

# Is There a Future for Social Democracy in an Era of Globalisation?

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SEAN MCDANIEL, APR 25 2012

Debating whether or not there is a future for social democracy in an 'era of globalisation' assumes that globalisation, as a process or an endpoint at which we have already arrived, is an accurate description of the current inter-national economic order. This essay hopes to prove that in considering the impact of 'globalisation', the literature on the future of social democracy is failing to grasp the actual pressures on social democracy. These pressures stem more clearly from processes of economic regionalisation, as well as other demographic and ideational factors. Moreover, despite these pressures, not only is there a future for social democracy in the changing political economy, but as Europe's economies face its worst economic crisis for several decades it seems that social democracy is needed.

Too often have misconceived or caricatured definitions of social democracy been invoked in order to prove its demise, and so this essay will seek to define the terms of social democracy in relation to a set of ethical imperatives. Defining social democracy in relation to historical mechanisms, or any culturally or nationally specific features of social democracy, has led to rigid conceptualisations which are unfavourable in the contemporary European political economy. The case study of Sweden will be looked at in detail also, as Sweden has long been cited as evidence that not even the bastions of traditional social democracy can exist in 'an era of globalisation'. However, as will be exposed, the Swedish case only serves to provide evidence that globalisation bears no relation to Swedish social democracy.

The future of social democracy in the United Kingdom, a country noted for its lack of encompassing labour market institutions, and its liberal market economy, will then briefly be considered. What becomes clear is that there are constraints on social democracy, but the nature of these constraints needs to be reconsidered. Too readily has globalisation been accepted as an almost complete process, and in accepting it so easily globalisation has become a 'convenient alibi' (Hay and Watson 1999: 424) for the challenges posed to social democracy, undermining any potential of social democratic politics to survive.

### Definitions

The terms on which social democratic politics are defined has an unerring impact on the outcome of debate over the future of social democracy, with many misconceived or unimaginative definitions of the concept serving to undermine its continuing relevance and importance. In clarifying what should be understood as social democratic politics, this essay is not attempting to conjure a radical departure from previous conceptions of the term, but show a relevant and modern use of the term.

It is of course true that for the past three decades social democracy has faced a challenge to redefine itself, or repackage itself as something electorally viable. As Andrew Gamble and Tony Wright note, 'social democratic thought has to renew itself in every generation if it is to remain relevant and practical' (Gamble and Wright 1999: 5-6). The relevance of social democracy was questioned by Anthony Giddens, and led to the emergence of his Third Way (Giddens 1998), which, especially in Britain under New Labour, has only served to support neo-liberal assumptions regarding changes to the political economy. Furthermore, Giddens' conceptualisation of social democracy was, purposefully or not, dismissive. Giddens' rhetoric lends itself to the criticism of social democracy. Giddens' suggests

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that 'the welfare state has two objectives: to create a more equal society, but also to protect individuals across the life cycle' (Giddens 1998:10), and whilst undeniably the case, this essay suggests that social democratic politics and the welfare state can offer more. Giddens' feelings, however, are summarised by his assessment that the welfare state 'today creates almost as many problems as it resolves' (Giddens 1998:16). The *Third Way* conceives of social democracy as no longer relevant, but it builds itself around a fallen straw-man of post-War statist social democracy.

Giddens' narrow conceptualisation of the welfare state, the engine of social democracy, refuses to acknowledge any possible utility of the system in relation to capital. As Paul Hirst notes, this 'caricatures' social democracy as statist and bureaucratic. Yet, if this caricature is stripped away we can view social democracy as the original third way between laissez-faire capitalism and state socialism (Hirst 1999: 86-7). This is the point at which this essay will derive its conceptualisation of social democracy. However, this does not mean that social democracy has to be seen as 'a series of compromises' (Moene and Wallerstein 1995: 185), but rather as a remedy to market failings. Social democracy should be able to comprehend the improvements that markets can bring to society, without forgetting the protections needed to make those improvements worthwhile for the majority. Importantly, however, social democracy must not be defined in purely institutional terms. It seems both proponents and opponents of social democracy have been guilty of confining social democratic politics to the practises of a bygone era. Using this definition has allowed for some, such as Andrew Glyn, to point incorrectly to 'the inherent difficulties of the social democratic project' (Glyn 1998: 1). Even proponents of social democratic politics have unwittingly justified fears surrounding economic change by underlining the *need* for encompassing labour-market institutions (see Garrett 1998; and Hay's commentary 2000). Their definitions serve only to undermine social democracy's future.

