enlargements and the relentless defense of the "four freedoms" by the European Commission and the Court of Justice of the European Union.

How should we react? As lucidly explained by Hayek, if we exclude re-erecting thick national borders, with the huge economic losses and uncertainties of all sorts this would trigger, there is only one real option: we must build a genuine European polity that encompasses the European single market, instead of letting each national polity struggle with constraints imposed by its immersion in this market and, beyond, in an increasingly globalized world market. In particular, we urgently need to build socio-economic institutions that organize at least part of redistribution on a higher scale. Such redistribution will foster the pursuit of justice both directly, through Union-level transfers better protected against social and tax competition than country-level redistribution, and indirectly, by protecting national-level redistribution against such social and tax competition. This does not mean that we need to build an EU-wide mega welfare state at least equal to what exists at the federal level in the United States. Our respective national welfare states have been shaped, and should continue to be shaped, by largely separate debates. If only because of the linguistic distinctiveness of these debates, a particularly strong version of the subsidiarity principle should apply. In matters of social policy as in many others, it would lastingly justify a degree of decentralization significantly higher than what would be optimal with a mono-national population of equal size. The moral hazard inherent in such decentralization will legitimately reduce the optimal level of transnational transfers: "no solidarity without responsibility", as we kept hearing throughout the Greek crisis. However, the fact that a high level of solidarity is harder to achieve and sustain politically at European level than at national level does not make it any less important.

I am here leaving aside the form this EU-wide redistribution could and should take (see [The Euro-Dividend](#)). What is clear, however, is that its political achievability and sustainability require a further empowerment of the Union, which should be entitled to tax and redistribute across borders to a less insignificant extent than it does now. The EU does not need to mimic the American federal state, but it does need to do more of what the latter does if it does not want to let its European social model degenerate, stuck as it is in Hayek's trap, into something far more pathetic than the American welfare state, which we Europeans so often look down upon. Such a move, urgently needed to get out of the trap, is of course exactly what Hayek's disciple Margaret Thatcher would have hated to see happening. In *Statecraft*, her 2002 book, she formulates a fiery plea against those who want to erect something like the United States of Europe:

The parallel [with the United States] is both deeply flawed and deeply significant. It is flawed because the United States was based from its inception on a common language, culture and values — Europe has none of these things. It is also flawed because the United States was forged in the eighteenth century and transformed into a truly federal system in the nineteenth century through events, above all through the necessities and outcomes of war. By contrast, 'Europe' is the result of plans. It is, in fact, a classic utopian project, a monument to the vanity of intellectuals, a program whose inevitable destiny is failure: only the scale of the final damage done is in doubt.

In the aftermath of German foreign minister Joschka Fischer's famous [speech](#) on the ultimate objective of European integration (Berlin, May 2000), she did not hesitate to get personal:

It is no surprise to me that the strongest proponents of Euro-federalism today often first cut their political teeth in the infantile utopianism, tinged with revolutionary violence, of the late 1960s and the 1970s.

As the realization spreads that this is precisely what we need to get out of Hayek's trap, as pressure mounts to move in this direction, her advice to Britain became, and would still be today, to get out of the grip of this monster: after "I want my money back", it is time for "We want our country back". But, in order not to undo what was done over the decades in accordance with Hayek's script, it is crucial that Britain should retain full access — and remain fully subjected — to the European market, which the United Kingdom and Margaret Thatcher herself can pride themselves of having helped to deepen and enlarge. In this way, Britain, having regained its "sovereignty," can quietly undermine, through tax and social competition, any serious attempt to pursue egalitarian justice in Europe, whether at national or Union level. In other words: "Let us Brexit, but "softly", so as to keep our sabotage capacity intact." This is what could be called, without too much phantasy, Thatcher's plot, the conspiracy aimed at saving Hayek's neoliberal program from the threat of the "classical utopian project" of a political, social and fiscal union.

The European utopia we need

Hayek himself, however, unwittingly advises us not to give up on this utopian project. Ten years after he wrote the article quoted earlier, in the aftermath of World War II, Friedrich Hayek was in despair about the turn of events throughout Europe and North America. With the New Deal, the expansion of social security systems, nationalizations, the spreading of socialist regimes in Eastern Europe from Estonia to Albania, statism was gaining ground all over the world. In an article published in 1949 under the title "The intellectuals and socialism", he urged his fellow liberals to erect precisely what Thatcher would have dismissed as "a monument to the vanity of intellectuals":

If we are to avoid such a development, we must be able to offer a new liberal program which appeals to the imagination. We must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia, [...] a true liberal radicalism which does not spare the susceptibilities of the mighty (including the trade unions), which is not too severely practical and which does not confine itself to what appears today as politically possible. [...] The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals and thereby an influence on public opinion which is daily making possible what only recently seemed utterly remote.

