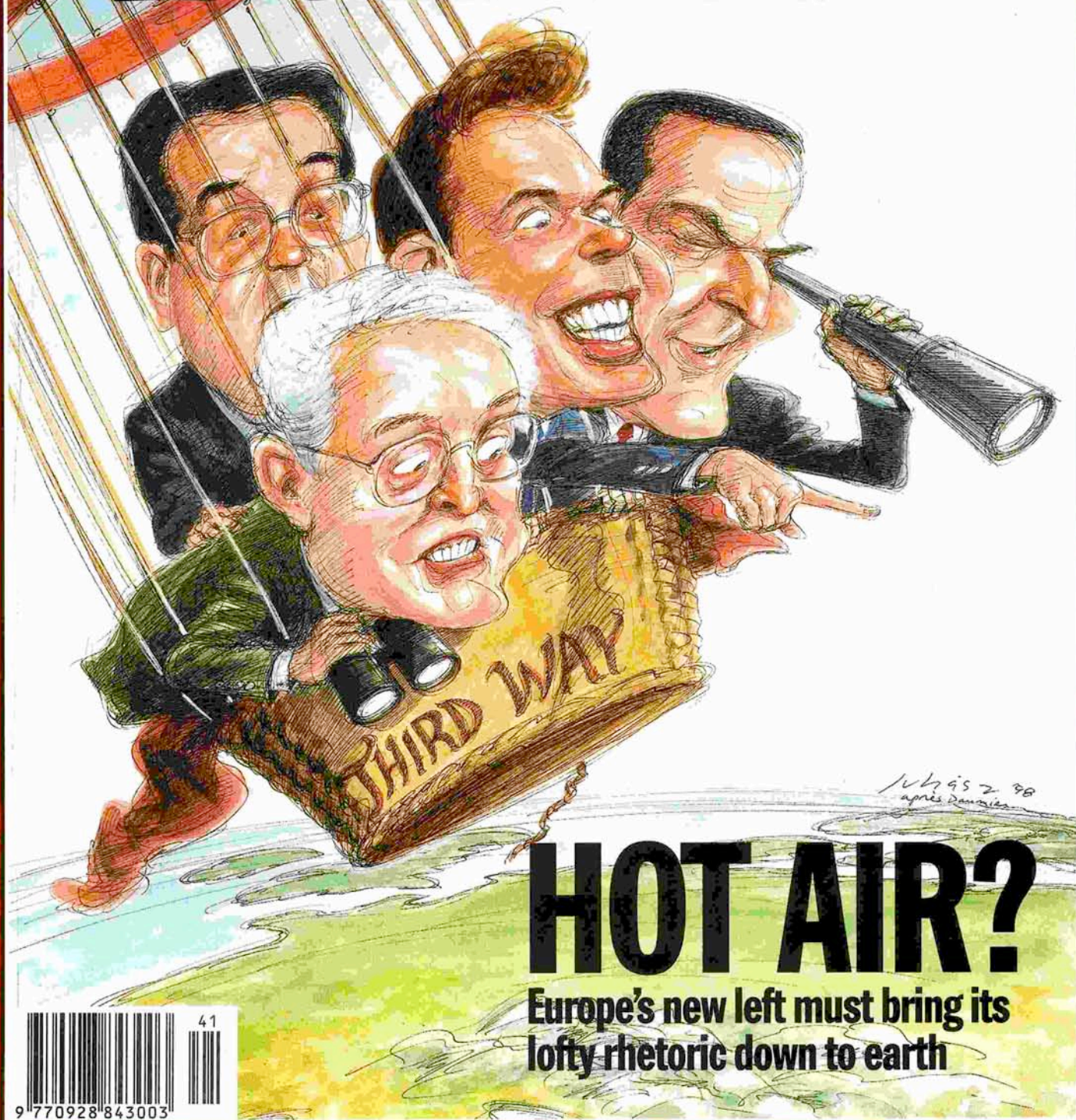


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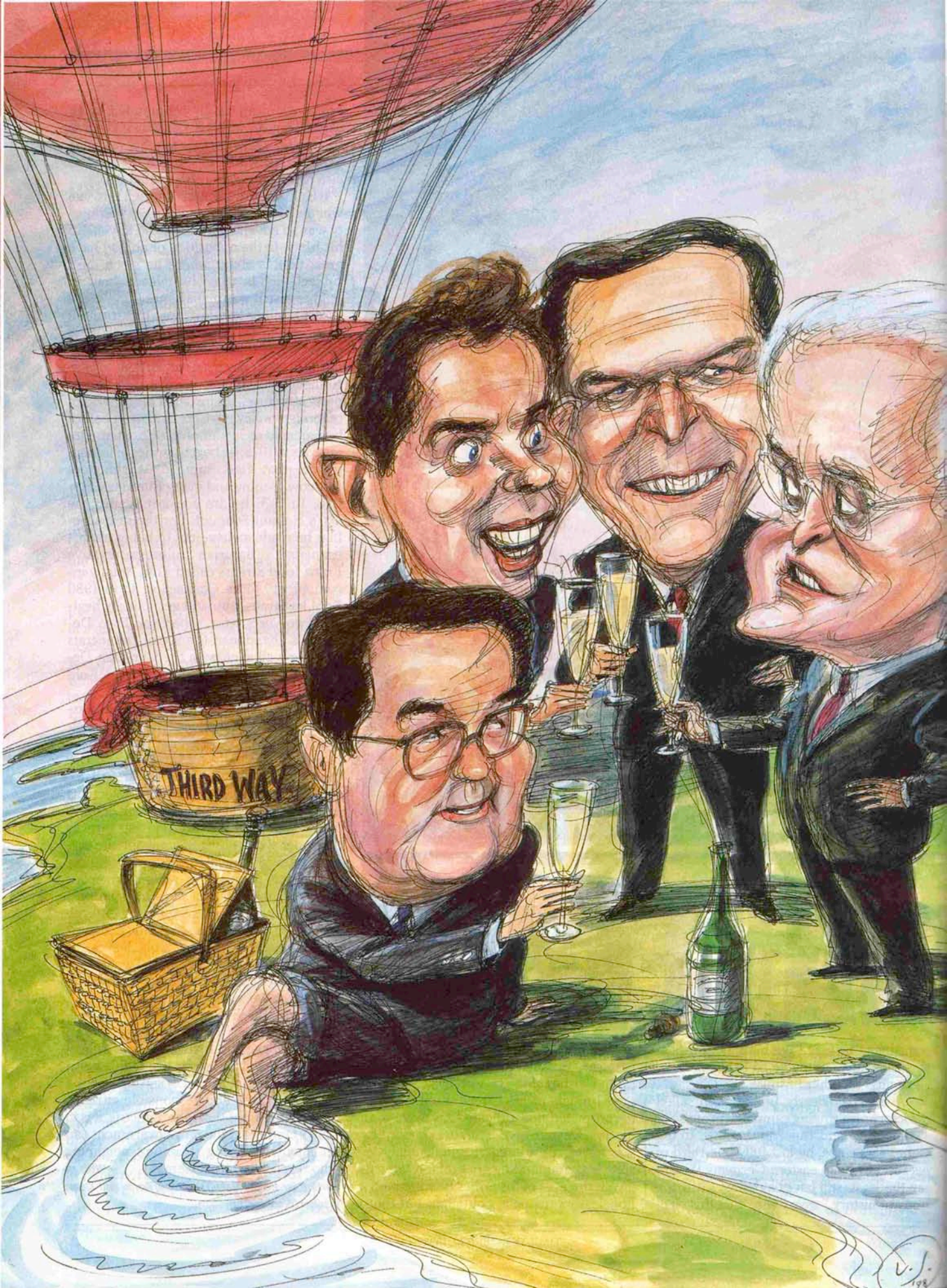


HOT AIR?

Europe's new left must bring its
lofty rhetoric down to earth



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NOW FOR THE HARD PART

The leaders of Europe's New Left came to power pledging a more caring capitalism. Now they must make good on their promises

By JAMES GEARY

GERMAN CHANCELLOR-ELECT GERHARD SCHRÖDER describes it as the "New Middle." Italian political commentator Sergio Romano deems it a mere "formula to make yourself sellable to the electorate." British Prime Minister Tony Blair calls it the "Radical Center." But Simon Jenkins, columnist for the *Times* in London, sneers that it's a "mere intellectual ectoplasm to appease some floating-voter focus group." What is this new thing causing such a stir in Europe? Well, it's actually the not-quite-new Third Way, a post-cold war and supposedly non-ideolog-

ical approach to politics that seeks to transcend the old divisions between left and right. It is a pragmatism that accepts the economic realities of the market and acknowledges the primacy of fiscal rectitude, yet still maintains a strong commitment to social welfare and workers' rights.

