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# From Defensive to Assertive Social Democracy

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#### **ABSTRACT**

The neoliberal push for increasing the role of markets has put social democracy into a defensive position, but this should be easy to resist. Marketization is often a useful development, and as such can be embraced by social democrats. But it often also has negative implications that are widely recognized, and which need to be confronted and dealt with. Meanwhile, in practice so-called neoliberal policies are often about strengthening corporate power rather than markets. Dealing with these issues has been social democracy's specific historic role, so a period of intensified markets should leave it better placed than any other political movement to welcome the role of markets while being alert to their negative externalities; to seek the creative possibilities of diversity in the face of neoliberal hegemony; and to distinguish between true markets and corporation-dominated ones.

European social democracy needs to be shaken out of the defensive posture to which it has shrunk for several years now. It should not be in this position at all. Inequality is again becoming a major issue; the power of large corporations is producing a growing number of problems for consumers, workers and citizens; the neglect of collective needs is producing frightening problems of environmental damage. These are all areas where social democracy has strong positions, and where neoliberal capitalism is at its most vulnerable. We need to understand the paradox whereby, despite this, social democrats in most countries seem depressed while neoliberals are triumphant; and to explore the changes that social democratic politics needs if it is to move out of defensiveness and reassert itself alongside environmental and other cause groups in a new alliance, more integrated than in mere red-green electoral coalitions.

The answer to the paradox is that the logic of politics is the logic of power, not that of the coherence of arguments. Although globalization is already bringing its benefits in the form of new demand for the products of the industrialized countries from consumers in the newly industrializing ones, its initial shock was to shift the balance of bargaining power between international investors on the one hand and nationally rooted governments and working classes in the advanced world on the other. This is where the ostensibly illogical alliance of neoliberalism and xenophobia has found its rationale: neoliberalism wants unfettered global markets; if mass populations are engaged in mutual suspicion and intolerance, they are also unlikely to accept the transnational regimes that are the only institutions that might regulate these markets.

Similarly paradoxical was the consequence of the financial crisis of 2008. Rather than bringing the neoliberal system of unregulated, high-risk finance to an end, this revealed the extent of our dependence on the banking system, leading governments to rescue banks from their misbehaviour, meeting the costs by making cuts in social spending. When it was being successful, the unregulated finance model was used to demonstrate that banks and markets together could resolve many of the world's economic problems, and that therefore social democracy's approach of regulated markets and strong social policy was not *needed*. Once the model had failed, the need to set it on its feet again was used to demonstrate that social democracy's approach could not be *afforded*. Heads, neoliberalism won; tails, social democracy lost.

Predating these changes in contemporary capitalism had been the decline in the support base of social democracy, the industrial working class. Workers in the growing private services sectors have tended not to generate any strong political profile. While this presents a problem to all parties, it is social democracy that most needs a democratic base.

The 'Third Way' of the British Labour Party, the Neue Mitte of the German SPD, the Italian Partito Democratico, the US New Democrats, and several similar movement were an attempt to respond to this loss of support base. Social democracy became a movement seeking electoral support from anywhere in the society, and financial support mainly from corporate donors, for an ambiguous, classless project of 'progressive reform'. It referred to a need to rebuild public services neglected by conservatives pursuing low-tax agendas, but the public employees delivering those services and their trade unions were equally attacked. Third Way social democrats ceased to say anything critical of concentrated corporate wealth or inequality.

#### THE PROBLEMS OF NEOLIBERALISM

The despondent state of social democracy does not mean that neoliberalism is enjoying great success. Its central claim to popular appeal – that it replaces state command and control by consumers' free choices in the market – is increasingly revealed to be a sham. Actually

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existing, political neoliberalism, as opposed to the models of economics textbooks, is about enhancing the power of great corporations and wealthy individuals (Wilks 2013). This can be seen in the present strategy of outsourcing public services to private firms. The state usually remains the paymaster; and only a small number of firms is involved in the sub-contracting. There is no true market here, just a series of deals between public officials and corporate representatives. Outsourcing is often justified on the grounds that private firms bring new expertise, but the same firms keep appearing in sectors where they have no prior experience. Their expertise lies in knowing how to win governments contracts, not in the substantive knowledge of the services they provide. Typically these firms will have former politicians and senior civil servants on their boards of directors, and will often be generous funders of political parties.