Instead, what is necessary, and what will inform the discussion in this essay, is a view social democracy as a series of ethical imperatives. These imperatives, such as defending welfare provision, and regulating markets, help preserve the legacy of social democratic politics, whilst freeing it from the weight of historical mechanisms, and allows for the concept to redefine itself in a changing political-economy.

## Globalisation

The 'orthodox' view surrounding social democracy's future in an 'era of globalisation' comes from what Hay describes as the 'airport lounge/business school' globalisation literature (Hay 2004: 233). Pauline Kurzer's ideas are representative of this view; Kurzer asserts that an understanding between labour, government and business has broken down because 'business and capital have outgrown the institutional boundaries of the nation-state and national working-class organizations' (Kurzer 1993: 251). Increasing levels of financial integration globally, Kurzer argues, has 'made every high-spending government vulnerable to financial asset holders', as they will invest in other, more stable, currencies if the government proposes increases in budget spending or lower interest rates due to expectations of increased inflation. The greater mobility of these financial asset holders in a globalised world, 'constrains expansionary policy action, which hurts social democratic governments more than conservative ones' (Kurzer 1993: 252).

The prevalence of this understanding of globalisation within the literature is clear, yet it is a concept which does not lend itself favourably to social democracy's future, and so it is important to question the compliant nature of the acceptance of this globalisation thesis. In much of the literature on social democracy and its future, there is often a tacit acceptance of globalisation, and an acceptance that the state is 'structurally dependent on capital', as Adam Przeworski and Michael Wallerstein (1988) map out in their influential work. For example, Moses believes since the collapse of the Bretton Woods order, 'and the rapid development of international short-term capital movements, the environment has changed in such a way that traditional social democratic instruments are no longer effective' (Moses 1994: 133). Similarly, others point out that the global freedom of capital causes a greater threat of capital exit, which undermines the economic foundations of social democracy (Gray 1997: 23; Huber and Stephens 1998: 389). Capital is understood as 'globalised' and 'disconnected', which weakens the nation-state and its ability to implement economic policies such as Keynesianism (Giddens 1998: 30-31), prompting Giddens to ask what social democracy's orientation can be, 'in a world where there are no alternatives to capitalism?' (Giddens 1998: 24). Absolute confidence in the globalisation thesis, therefore, clearly has the effect of condemning social democracy's future.

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Geoffrey Garrett (1998) achieved a considerable amount in proving that social democracy could not only survive, but flourish, under conditions of economic globalisation. Garrett's empirical analysis highlights a bipolar convergence trend, suggesting that international capital markets tend to favour economies that were at either end of the social market or liberal market spectrum, as opposed to 'incoherent economies' (Garrett 1998). Garrett's model, whilst an important contributor to the conclusion of this essay, that social democracy has a future in a changing inter-national economy, does not, however, challenge the orthodox view that globalisation is incontrovertibly occurring, and as Hay notes, 'only marginally modifies the narrow economic logic of more orthodox "globaloney"' (Hay 2000: 138).

Simply accepting globalisation often produces a paradox within the literature. For example, David Coates' firstly suggests that the UK's New Labour government in 1997 inherited a low-wage economy surrounded by prosperous neighbours, which made 'foreign direct investors keen to build in the United Kingdom and sell into *Europe*', so long as the economy 'remained in its existing place in the international order of things' (Coates 2001: 303, emphasis added). Yet, within the same breath he asserts that 'New Labour also inherited an increasingly *globalised* economy' and that globalisation was to blame for squeezing the space for social reform (Coates 2001: 303, emphasis added). The confusion between higher levels of trade between nations in specific regional patterns and 'globalisation' is profuse in the literature, with Giddens' even trying to reinforce the notion that globalisation 'is misunderstood if it is only applied to connections that are literally world-wide' (Giddens 1998: 30). However, whilst globalisation might not necessarily involve trade between every city around the globe, the empirical data actually reinforces an observation of 'de-globalisation'.

On almost every front the arguments suggesting a trend towards a more global economy can be refuted. For example, domestic capital markets still provide some 90 per cent of national investment (Hirst 1999: 88), and whilst international capital mobility has increased dramatically during the last three decades years, 'its present level is comparable to the situation before the Great Depression' (Notermans 1997: 203). Trade openness too shows clearly that there has been no real trend towards globalisation. As a ratio of trade to GDP, the UK, the Netherlands and Japan are all *less* open than they were before 1914, whilst France and Germany are only fractionally more open (Hirst and Thompson 1999: 27). Moreover, using more recent data, Hay's 'gravity model' shows that out of eleven cases considered only Finland shows signs of 'globalising', with the rest showing 'clear and consistent de-globalization' (Hay 2004: 249). Even when levels of Foreign Direct Investment (FDI) are taken into account, the picture is still not one of a globalising world, but of investment 'highly concentrated among the advanced industrial economies' (Hirst and Thompson 1999: 2). Indeed, a growing majority of Europe's FDI is both sourced and invested within the European Union (Hay 2004: 251-2). It is important to remember also, that capital 'is not blessed with perfect information' (Hay 2004: 235), and that the cost of capital flight can never be zero when costs of relocation, building and training are considered.