And it is a political approach that is sweeping the Continent. Following the electoral victories of Romano Prodi in Italy, Tony Blair in Britain and Lionel Jospin in France, Gerhard Schröder's win in the German elections completes the installation of left-of-center governments in the European Union's four largest coun-

tries and economies. They join the left-leaning administrations already in place in nine of the 11 other E.U. member states, from Paavo Lipponen in Finland to António Guterres in Portugal. Politicians and pundits alike are heralding this fraternity of like-minded leaders as the beginning of a new era, holding forth the promise of governments which, in the words of Tony Blair, can bridge the "false opposition ... between rights and responsibilities, ... between the public and private sectors, between an enterprise economy and the attack on poverty and exclusion." It sounds reasonable enough, noble even. But what

does it all mean? That's exactly what critics of the Third Way would like to know. To them, all the talk of "free but compassionate markets" and "capitalism with a human face" is just too vague to make much sense.

But there is more to it than mere sloganeering. For all the grandiloquence of its leading proponents, the ideals of the Third Way are shaped by forces that are anything but warm and fuzzy. The financial crises in Asia and Russia have shown how heartless and fickle unfettered markets can be—and how great the cost to societies when they collapse. Globalization and the relentless drive of new technology have changed the nature of work, forcing increasing numbers of people out of labor markets that no longer require their redundant skills. And in the E.U., sluggish economic growth and new demographic trends—such as aging populations—are pushing the Continent's welfare states to the breaking point, leaving citizens demanding pensions, health services and other benefits their governments can no longer afford. Amid all this uncertainty and change, Anthony Giddens, director of the London School of Economics and author of a new book on the Third Way, believes the aim of this emerging strand of politics "should be to help citizens pilot their way through the major revolutions of our time." The challenge facing the leaders of Europe's New Left is to bring



UP IN ARMS In London single parents, above, protest benefit cuts; Italians caricature Prodi as a vampire, right; demonstrators in Naples, below, celebrate the 50th anniversary of Italy's Communist Party manifesto



“We should reduce labor market constraints. Instead, w

the lofty rhetoric of the Third Way down to earth with practical programs and policies that really work.

Though the Third Way means different things to different people—and some practitioners studiously avoid the phrase altogether—Tony Blair is usually credited (or ridiculed, depending on one's point of view) as the movement's most eloquent exponent. Indeed, he flaunted his New Left credentials on Labour's first day in office in May last year by allowing Chancellor of the Exchequer Gordon Brown to give the Bank of England the power to independently set interest rates. The move signaled Blair's intention to work closely with Britain's business and financial communities—and to distance himself from his Old Labour predecessors. The Prime Minister's critics, both inside and outside his own party,

cried that he was nothing more than a Tory in disguise.

But in his first 16 months in office, Blair has deftly employed a key Third Way trait: a remarkable agility—some might call it opportunism—to select bits of policy from left and right, depending on the issue. To the left, Blair passed Britain's first minimum wage law, at \$6 an hour, despite opposition from business leaders. He also signed up Britain to the Maastricht Treaty's so-called Social Chapter, which mandates common labor laws and regulations for E.U. member states, again against the wishes of business. And to the right, Blair abolished one of the pillars of post-war Labour policy by ending free university education. Although needy students still qualify for grants to cover living costs, as of this academic year, most first-year students must pay an annu-

al tuition fee of \$1,700. The move was hugely unpopular, but the Blair government defended it by invoking one of the principle tenets of the Third Way: no rights without responsibilities. Blair faces further opposition in his plans to reform the welfare system, a key promise in his election manifesto. When Blair's lieutenants in the Commons rammed through a reduction in benefits for single parents, 47 Labour M.P.s voted against the measure.

Tackling poverty and fixing welfare will be the crucial tests of Blair's devotion to the Third Way. A first, tentative step was taken with the Labour government's New Deal, a package that will pour \$5.7 billion into compulsory schemes to find jobs for roughly 120,000 under-25's who have been out of work for six months or more. But instead of having a government department



are talking about a 35-hour week.”

administer the program, the service is delivered by collaborations between public, private and voluntary organizations. In the London borough of Hackney, for example, the New Deal is delivered by Reed Personnel Services, a recruitment agency. Young Hackney residents can visit the New Deal “campus” until 11 p.m. and make use of its Internet café, computer room and a resource center stocked with newspapers and reference materials. “New Deal? I love it,” says Kamal Abdul Ali, 19, who has just finished his first week in a job at a Hackney supermarket. “They gave me confidence in going for jobs. I owe them quite a lot.” While it is still too early to assess the full impact of the scheme, the New Deal has already found participants 23,000 jobs.