By not distinguishing between markets and corporations, neoliberals implicitly claim that placing something in the hands of corporations is the same as placing it in the market. The fiction is maintained even though the very characteristics of the market of which boasts are made – choice by ultimate consumers, an absence of political interference by business interests, and risk-bearing by capital – are all absent. At best there

is deception; at worst outright corruption. And yet this is the dominant political ideology, which, it is widely claimed, has seen social democracy off the historical stage.

Education, health, care, pensions and social insurance, transport, public utilities are all services for which modern societies have very high and predictable demands. At a time when much manufacturing and some services activities are subject to competitive pressures from globalization, they represent some of the remaining sectors where profits might still be easily made - but this can only happen if they are privatized. Social democrats (and others) have been quick to see a compromise here: if private firms can make soft profits out of providing public services, this might lessen the ideological attack on public spending. The system that results, whereby governments continue to pay for services and become the 'customers' but corporations produce them on a monopoly basis, reducing citizens to mere 'users', looks like becoming the central social pact of the early 21st century. It preserves basic features of the welfare state; and it provides monopoly profits to those firms who devote resources to cultivating relations with public officials. But it connives at an unhealthy intertwining of political and economic power, which in turn contributes to the growing inequality in power and wealth that is another major and disturbing hallmark of our societies. This is a Faustian social pact, the price of which is the soul of the welfare state.

Presenting alternatives to this vision is not difficult. The problems lie in wielding the power resources necessary to realize them. Indeed, the dominance of neoliberalism has not been the uninterrupted triumphal progress that it is sometimes represented as being. At the beginning of the present century some of the important institutions that had taken neoliberal positions on a number of central issues had started to revise their views. The Organisation for Economic Co-operation and Development (OECD), which in 1994 had baldly advocated the unprotected

exposure of workers to labour market competition, had by 2006 begun to speak of the need for improving labour skills and of finding ways of reconciling workers' needs for security with the market's need for flexibility. By 2011 it, like Joseph Stiglitz (Stiglitz 2012), the Nobel Prize winning former chief economist of the World Bank, had expressed concern at the growing inequalities generated by prevailing economic policies. Meanwhile, the European Union, which had maintained an uneasy balance between a general commitment to neoliberal economic policies with some regard for a so-called 'social Europe', seemed to have found a more constructive compromise in the idea of 'flexicurity'. In place of the all-out attack on all kinds of labour protection, this approach distinguished between those policies that seemed just to protect a minority of workers in their present jobs and those that enabled workers to cope with change in an environment of trust and security. Included in the former would be rights to enable workers to avoid dismissal; among the latter would be high levels of unemployment pay and assistance in job searches and retraining.

But the EU story has not continued on this promising track. When the financial crisis struck Greece and some other member states, the conditions imposed by the EU, the European Central Bank (ECB) and the IMF (the so-called 'Troika') marked a return to the simple-minded neoliberalism of the 1990s. The country was to dismantle most labour market regulation and protection, and reduce the role of collective bargaining (and therefore of trade unions) in setting minimum wages and to reduce labour market protection. The main aims of the labour market sections of the conditions were to expose workers to the full force of global labour-market competition, requiring the country to compete on low prices alone; forget about up-skilling and improving the quality of the labour force.

At least in part, the 'Troika' has been responding to a perceived need to satisfy 'the markets', which means a need to please what are felt to be the demands and prejudices of traders in the global money and stock markets. They are not interested in whether presently unsuccessful countries can improve their performance by creating better infrastructures, or in what ways the balance between security and flexibility in the labour market can be reorganized to provide better lives for workers and more efficient economies. They are interested only in short-term gain from trading; while their preference as very wealthy individuals is for regimes of low taxation and minimal rights for people at the foot of the economic hierarchy.

The present situation is therefore confused. Authoritative bodies are beginning to see the limitations of unmediated neoliberalism, but the powerful private actors in the financial markets to whom public policy must pander are entirely unconcerned at this. However, the revising of views that has been taking place among major international organizations shows that there are at least potential openings in the neoliberal wall.