Articulating our utopias is not just a way of enabling us to achieve what is possible. It makes possible what is currently impossible. Had Hayek not thought so and not been right in thinking so, his neoliberalism would not be dominating the world half a century later. If we don't want to remain forever stuck with neoliberalism or leave the field free for nationalist and jihadist dystopias, what we need now is to learn from Hayek what he said he learned from the socialists. We need bold utopias, not least, for us Europeans, regarding the destiny of the European Union.

But if the utopian project we need is to have any chance of being realized, it will have to protect itself against the pressure of globalization, including — through tough Brexit negotiations — against tax and social competition from a potential pirate state across the Channel. Above all, it will need to strengthen its federal institutions and develop the EU-wide demos required to make them work. This will require many initiatives and structural changes, essentially to strengthen the grip of pan-European deliberation relative to inter-state bargaining. But one development is more fundamental than any other, and aptly identified by Margaret Thatcher in her *Statecraft*:

Perhaps the most significant shortcoming of the fledgling superstate [i.e. the European Union] is that it is not, will not be, indeed ultimately cannot be, democratic. [...] The real reason why there can be no functioning pan-European democracy is because there exists no pan-European public opinion. [...] It is commonplace, but it is all too frequently ignored, that the European Union nations are extraordinarily deeply divided by language — no fewer than twelve main languages are widely spoken among the present members. [...] Of course, in time Europeans may all, in any case, speak English (I only half jest). If that happens, it might be possible to consider seriously trying to make democracy work at the pan-European level.

There cannot be a European demos unless people are able to communicate cheaply and effectively with one another despite the diversity of their native languages. This requires the democratization of a common lingua franca. In the EU, this lingua franca is and will remain English, a sloppily pronounced historic mixture of German and French that will operate as a more neutral common medium of communication among Europeans after the completion of Brexit. But this democratization of a common lingua franca can and must be made consistent with respect for the diversity of native languages and their lasting preservation, thanks to the territory-specific implementation of coercive rules regarding the use of languages in public communication and compulsory education.

I developed this position elsewhere ([Linguistic Justice for Europe and for the World](#)) and shall limit myself here to proving that it is not completely outlandish by quoting Germany's president Joachim Gauck's February 2013 [speech](#) about "the prospects of the European idea".

It is true to say that young people are growing up with English as the lingua franca. However, I feel that we should not simply let things take their course when it comes to linguistic integration. For more Europe means multilingualism not only for the elites but also for ever larger sections of the population, for ever more people, ultimately for everyone! I am convinced that feeling at home in one's native language and its magic and being able to speak enough English to get by in all situations and at all ages can exist alongside each other in Europe. A common language would make it easier to realize my wish for Europe's future – a European agora, a common forum for discussion to enable us to live together in a democratic order.

Such courageous and far-sighted words should give us hope, but they were not exactly received with universal approval in Germany, home to the EU's first language in terms of native speakers. It also leads to a set of hard questions, not only about how best to democratize competence in the lingua franca, but also about how to prevent the European public forum from being colonized by the Anglo-American press — *The Economist*, *The Financial Times*, *Politico* and the like. I leave these questions aside, as well as the many others about what needs to be done, beyond this linguistic dimension, to strengthen the European demos and help it achieve what Hayek thought it would never be able to do.

I want to close, however, by returning to a more general and fundamental condition for progress and at times also simply for successful resistance to regression. It was powerfully formulated in the final paragraph of Max Weber's 1919 lecture [Politik als Beruf](#).

Politics is a strong and slow boring of hard boards. It takes both passion and good judgment. Certainly, all historical experience confirms the truth that man would not have attained the possible unless time and again he had reached out for the impossible. But to do that a man must be a leader, and not only a leader but a hero as well, in a very sober sense of the word. And even those who are neither leaders nor heroes must arm themselves with that steadfastness of heart which can brave even the crumbling of all hopes. This is necessary right now, or else men will not be able to attain even that which is possible today. Only he has the calling for politics who is sure that he shall not crumble when the world from his point of view is too stupid or too base for what

| *he wants to offer.*

These are the women and men Europe badly needs to conduct the frequently uphill struggle for a more just Europe. It is their commitment and their persistence, their passion and their good judgment that will make possible one day what today is — or seems — impossible.

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