Gerhard Schröder has been touted as Germany’s equivalent of Tony Blair, and

during the campaign he sought to project Blair’s flair for combining business-friendliness with compassion for the factory floor. “They call me the Comrade of Business,” he was fond of declaiming. “And that’s okay with me, because I do want to strengthen the economy.” Then, after a pause, he continued in a deeper, more deliberate tone: “But I know where I come from and I know where I belong,” often telling of his widowed mother and her pension problems. This split political personality perfectly captures his populist yet pragmatic interpretation of the Third Way. While steadfastly declining to get into specifics, Schröder promised tax cuts and lower labor costs to win over a business constituency, then talked job security and social benefits to woo the working class. The tactic worked, but just days after the

election there was distinctly less camaraderie in corporate boardrooms and the first grumbings of discontent on Schröder’s home turf.

As part of the Social Democrats’ campaign pledges, Schröder vowed to reverse three of Helmut Kohl’s modest reforms: a 20% cut in sick pay benefits would be restored, a phased trimming of state old-age pension entitlements would be scrapped, and a new law that makes it easier for small firms to lay off workers would be abolished. The response from the German business community was swift. Dieter Hundt, head of the German Employers’ Federation, warned: “I will use all of my influence to try to prevent the repeal of these reforms.” Meanwhile, in Schröder’s home town of Hanover, Hans Eveslage, a Christian Democrat member of the state parliament, accused the former premier of leaving Lower Saxony “financially ruined,” with some of the highest unemployment in western Germany and three successive unbalanced budgets.

BUT SCHRÖDER’S RECORD AS PREMIER of Lower Saxony is actually better than that. In one of his most innovative moves, Schröder last February stepped in with more than \$550 million of state funds to prevent Austrian firm Voest-Alpine from taking over Hanover’s giant Preussag Steel works, and he did the same for a Continental tire factory, maneuvers that effectively nationalized the two companies. What appeared to be the knee-jerk reaction of an old-fashioned socialist was actually the shrewd calculation of a newfangled capitalist. Schröder swiftly reprivatized the Preussag works at a tidy profit for Lower Saxony, saving 12,000 local jobs in the process. The Continental factory is currently up for sale as well. Before even taking office as Chancellor, Schröder has proven himself adept at jettisoning ideology when it conflicts with economic or political reality, a crucial ability for the New Left. But the Third Way calls for principles as well as pragmatism. Reconciling these when the going gets tough will be Schröder’s real test.

In trying to follow a Third Way path, Italian Prime Minister Romano Prodi is assailed from all sides. Problem number one is Fausto Bertinotti, head of the Refoundation Party, the hard-line rump of the old Italian communists. While Refoundation does not form part of the center-left Olive Tree coalition, its votes are essential in the lower house, where Prodi alone doesn’t hold a majority. Bertinotti is currently threatening to bring down the government over the annual budget because, he com-

