

This is a Time for Social Democracy¹

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Confronting the Historic Alternatives

Most of you will remember the famous prophesy by Francis Fukuyama, the US's leading political intellectual, shortly after the fall of the Soviet Union in 1992. He said: world history has reached its final destination with the end of the communist empire in 1989. What he meant was that it had become clear by then that history has nothing else in store for humankind as liberal democracy. Moreover, what he had in mind but did not speak out frankly was: democracy American type –libertarian democracy understood as elections plus free markets – is the ultimate solution of the riddle of human history, the riddle of how humans could best live together in each country and globally.

Seldom was a prophesy so obviously mistaken from the very moment on when it was made. Of course, it is a part of the American dream that the US- type of democracy is destined to cure the world. Yet, today we see not only that the redeemed nation is a place of large scale social exclusion of citizens from wealth, security, good education, social participation and power. But, what Fukuyama ignored is that this type of exclusive democracy, or elite libertarian democracy is challenged since long by a more profoundly democratic alternative that was built in Europe in a century of pressure by strong labour and social movements and has found support in many parts of the world.

I'm talking of *social democracy* and the fact that the struggle for a better, a fairer, and a more inclusive and solidarity based society goes on. This is the great struggle both in the arena of ideas and of political power between libertarian and social democracy.

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This is a struggle about two different ways of how to understand Basic Rights, the basic values and the structures of the political economy of each country and the very idea of citizenship – a struggle of how to understand *what democracy means*.

A Social Democratic Moment has Arrived

A society that does accept not only the civil and political basic rights of the 1966 UN Charter alone, but also the cultural, social and economic basic rights declared in this document as well is called a *Social Democracy* as opposed to a merely *Libertarian Democracy* (US- type). The political decision to subscribe to the entire set of Basic Rights implies the embracement of both a co-ordinated and socially regulated market economy plus a comprehensive welfare state. It aims at making good the promise of full freedom for all human beings comprising both the formal and the material dimension of it: Having the formal right to things and having the means to do things really.

As the Preamble of the 1966 UN Covenant on Basic Rights has put it:

The ideal that free human beings enjoying civil and political freedom and freedom from fear and want can only be achieved if conditions are created whereby everyone may enjoy his (or her) civil and political rights as well as his (or her) economic, social and cultural rights.

And very wisely the UN Covenant stresses in the same preamble that to deliver such social goods for everybody is not only a question of justice and thus social integration and cooperation –which is important enough- but it is much more than this: It is also a question of peace, because humans everywhere in the world sooner or later will revolt against a social order which deprives them of the very conditions for a decent and secure life. Societies who ignore that are invariably on the way of increasing disintegration in one form or another.

The present decade witnessed a tremendous economic, social and political disaster in many parts of the world starting with the US finance market crises that has been caused by a lack of political regulation and control of the markets in the wake of

which dozens of million people have lost their jobs in many places all over the globe, states being forced to spend gigantic amounts of money to save the failed banks with the consequence that social welfare and security had to be cut where it had been in place after many decades of social and political struggle for it. The rich became richer; the middle class has to pay for the crises and the poor became poorer. It marked a clear violation of social and economic basic rights in the favour of big money and the freedom of markets.

Thus, progress toward Social Democracy is obviously what the world needs in order to move in a more sustainable direction after the resounding defeat of neo-liberalist ideas of how to organise the economy in the global finance market crises 2008 and thereafter. The neo –liberal moment that dominated the world since the 1980s is spent, a social democratic moment is coming to the fore.

Obviously what the world needs in response to this challenge is a strong wave of social democracy: Social rights, embedded markets, the primacy of democratic politics and a basic line of welfare state security everywhere.

The rule of the market that we have seen made possible by mere market states as they were coined, elite or libertarian democracy for the well-to-do is not sustainable because it is a systematic exclusion of the many both from government and from the wealth of their societies. The globalized world of the 21st century must be an inclusive world, a world of democracy with a social face, a world of *social citizenship*.

Social democracy is not a luxury good for rich societies; it is a condition for the inclusion of all, for social peace, for an equitable development for all societies – not the least for the poorer ones. It is a form of democracy that is based on three societal institutions, that can be implemented everywhere in the world if the will of the political elites to do it is there.