The significance of this definitional point is, as Hay asserts, that 'one would be hard pressed to suggest that globalisation *explains* the constraints beleaguered social democrats have come to internalise' (Hay 2002: 459). Rather it is important to look to different patterns of trade to explain the pressures on social democracy, such as a trend towards 'Europeanisation', or more generally 'Triadisation', as Hirst and Thompson name it (Hirst and Thompson 1999). The contention that globalisation is not inevitable, and indeed, not actually occurring, is of fundamental importance with regards to the question of the future of social democracy in an 'era of globalisation'; the continuing focus on globalisation in debates over the future of social democracy serves only to mislead those attempting to rehabilitate social democratic politics.

## The Swedish Model

Sweden, a traditional bastion of social democratic politics, has often been cited as a model on which to analyse the processes of globalisation's effects. The fall of Sweden's Social Democratic Party, it has been argued, constitutes evidence that the power the international currency and bond markets have 'is now sufficient to interdict any such expansionist policies that might be embarked upon by any sovereign nation-state' (Gray 1997: 23). Sweden now, apparently, needs to maintain confidence in the financial markets and international investors 'leery of public sector growth' (Gamble and Wright 1999: 2; Moses 1994: 139). The country's social democratic institutions 'were designed for an environment which no longer exists' (Moses 1994: 126). Given the significance of social democracy to

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Sweden's political economy, John Gray argues, its downfall has implications 'for social market economies everywhere' (Gray 1999: 92).

The position of the Swedish Social Democrats continues to be plagued by fears over their economic record, a significant factor in keeping the liberal conservative Moderate Party in power (The Economist 2011). However, to break from the conventional understanding of the Swedish model, upon analysis it becomes clear that globalisation does not feature in the demise of the Swedish Social Democrats. Sweden is not a paradigmatic case of social democratic failure, as distinctive internal macroeconomic failings, including a 'credit-fuelled and inflationary consumer boom that followed the precipitate loosening of credit controls in the mid-1980s', were far more significant than changes in the global economy.[1] Sweden's large public sector could not have been the reason for its poor economic performance and subsequent demise of the Social Democrats, either; for, if public expenditure did lead to poor economic performance and capital flight, then Denmark, with public expenditure at 63.8 per cent in 1993 and taxes at 51.6 per cent of GDP in 1995, 'ought to be finished' (Hirst 1999: 91).

The foundations of the Swedish collapse can, rather, be attributed to the Scandinavian dependency on the German economy. Deflation was 'effectively transposed' from Germany to the Scandinavian economies as a result of a drop in demand for exports and a rise in unemployment as a result, a process compounded by German interest rate rises being transmitted onto the fixed-rate economies of the European Exchange Rate Mechanism in Scandinavia (Hay 2004: 256). The openness and high trade integration levels of Scandinavian economies compounded this problem, allowing these pressures to be exerted onto the Swedish economy. As Hay notes, the Swedish economy 'would have proved far less prone to the contagious deflation associated with both German reunification and the Maastricht convergence criteria' had it been *more* global in its trade and investment interdependencies (Hay 2004: 255).

The deflationary trend which undermined social democratic politics to a large extent in Sweden was therefore a consequence of 'high levels of regional and sub-regional economic interdependence' (Hay 2004: 256), and not, as the orthodox view suggests, globalisation. Rather than being the inevitable consequence of the process of globalisation, this period in Sweden's history is marked by macroeconomic policy failings; yet, the economic credibility of the Social Democrats remains fragile (The Economist 2011) whilst the electorate continue to understand their economy to be competing globally. As Hay notes, ideational factors pose very real constraints on social democratic parties, and this is precisely what we witness in the Swedish case.[2]

The Swedish economy has undoubtedly become more restrictive since the early 1990s; however, even today the prowess of social democratic policies can be witnessed (Callaghan and Tunney 2000: 71). As Pontusson details, the Swedish economy's 'liberalisation' has been a much more 'targeted or "asymmetric"', distinct from the across-the-board liberalisation of Thatcher's Britain, and has been largely successful due to the safeguards social democratic policies have given the Swedish population (Pontusson 2011: 107). A high level of public investment in families and educations since the 1970s has 'contributed to the strong performance of the Nordic economies in the 1990s and 2000s', through a shift into knowledge-intensive industries, with the World Economic Forum rating Sweden as the second most "networked economy" globally (Pontusson 2011: 107). Social democracy has afforded Sweden a diverse and strong infrastructure that has helped it to recover from a deflationary slump in the 1990s and reorganise itself as a strong economy today. Yet, the widely held *belief* that social democracy has faltered as Sweden moved into a 'globalised era' has kept the Social Democrats unelectable.