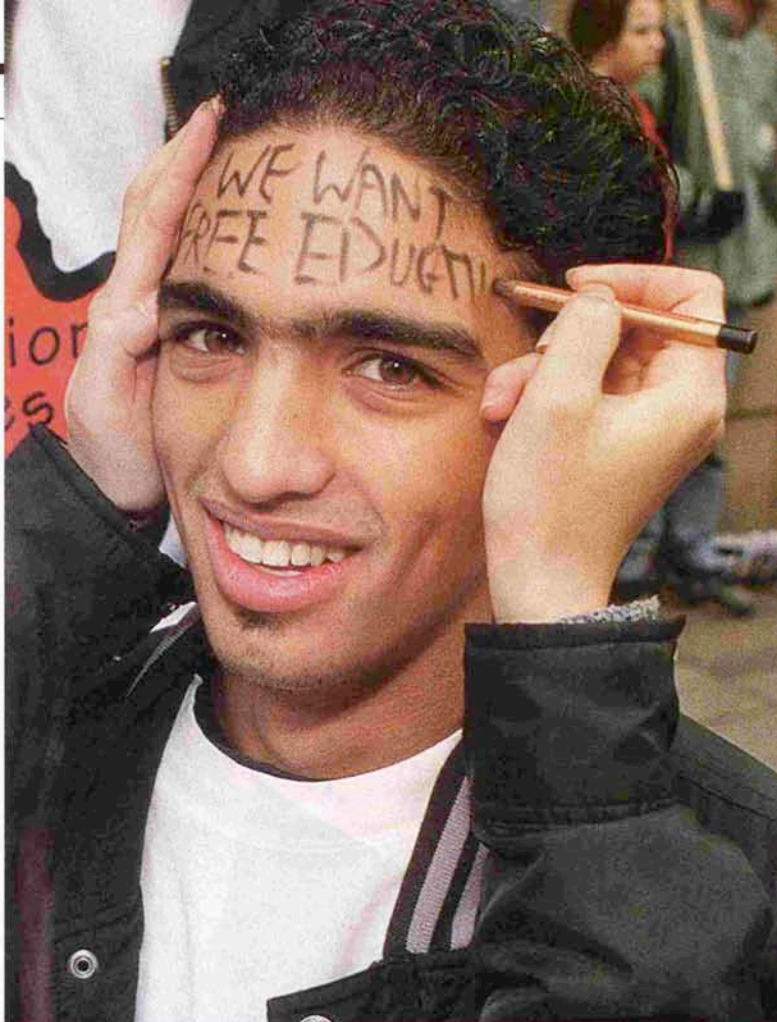
CLOCKWISE FROM LEFT: NEIL MUNN—AP; STEFANO CAROZZI—SINTESS/PAOLO TRE—CONTRASTO

plains, it doesn't contain enough money for job creation. His solution to unemployment in the south, which averages around 22.5%, is the direct hiring by the government of some 400,000 jobless youths.

While Prodi is given credit for getting Italy into the first wave of Economic and Monetary Union—a feat that required both painful budget cuts and old-fashioned tax hikes—he is still beholden to the communists, which makes it difficult for him to implement sweeping free-market reforms. Despite these constraints, Prodi has managed a few tepid changes. As of next April, for example, licenses will no longer be required for small shops—nor will their owners need academic titles or attendance at specialized courses before going into business for themselves. But the Refoundation Party has already won important concessions, including a pledge to introduce a 35-hour workweek. On the other side of the ideological fence, employers are scathing, too. “After a first wave, the privatization process has stopped,” says Giorgio Fossa, president of Confindustria, the Italian employers’ association. “We should be reducing the massive constraints in the labor market. Instead, we are talking about a 35-hour week.”

PRODI'S CRITICS CLAIM THAT HE IS not a moderate Third Wayer at all, but merely the acceptable face of Italy's old Marxist left. Giuseppe Pisanu, leader of the opposition in the House of Deputies, says that Prodi is a “façade premier,” serving as a frontman for former communist politicians such as Massimo D'Alema, head of Democratic Left and mastermind of the Olive Tree's electoral victory. To prove his point, Pisanu charges that the government has done nothing to cut the country's bloated pension system. In fact, it has proposed increasing the minimum pension in the upcoming budget. In the search for a Third Way, it seems news of the death of ideological politics hasn't yet reached the Italian Parliament.

In many ways, French Prime Minister Lionel Jospin is the odd man out in the Third Way club. At 61, he is considerably older than younger leaders like Blair or Schröder. His ideological roots are also more firmly planted in the traditionally big-spending wing of his Socialist Party, partisans of France's interventionist state. But under the influence of pragmatists like Minister of Economics, Finance and Industry Dominique Strauss-Kahn, 49, and despite the leftward tug of his communist coalition partners, Jospin has taken a more centrist path. “Of all the so-called Third Way leaders,” says an aide to President



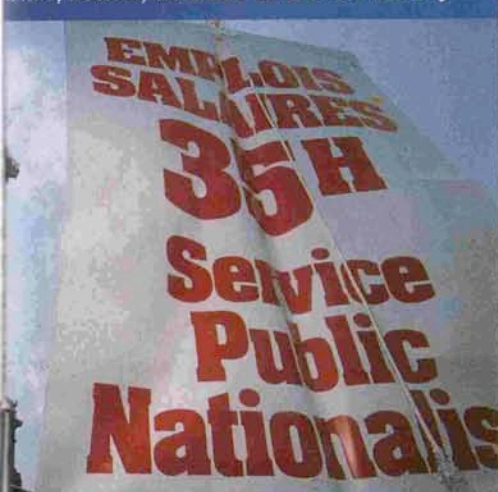
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“France was a country of demoral





A British student, left, protests the introduction of French union members, above and below, Paris for increased unemployment benefits; hands, bottom, work in a threatened industry



Jacques Chirac, "he is the only one who has not undergone a total ideological renovation. He is the one with the more classic approach to politics based on issues and ideas rather than image and media skills."