### REDISCOVERING SOCIAL DEMOCRACY

What remains to be done at the level of ideas is, not just to lay bare the internal contradictions of neoliberalism, but to demonstrate that some of its own stated objectives could in fact be better achieved through an adaptation of social democracy. This then becomes a means of redefining social democracy for the years ahead. Such an approach does not dispose of the problem of power imbalance. But popular discontent with some of the outcomes of actually existing neoliberalism may soon create conditions in which dominant elites are required to face the possibility of compromise.

While the classes that supported social democratic parties have declined with industrialism, the parties have potential access to important new forces generated by post-industrial society. Neoliberalism and social democracy have both

been well placed to seek new core constituencies among women and young generations, as forces of traditional conservatism, that kept the former in the home and required deference to authority among the young, decline. Neoliberalism offered both groups the freedom of the market, but that freedom came with costs. Neoliberalism has already squandered its potential among women through its rejection of the social agenda and public services that reconciliation of life in the market and in the home requires. Its promise of individual market freedom made a more promising start among the young, but it becomes increasingly clear that this freedom requires as a quid pro quo submission to managerial domination and acceptance of insecure contracts in working life.

Social democracy now stands better placed than its rivals among these crucial groups, though only if it is understood as a movement and set of ideas that include political parties but extend far beyond them. I have argued that parties and unions both need to and can afford to relinquish the tight and centralizing mentality that dates from their earliest decades, when they were surrounded by a hostile society. It is unlikely that the new generations of post-industrial society will ever accept the kind of disciplined political behaviour that traditional parties used to assume. Modern parties need to accept loose and varying alliances, and social democrats more generally need to see their political action as taking place in a variety of different life fields, not just politics in the strict sense. Some examples of what this means in practice can be taken from a number of policy fields.

#### Markets, regulation, public services

Nearly all social democratic parties have by now abandoned the idea of a socially owned or state-owned economy and accepted that most goods and services will be produced by private firms. But that leaves scope for considerable policy-making. Reformist social democracy is better placed than any other political movement to welcome the role of markets while being alert to their negative externalities; to seek the creative possibilities of diversity in the face of neoliberal hegemony; and to distinguish between true markets and corporation-dominated ones. This stance provides several guidelines for constructing detailed policies. First, the idea, so dominant in the 1990s and 2000s, that the Anglo-American shareholder-maximization firm provides the best possible form of capitalism needs severe reexamination in the wake of the financial crisis, in particular its corollary that short-term asset values on stock markets served as the best possible measure of a firm's value. Other forms of accounting and of corporate structure exist and have had good records, until the rise of the secondary and derivatives markets seemed temporarily to out-perform them. Some of these alternatives, such as financing with debt capital and bonds, as well as forms of mutualism, are better suited to such activities as industries with long-term research and development needs, or the organization of pensions. Facilitating these is one of the ways in which social democracy, as a source of alternatives within capitalism, can encourage a diversity that standard neoliberalism rejects. Similarly, space needs to be protected for small and medium-sized enterprises and the diversity they bring to products and services. Competition policy needs to take a tougher line in limiting the monopoly power of large corporations; a potential consensus point between neoliberals of the first kind and social democrats.

Second, many markets need regulation. Neoliberalism is ambiguous about this question. On the one hand deregulation, 'cutting red tape', 'getting the state off the backs of enterprise', have been major slogans of neoliberal politics. On the other hand, the 'regulatory state' is often seen as neoliberalism's alternative to social democracy's state control. Nearly always when formerly state-owned enterprises have been privatized, a regulatory agency has had to be established alongside it, because these industries usually remain monopolies or oligopolies. The purpose of neoliberal regulation differs however from the regulation usually seen as 'red tape', because it limits its activities to trying to make firms behave as they would if they existed in more perfect markets. This usually means regulation of prices and aspects of the treatment of consumers. This is a very sound starting point, but it is possible to go further, to consider consumers' interests more broadly, and to take account of externalities. This too is sometimes done, as for example when there are environmental restrictions on where electricity firms can locate overhead pylons, or when energy firms in general are obliged to advise customers on energy efficiency, contrary to their own interest in maximizing sales. Pure neoliberals will want regulation to concentrate on creating markets alone; social democrats will be concerned to add important externalities to the regulators' brief.