## What Next?

Two clear lessons can be taken from the previous analysis. Firstly, it is clear that the premise of globalisation, on which much of the debate surrounding social democracy is based, must be reconsidered. Secondly, drawing on the Swedish experience, there are clear advantages offered by social democratic policies, even in an era which is falsely described as 'globalised'. It is important here to show just how these policies could be utilised to a greater extent. By looking briefly at the United Kingdom, and drawing upon the previously established definition of social democracy, it is possible to show how social democracy can work even in an economy with 'no tradition of encompassing labour market institutions' (Hay 2000:145).

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Social democrats in the UK face an uphill battle to vie electorally, the result of a host of ideational, as well as demographic and historical factors. Arguably social democracy has become politically weaker in Britain, 'precisely because most of its opponents have accepted its most basic precepts: the need for universal education, socialised health care and tax-funded welfare' (Kellner 2010). Yet, with the Global Financial Crisis gripping the UK economy, the Conservative-Liberal Democrat Coalition government's austerity measures contrast with the current Swedish government's fiscal policies, which have proven successful in shielding their economy from such pressures (see OECD 2011).

As Sheri Berman highlights, the economic results generated by markets bring dramatic material improvements to living standards, yet, without social protections and regulation, 'capitalism's benefits would have been infinitely more difficult to achieve' (Berman 2011: 46). Berman argues that the Swedish case shows social welfare and economic dynamism 'are not enemies but natural allies' (Berman 2011: 47). Indeed, the shift into more a more knowledge-intensive economy that high levels of public spending made possible in Sweden, is not only being called upon by business leaders in the UK, but there are examples of potential capital flight occurring precisely because the British workforce is not highly educated enough (Siburn 2011; Paton 2012) – contrary to the globalisation thesis' view of a 'race to the bottom'. Moreover, the value of the welfare system needs to be refocused, in contrast to Giddens' narrow view that it 'creates almost as many problems as it resolves'. For example, the public provision of benefits can 'facilitate labor mobility across firms and across sectors of the economy and thereby provide for a more efficient labour force' (Pontusson 2011: 92). This shows that social democratic policies are relevant to modern business structures, and that social democracy need not only benefit 'patient capital', but can even meet the demands of 'footloose' investment (Pontusson 2011: 90).

## Conclusion

Accepting the globalisation thesis as it has been presented is to accept the diminished power of sovereign governments. For neo-liberals this has been welcomed as an inevitability, whilst for social democrats and the Left more generally, there is a 'grudging acceptance of what is considered undesirable but inevitable' (Notermans 1997: 232). However, empirical data has proven that it is the process of economic regional integration, and not globalisation, which is shaping inter-national economies, and therefore impacting upon social democracy.

Even considering this fact, the danger of accepting the need for restrictive policies as an effect of international capital flows is that it 'deflects attention from the real problem and perpetuates a restrictive regime even at times when the labor market situation does not require it' (Notermans 1997: 232). The Swedish model proves this to be the case. For the past two decades or more, a consensus surrounding the fall of the Swedish Social Democrats has been self-perpetuating. Their economic credibility has been undermined, whilst the reality is that the Swedish economy has been largely shielded from economic crisis by the Keynesian principles of social democracy. The Swedish model also highlights how high levels of welfare provision and investment in education can have both positive long term and short-term effects for business and capital, and it is from this perspective that an economy such as the UK could utilise social democratic policies successfully.

This analysis, hopefully, goes some way to proving that the restraints supposedly placed on social democracy by 'globalisation' are misconceived and can be damaging. Moreover, that defining social democracy in purely institutional terms condemns social democracy to a bleak future. As the Swedish case proves, there needs to be a reconsideration of the nature of the pressures on social democracy, because then it becomes clearer just how social democracy can benefit economies. It is apparent that social democracy can have a significant future in the changing inter-national economy, but first, importantly, the terms on which the debate is formed must be reconsidered.

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[1] Hirst 1999: 90; Moene and Wallerstein 1995: 205; Huber and Stephens 1998: 390.

[2] Hay 2002: 459; See Hay 2000; Hay 2004; Hay and Watson 1999.

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