The three basic institutions are:

1. A participatory political democracy
2. A comprehensive but not necessarily overly generous welfare state, and

3. An economic democracy in the sense of embedded and regulated markets plus the social control of private property of the means of production.

This is the content of social democracy. Research and experience have demonstrated that three practical conditions must be fulfilled in order to create the political opportunity for its consequent implementation in any society – rich or not so rich:

1. The resolution of the political elites to realize it,
2. The political mobilisation of the society to push for it constantly, and
3. The readiness of both –capital and labour organisations –to come to a compromise about it.

Before I'm going to consider these political conditions let me first focus on the issue of norms, rights and objectives of social democracy.

Social Security

Social security requires some form of welfare state. The welfare state, a state that makes good the promise of economic and social rights in real terms, does not need to be very generous in the beginning, but it has to be comprehensive, delinking the basic social life risks from the degree of market success of the individual person. As the 1966 UN Covenant puts it: free education, sufficient health care, social protection (pensions, unemployment salary and fairly paid jobs.) -these are the foundations of freedom in its full sense. To restrict the rights of people to the formal entitlements of citizenship alone - like elections, free speech and the like - instead extending them to their real live conditions like education, jobs, social security etc means to deprive them of the very foundations, i.e. the reality of freedom. This is exactly what Social Democracy means: democracy and basic rights in the full sense for all- as a reality, not only as an abstract promise.

Obviously, the reverse side of basic rights are public goods. Where there is a basic right there must be a public good, i.e. a social good accessible for every citizen independent of his/her purchasing power at the markets. The right to education

necessitates free schooling; the right to health care necessitates health care services independent of markets etc. This is what the Danish Scholar Gösta Esping-Andersen has in mind when he proposes that the social quality of a welfare state be measured in terms of the degree of “decommodification” of the basic social goods that it achieves.

The concept of “decommodification” means that all individuals are guaranteed the *basic life goods* regardless of their income. Even if the individual is temporarily or permanently unsuccessful as a market participant he/she as a citizen still entitled to the basic social goods necessary for a decent human life –and for the active and productive participation in the development of the society. This is what the term human security means. Yet, the compulsion to try the best possible to succeed in the job marketplace in the first instance should never be entirely removed. Because the basis of a comprehensive welfare state is solidarity, those who can work and find a job have an obligation to work. This is why the right to work is a basic right too, it is an *obligation of conduct* for each government to create the best possible conditions for full employment.

To meet the *obligation (of result)* from the social rights it needs sufficient elements of welfare state. A classic definition of it reads as follows:

A welfare state is a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions:

First, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property;

Second, by narrowing the extent of insecurity by enabling individuals and families to meet certain social contingencies (for instance, sickness, old age and unemployment) which lead otherwise to individual and family crises; and

Third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services.

Obviously, the level and generosity of such services depend entirely on what a society can afford, but the guaranties as such should and can be realized everywhere –and in addition if they are organized in such a way that they develop the quality of the society’s workforce –like education and health – they would contribute substantially to the economy of wealth production. This is particularly the case with the right to education.

A good education for all according to the talents of the individual is a perfect link between the equality of life-chances for all individuals, the productivity of the society as a whole and thus social inclusion. This indicates how a good match between the welfare state and economic necessities can be organized.

Embedded Economy

What social and economic basic rights require in addition to the welfare state is the political embedding and regulation of markets –not their replacement. In a globalised world it would be counterproductive to follow the rule: against markets. What is always needed and possible is: framing, correcting, guiding markets on behalf of public welfare and social inclusion. The golden rule is: *markets can be good servants but they are always bad masters*. Therefore, *as much the market is meaningful and possible, so much the regulation of markets is necessary in the service of both Basic Rights and sustainable wealth creation, i.e. social and ecological sustainability*.