Also, a commitment to seeking diversity in organizational forms needs also to check the now almost universal assumption of contemporary policy makers that the quality of public services will be automatically improved if they are privatized or contracted out. But that is likely to be true only where there are markets with real competition, which is not the case with most privatization of public-service delivery. Privatization or the outsourcing of public services should only be attempted where there are clear possibilities of gain for ultimate users through choice. The losses that come through excessive closeness between public officials and corporations offset some of the other gains that might seem to come from privatization and outsourcing without competition. If governments want, as well they might, public services to benefit from efficiency gains that have taken place in the private sector, they can better do it by hiring private-sector managers in public service. If they want private-sector finance for infrastructure projects, they might do better to issue bonds rather than to privatize. If they want competition in public service delivery, it is often possible to organize this among units within the public sector.

There is also a deeper point here. In his trenchant critique of the dominance of economic ideas over human life, Homo economicus, Daniel Cohen (Cohen 2012) argues that some of the most desired commodities in post-industrial societies, such as education, health, and some aspects of information technology, neither need the market for efficient delivery, nor are necessarily well delivered by the market. It is certainly the case that extraordinary steps are being taken by governments to impose a corporate market model on schools, universities, hospitals and other health care services that has not been historically present, and which does not easily fit. Similar acrobatics are being performed in order to create an artificial scarcity and therefore a market for cultural and informational products that can otherwise be made available at no cost on the Internet. As the only major political force not completely committed to the corporate neoliberal model, it is up to social democrats to explore the scope for both new and historical forms of delivery of services of this kind.

In sum, the general thrust of marketization should not be opposed as a matter of principle, but a sharp eye needs to be kept on the various inadequacies of the market and the damage it sometimes causes. These, whether they harm customers, workers, or the third parties typically touched by such externalities as environmental

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damage, provide much of the stuff of 21st century politics. Groups who are negatively affected naturally look to politics for a remedy. Social democrats cannot assume that they will always want to support complaints against the market, but they are well placed to champion good causes among these. What constitutes a 'good' cause cannot be spelt out a priori; working it out has to be left to political debate and struggle. The point is that, if everyone except committed neoliberals vacates the field, no such debates and struggles can take place. In recent years this has become a particularly rich area, as campaigning groups have identified such issues as the use of slave and child labour in multinational corporations' supply chains, the use of ingredients harmful to health and also the depletion of natural resources, in commercial food processing, and a wide range of other environmental issues. This new politics involves campaigns directly targeting corporations, sometimes leaving aside governments and parties, and raises important ethical questions.

#### Social policy and taxation

The welfare state has become a sorry victim of neoliberal propaganda, and many social democratic parties have adopted 'me too' positions rather than contest the hegemony. Rather than a set of citizens' rights, embodying our membership of a national community that cares for us at times of difficulty and weakness, the welfare state is depicted as a device for transferring money from people who work to those who refuse to work, pretend to be ill, or come into a country as immigrants solely to join these other idle groups. Social democratic politicians can never win a competition with the political right to amass the greater number of distortions of the role of the welfare state, and they would be better engaged pointing out how many of us, or those close to us, can become innocent victims of economic fluctuations and other of life's disasters, and might need some of the services of the welfare state at some time.

More productive, but equally challenging to the neoliberal stereotype, is the task of transforming existing welfare states so that they conform to the social investment welfare state model (see the studies by Bonoli (Bonoli 2007), Esping-Andersen et al (Esping-Andersen et al 2003), Giddens (Giddens 1998), Anton Hemerijck (Hemerijck 2013), Morel et al (Morel et al 2012), Frank Vandenbroucke et al (Vandenbrouke et al 2011)). This - provided it is combined with the equally important policy of providing generous income replacement during periods of unemployment if workers are to be expected to embrace labour market risk and change - can become a major trademark policy approach for social democracy, linking its historical roots to the requirements of a modern agenda. Familyfriendly labour policies are central to this. The approach also includes policies for infrastructure, including: those directly related to current productive needs (such as road-building and training); those that form part of the role of the entrepreneurial state, more adventurous and risk-bearing than most private-sector activity (such as research); and those that improve the urban living environment.