During the 1997 election campaign, Jospin called for such traditionally left-wing policies as the creation of 700,000 new jobs, half in the public sector, a mandatory 35-hour workweek, and a slowdown in planned privatizations. Though there was no radical talk of reimposing interventionism, Jospin promised that the state would ensure that the effects of the free market were tempered by social justice. "We have a market economy," he declared, "not a market society."

The 35-hour workweek legislation has been the issue around which Jospin's ideas about a market economy and a just society have collided. Passed last Spring, the law reduced the legal working week from 39 to 35 hours. Businesses that create new jobs as a result, or preserve threatened jobs, will receive substantial deductions in payroll taxes. The government has argued that shorter hours will create new jobs by spreading the available work among more people; business leaders and economists have countered that it will raise employers' costs and drive companies abroad.

Despite their initial hostility, some ex-

privatizations—including *Aérospatiale*, *Thomson Multimedia*, *Thomson CSF* and the banks *Crédit Industriel* and *Commercial*—than its conservative predecessor. Its biggest failure to date has been *Air France*, whose previous president Christian Blanc resigned last year after the government refused to sign off on his privatization blueprint. But Jospin suppressed his Socialist instincts last June when *Air France* pilots went on strike as the World Cup kicked off. Instead of intervening to work out a government-brokered settlement as in the past, he insisted that the union negotiate with *Air France* president Jean-Cyril Spinetta on its own. The result: Spinetta made some cosmetic concessions and the pilots, realizing that the government would not rush to the rescue, caved in. "Ten years ago, to be on the left you just had to talk loud and demand a lot," says Guy Carcassonne, a law professor and one-time adviser to former Socialist Prime Minister Michel Rocard. "Now people want to see what you can do. That's Jospin's strength. He doesn't promise a lot, he just says 'I'll do what I can.'"

Though it's hardly a rousing slogan, "Doing what you can" is, for now at least, probably the best definition of the Third Way. Governments, in Europe and around the world, are realizing that their fate de-

zation ... It's becoming a country of renewal and rebirth."



cutives are beginning to see advantages in the legislation. Rather than being locked into fixed weekly schedules, employers can use the new law to organize staffing on a monthly or even yearly basis, enabling them to respond more adroitly to demand. "I'm not sure the 35-hour law will create a lot of jobs," says Philippe Bourguignon, CEO of the resort operator *Club Méditerranée*, "but if it allows politicians and entrepreneurs to explode the constraints of the old labor laws, it's a great opportunity." Bourguignon also believes Jospin's willingness to look for a middle way between ideological purity and economic reality gives the country an important psychological boost. "France was a country of demoralization, demotivation, destabilization," he says. "It's becoming a country of renewal and rebirth. That's largely a result of how the government has created the grounds for people to be more optimistic."

Business leaders, though perhaps not union members, can find further grounds for optimism in the fact that Jospin's Socialist government has carried out more

depends on things that are beyond their influence: global capital markets, new technologies, vast shifts in lifestyles and demographics. The Third Way is an attempt to regain some control, to strike a balance between economic growth and social stability. Do all the promises, platitudes and programs of Europe's New Left amount to a map of the Third Way? Not yet. Though they add up to less than a perfect union between free markets and social justice, they have the makings of more than just rhetorical bluster. Earlier this year, Joschka Fischer, parliamentary leader of the German Greens and potential Foreign Minister in Schröder's government, told the *Frankfurter Allgemeine*: "Anyone who confuses what's desirable with what's doable in politics will fail." By the same token, anyone who confuses only what's doable with what's desirable won't get very far along the Third Way. —Reported by Jordan Bonfante and James L. Graff/Bonn, Michael Brunton and Barry Hillenbrand/London, Greg Burke/Rome, Thomas Sancton/Paris and Mary Beth Warner/Hanover