Within the framework of social democracy, five macroeconomic strategies for regulation have been tested in practise in varying countries:

1. Full *Economic democracy*;
2. Democratization of the rights of owners by creating employees’ funds;
3. Keynesian macroeconomic coordination;
4. Different variants of neo-corporatist co-regulation between the state and the social partners, i.e. trade unions and employers federations.
5. Selective political growth strategies (subsidising lead sectors, taxing problem sectors, promoting employment)

All five strategies accept the basic function of capitalist markets to the extent that they do not conflict with public interests. It is a matter of the particular situation of a country and its cultural traditions which of these strategies or what mix of some of them may be found appropriate.

The underlying idea of *economic democracy* is the belief that the market can be successfully regulated by practising democratic control, framework setting and regulation by tripartite economic councils (employers, employees, representatives from the parliaments and government) at the regional and national levels of the economy. A soft form of it as it is practised in some European countries is *neo-corporatism*, i.e. the informal macro- economic coordination in a dialogue between government, trade unions and employers.

Trade offs or Win- Win- Games?

A Social Democracy's choice of economic and social policies and instruments needs to pursue a two pronged strategy by balancing objectives of *practical efficacy* (*productivity, growth*) and *normative legitimacy* (*fair distribution of life chances, social inclusion, work*). These overall objectives give meaning and legitimacy to the social and ecological embedding of the market economy in such a manner that it serves in a constantly rebalanced way three purposes simultaneously:

1. Optimal productivity and growth of the economic sector.
2. Tamed capitalism in the service of society and democracy.
3. Guarantying high levels of social inclusion and thus societal, economic and political stability.

Recent research has reconfirmed the long standing social democratic conviction that a well designed regulatory framework for the markets and a good welfare state produce by far more win- win effects even for growth and productivity than negative trade offs.

The win- win effects of socially well embedded capitalism for both economic and social progress are visible in at least 4 main fields.

1. As *Joseph Stiglitz* has demonstrated: beyond a certain moderate level social inequality contributes to instability and economic crises by way of nurturing the casino part of the finance markets, i.e. speculation instead of financial assistance for productive investments and –on the other hand- weakens the demand side of the economy and thus contributes to unemployment.
2. High levels of average education, i.e. large scale inclusive education in which the children of the lower strata of society can participate according to their gifts and talents contributes substantially to the levels of productive, growth and wealth production of a dynamic economy.
3. Socially well integrated societies, i.e. by reasonable levels of social security and participation integrated societies are more productive and stable even in their economic dimension due to the higher motivation of the workforce and lower levels of industrial actions like strikes.
4. Such societies also are less vulnerable in times of economic crises due to the automatic stabilisers they provide in the form of progressive taxation and social wage substitutes in the event of unemployment, sickness, old age and the like.

We could also say that capitalism needs protection against its own logic, the logic of short term profit maximization, by way of the logic of social and ecological foresight and responsibility if it is not to grow self-destructive.

The Role of Social Shocks, Political Mobilization and Power

However, there is a particularly tricky problem about social democracy: in order to implement it good arguments as rule are seldom sufficient – at least as long as those who think that it runs against their vested interest hope that they can avoid it. As history shows: insight, analysis, good will and our ability to conceive good and

working blueprints for progress are not enough. But, even political power is not enough, though it is a necessary condition. Something else is required.

To embark on the social democratic avenue with realistic hope for success necessitates the readiness of the society, including the key actors of the political economy and the public policy makers, to accept and pursue jointly certain institutional principles and rules. What is needed is a ***political - cultural compromise***, as it were, among the key actors of the political economy of a country despite differences in their vested interests. Some *shared experiences and convictions* must grow if a social democracy is going to happen and be successful.

What has been called the *social democratic century* in Europe was based on a long time compromise between the social democratic key actors (parties, trade unions, enlightened parts of the middle class, the intelligentsia) with refractory social forces, those that hold the commanding heights of the capitalist economy and their political allies. In fact, it was only the shock of the Great Depression in the 1920s and 30s that laid the foundations for the social democratic compromise in Europe and the United States (though only temporarily in the latter).

In the US the socio- economic shock, a certain measure of trade union power plus responsible political leadership (President F. D. Roosevelt) forged the compromise. In Europe it was the shock plus hard and constant pressure by the workers' movement. In both cases even the staunch advocates of pure capitalism were under the shock that their system would not survive unless a major compromise would not save it either from self - destruction or from a revolutionary system change. Of course survival was only possible through substantial change.