The key theme here is the role of strong public policy in mediating with markets, enabling them to operate and even enhancing them, while protecting citizens against the disruption that they can cause. There are obvious implications here for labour market policies, but similar exercises can be carried out in other fields - for example local economic development. This is an increasingly important level for economic policy, as cities and regions seek ways in which they can become hosts to firms and other organizations that can provide employment and economic activity in the new global economy. Deindustrialization has brought particular crises to areas once characterized by a small number of manufacturing activities. Responding to this with new solutions is a key area for public policy, enhancing infrastructure capacities and work skills. There is however here, as in other fields, a strong tendency at present for corporate neoliberalism to take over. Local development authorities develop close relations with a small number of large corporations, who might open a plant, a shop or other facility. Local firms, community groups and unions tend to be left out of the process. As a result there is a decline in locally based entrepreneurial capacity, the area becomes excessively dependent on a small number of large firms, who can dictate terms to the local authorities, and the High Street is dominated by the same universal store chains as everywhere else.

Social policy and other public actions necessarily require financing through taxation; financing through chronic public debt is no alternative. This is often seen as a major political vulnerability of social democracy. If elections become auctions to cut taxes, then clearly neoliberal parties are at a permanent advantage. Taxpayers' revolts have been predicted since at least the 1970s, when critics first began to announce that the Nordic welfare states had reached the limit of taxpayers' tolerance. Forty years later the Nordic countries, and some other north-west European countries continue to maintain tax rates considerably higher than those in the USA. Of course, it is not possible, desirable or necessary for taxation levels to go on rising, and plateaux need to be reached; but attempts to find the maximum taxation levels that populations will tolerate have not been successful, mainly because different national polities differ so much. An important variable is the perceived effectiveness of public spending and whether many citizens trust that their taxes are being used in ways that they consider valuable. This places a premium on ensuring efficiency, as well as reliably providing services that are seen as valuable by local populations.

A further need is the restoration or establishment of strong trade unions and other forms of labour representation, with extensive coverage across the whole work force, with approaches to membership that meet the needs of the new precarious labour force, and with structures that

pressure them to work alongside rather than against market forces. This is a major area for both social democratic parties in government and for the wider left-of-centre community. Government action is probably needed to offset the threats that employers can make, especially in the private services sectors, to prevent workers from joining unions, and generally to handicap union activities. But no-one wants a state-dependent union movement; so this is a signal for widespread social action. This is particularly the case for temporary workers, and workers in various kinds of false self-employment. Unions neglect them at their peril, but orthodox approaches to membership are probably not appropriate for them. As part of this the new stresses and miseries of working life need to return to the political agenda, so that they rank alongside problems of consumption and the use of public services. Many of these stresses are not the results of personal problems and inadequacies, but of bad work organization and unreasonable and authoritarian management. They are therefore questions of public importance.

#### **Transnational politics**

Most difficult of all, but highly important, is to bring policies for governance and regulation, including taxation, at European and global levels into the heart of democratic debate. The national level is in no way adequate for achieving the regulation of a globalized economy. The crisis, which ought to be making the need for international action blindingly obvious, is having the opposite effect on many on the political left. This is partly the panic response of 'se sauve qui peut' that one must expect to see in a crisis, though panic serves no-one's best interests. In Europe it is partly a response to the extreme neoliberalism of the EU's response to the crisis in southern Europe. Social democrats both there and in northern Europe are starting to argue that they need to get more autonomy from Brussels in order to stand a chance to develop social democratic responses to the crisis. But autonomy from the EU does not

bring autonomy from the global stock markets, corporate investors and ratings agencies who are the primary agents of neoliberal policies - unless one also embarks on a protectionist track, which is what some on the left in Greece and elsewhere are now starting to propose. This has to be resisted. Social democracy has never thrived in protectionist economies, which are dominated by politically favoured business elites and/or dictatorial state bureaucracies. But for the essentially neoliberal free trade environment to be compatible with social democracy, it must also possess means for tackling market inadequacies, negative externalities and a need for public goods – at the level at which the free trade operates. Today this means the world. This does not mean that the world has to be subject to a single social democratic regime, but that means must be available for achieving some degree of global regulation. Such means do exist, but they are weak. The challenge for social democrats is to strengthen them. For activists in civil action campaigns, such as those around supply chain labour abuses or tax evasion, this is already an important field of action. The weakness is with the parties. These need to change their rhetoric to take pride in their efforts to achieve goals in co-operation with other counties, not in their national separatism. This applies particularly strongly at the level of the EU, where so much can and needs to be done to combat the current neoliberal hegemony.