In the historic moment of shock there was a widespread perception in all concerned societies that they were now confronted with the fateful choice either to run the risk of lasting protest, social conflict, unrest or revolutionary change on the one hand or to improve the living conditions of the working classes by other welfare means. The choice they made was for the social democratic compromise. The workers' movement accepted the basic outlines of a capitalist economic order, private property of the major means of production, and the market economy. In return, the trustees of

that economic system would agree to waive a substantial—though negotiable—part of their property rights in favor of workers co-determination, a share in financing the social welfare state, wage increases, better working conditions and macro-economic coordination.

This made possible the Golden Age of Social Democracy after the World War II or as some say: the prospering decades of the *Fordist Model of Capitalism*. What we witness in Europe now is that the social and political pressure must be permanent in order to prevent the capital side from forgetting about the terms of the historic social democratic compromise. And what we also learn is social democracy needs to go global if it is to continue its functions properly in a globalized economy.

The Social Democratic Compromise goes Global

Richard Sandbrook and a research team of the Toronto University have studied the conditions for a social democratic success story in the global periphery. They found surprising social democratic progress in countries like Chile, Costa Rica, Mauritius and Kerala (Uruguay, West Bengal could be added). They stress that in Third World Countries three conditions have to be in place in order to make the social democratic compromise possible and the political economy of socially embedded markets work:

1. The marketisation of the basic economic relations, particularly in the rural areas.
2. A strong and long term mobilization of civil society, trade unions and networks with a social democratic purpose.
3. An atmosphere of and a readiness in the poor sectors of the society to organize political activity and protest.
4. Effective and resolved political counter elites with as social purpose that remain, when in office, under the control of the mobilized civil society plus trade unions.

The implicit or explicit threat with the option of a more radical socio economic alternative that such a constellation epitomizes often motivates the representatives of big property and markets to yield to one or another form of the social democratic

compromise. Once in place the social democratic compromise needs to be institutionalized in such a manner that it tends to be self-maintaining by its very success and the social peace it fosters. In some way or the other it should follow the lines describe earlier in this paper.

In addition reforms at the global level are required, too. *Fair globalization*, the concept that has been developed by the ILO is a good translation of social democratic principles into globalization politics. The key concepts are there, practice is lagging far behind. Maybe that in the global arena only crises and shocks create an opportunity to promote the readiness of the powerful to compromise. Yet, there is still a possibility that they are ready to act early enough if the forces of social democracy everywhere in the world grow.

Forgetting the Shock?

Until recently, the social democratic compromise seemed to have taken deep roots in European societies. Today, in the wake of globalization, the disgraceful collapse of the communist model, and the state debt crises caused by finance market collapse, the social democratic compromise is challenged again. The most influential trustees of the interests of capital begin to believe that they can dismantle parts of the social democratic compromise without having to fear adverse political consequences.

The contradiction of the present day seems to be: that exactly in a time when the social democratic moment in terms of the real problems we face is stronger than ever the idea of social democracy is in the defensive in the prevailing ideological debates. The forces that caused the crises still control the public opinion in many countries. One of the reasons might be that welfare standards and regulations are –even in times of crises- comparatively high and a bottom line for social protection and market correction is guaranteed in the constitution and the political culture of most European countries. This is in itself a remaining triumph of the historic fight for social democracy – but no lasting guarantee.

The famous British historian and social democratic intellectual *Tony Judt* has dramatically warned us in his famous book *Ill Fares the Land*. If our societies do not support social democratic policies out of conviction any longer, they should better

support them out of fear. The fear that social peace and the pillars of social democracy will soon erode once their social foundations are shattered. We better do not embark on repeating history.

Little wonder then, that Richard Sandbrook, the leading student of global social democracy, recently wondered whether this time the central political impulse for a new social democratic century might come from that part of the world that still is fighting for laying its very foundations –the developing countries. And, the social democracy of the 21st century must be global because the reach of the problems it is confronted with are global, too