#### **GROUNDS FOR OPTIMISM**

It is easy to make the case that this new social democratic agenda is unrealistic. Neoliberalism retains both its ideological hegemony and its sheer power in the form of corporate wealth and unregulated financial markets. Against that I propose pitting social democratic parties with declining core electorates, similarly declining trade unions, and a motley assortment of environmentalist and anti-corporate campaigners.

But defeatism is merely another part of the neoliberal hegemony. It is essential to try to get beyond this and to consider neoliberalism's various points of vulnerability.

The extent of its ideological dominance is often exaggerated. In no democracy does a major party thrive on solely neoliberal ideas. Parties that do so, for example the German Free Democrats or the Dutch Liberals, remain small. Those that seem to be both large and neoliberal will always be found to accompany neoliberalism with other ingredients that are incompatible with it, but which render the party more popular than could be achieved by the neoliberal agenda alone. Christian democratic parties and the US Republican Party accompany neoliberalism with values based on religion, tradition and community, which are not compatible with the primacy of the market as the only source of value. More secular conservative parties also retain appeals to traditionalism and nationalism (as in the UK). If British New Labour, US New Democrats, and Scandinavian bourgeois parties count as neoliberal, they have achieved political strength only by combining neoliberalism with elements of social democracy.

By itself pure neoliberal doctrine is too intellectual to mobilize masses. It can be popularized through slogans about individual freedom, but that is only half the story of the market. The other half is discipline and constraint: the market allows us to satisfy our individual freedom to the extent that we can do so by using the market alone. Economics used to be known as the 'dismal' science, because it taught the lesson of scarcity and constraint - choice as the need to have some things but go without others. Part of the ideological triumph of neoliberalism has been to remove all emphasis from this side of the picture and to stress freedom of choice only in the sense of being able to have. But the limited reality of what markets can give us cannot be concealed, and pro-market, neoliberal ideas always need to be accompanied by the other ingredients discussed above.

Social democracy similarly combines acceptance of markets with a willingness to regulate and offset their effects where they threaten to destroy some widely shared goals and values. If there is a diffused hegemonic ideology around neoliberalism, it is not around its uncompromising pure form, but around a reasoned and balanced correction of it. The recent changes in the approach to markets of the IMF, OECD and World Bank are part of this process of balanced correction - a process that has been reinforced by recent very widespread revulsion at the behaviour of global finance, which has been the purest expression of neoliberalism to date. 'Let markets work for us, yes; let them tyrannize us, no!' provides a powerful rhetorical base, and a rich and promising political agenda. In parading it social democrats need have no fear that they are voicing unpopular minority concerns. They stand foursquare in the centre of public opinion and political reality.

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## ABOUT THE SOCIAL DEMOCRACY RESEARCH NETWORK (SDRN)

The Social Democracy Research Network (SDRN) is a global network of academics and researchers working in the field of social democracy broadly defined. SDRN is interdisciplinary and seeks to improve communication and collaboration amongst its members. It is run from London as a cooperation project between University College London's (UCL) Department of European Political and Social Studies, the Friedrich-Ebert-Stiftung London Office and Social Europe Journal.

SDRN has two main activities: the organisation of regular academic meetings in London and the publication of a new type of peer-reviewed academic paper series hosted at UCL, which is open to submissions from the whole of the global network. The paper series aims to become a natural outlet for the latest research in the field combining highest academic standards with speed of production and wider societal relevance and impact.

Academic publishing is undergoing fundamental change and online technologies now widely adopted across the globe offer new opportunities to bring together academics in otherwise fragmented fields of research. We would like to use both developments to advance social democracy research and encourage new forms of collaboration.