

CHAPTER 1

Renewal in the Post-crisis Landscape¹

The Limits of Technocratic Social Democracy

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What are the prospects for progressive politics on the two sides of the Atlantic? I approach this question through reflection on the accomplishments and evolving dilemmas of social democracy since the middle of the twentieth century. While my emphasis is on European social democracy, many of the observations apply, *mutatis mutandis*, to the progressive side of American Democratic politics. This is a tale of three crises. In its modern form, social democracy was created in response to the bitter class conflict of the 1930s, which culminated in world war and a yearning for something new. Social democracy was then transformed – and some would say lost its way – in response to the economic crises of the late 1970s. Today, the issue is: what will it forge out of the global economic crisis that began in 2008?

There is no need to rehearse the history of postwar social democracy told so well elsewhere.² At the core of its trajectory were two issues: what policies could progressive parties implement and how were electoral coalitions assembled for them? Each side of this double movement was dependent on the other. In many respects, the 30 years that followed World War II were golden years for social democracy as well as the western economies. An industrial working class, drawn away from the radical right by its association with a devastating war, gave solid support to parties of the political left. The class-based grievances those parties aimed to rectify were still very real: it is sometimes forgotten that a significant proportion of British dwellings lacked indoor plumbing as late as 1958.

Social democratic parties were weaned from their initial inclination to nationalise the commanding heights of the economy by the Keynesian promise that full employment could be secured through

macroeconomic management. In conferences from Blackpool in the UK to Bad Godesberg in Germany, they devoted themselves to building full-employment welfare states founded on social and educational policies that T.H. Marshall could legitimately describe as ‘class abatement’.³ Many of those policies were also vehicles for cross-class coalitions that sustained social democracy, as growing employment in services and the public sector transformed the occupational structure.⁴

By the 1960s, social democratic parties were exploiting a modernisation paradigm, popular in the public sphere as well as in social science and notable for its faith in the capacities of states to improve society. The election of Harold Wilson in 1964 on a promise to transform Britain in the white hot heat of the scientific revolution was the high-water mark of a modernist vision that saw democratic states as vehicles for harnessing scientific knowledge to a popular will, whose vanguard social democracy could legitimately claim to represent.⁵

Although this vision was fraying around the edges by the 1970s, in the face of student revolts and a New Left more *autogestionnaire* than statist, it was dealt a mortal blow by the failure of governments to restore economic growth after the stagflation that followed the oil-price shocks of 1973–4. Virtually every government in office during this period was defeated at the next election; but social democracy suffered the most, because the apparent failure of Keynesian policies, often tied to state-led income policies, inspired a deep disillusionment with state intervention, tantamount in some countries to a crisis of legitimacy for the state.⁶ Seeking a solution to persistently high rates of unemployment, as well as ways to absolve governments of responsibility for it, political elites on both the left and right turned towards market-oriented approaches to economic management. With the elections of Margaret Thatcher in 1979 and Ronald Reagan in 1980, an emphasis on the efficiency of markets became the hallmark of a neo-liberal era that was to last for 30 years.⁷

The Legacy of Neo-liberalism

Despite some landmark events, including the election of the first socialist governments in Fifth Republic France and postwar Spain, the neo-liberal era has been a troublesome one for social democracy and progressive

democrats. To some extent, social democracy was the victim of its own success. With the establishment of generous social programmes, the most appealing item in its platform was firmly in place by the early 1980s, when declining rates of growth diminished the scope for further expansion.⁸ The question ‘what’s next?’ has never been fully answered. Three decades of prosperity augmented by this social safety net reduced the incidence of abject deprivation, which had lent an edge to postwar politics and blurred the boundaries of social class that were central to the appeal of many social democratic parties.⁹

By the early 1980s, the traditional class cleavage was also cross-cut by a values-cleavage that ranged the younger generations of many western societies committed to post-materialist values against others (often older or less educated) inclined to defend traditional values.¹⁰ Progressive parties rose to this challenge by embracing post-materialist positions and recruiting more white-collar workers and professionals, rendering class dealignment more or less complete. However, these moves left blue-collar workers with traditional values without a natural home, creating an electoral opening for radical right parties in Europe and groups such as the ‘moral majority’ in the US. From the early 1980s, for instance, the Front National party has commanded a fairly consistent 15–18 per cent of the vote in France, and sometimes a plurality of the votes from the manual working class.

More ominously, the traditional patterns organising political thinking have become disorganised. For instance, in France, the country that invented the left–right spectrum, barely more than half the voters are now willing or able to place themselves on that spectrum. To some extent, this reflects the policy choices made by social democratic governments in recent decades. Their platforms moved in neo-liberal directions and, even when their rhetoric remained leftist, their policies often were not (see Figure 1.1). In Europe, much of the impetus came from the Single European Act of 1986, which turned the European Commission into an agent for market liberalisation; and, even as they inveighed against globalisation, many social democratic governments implemented its European equivalent.¹¹ It is not surprising that voters were confused.

In this context, with no lodestone other than a concern to ensure the least affluent were not further disadvantaged, social democratic parties

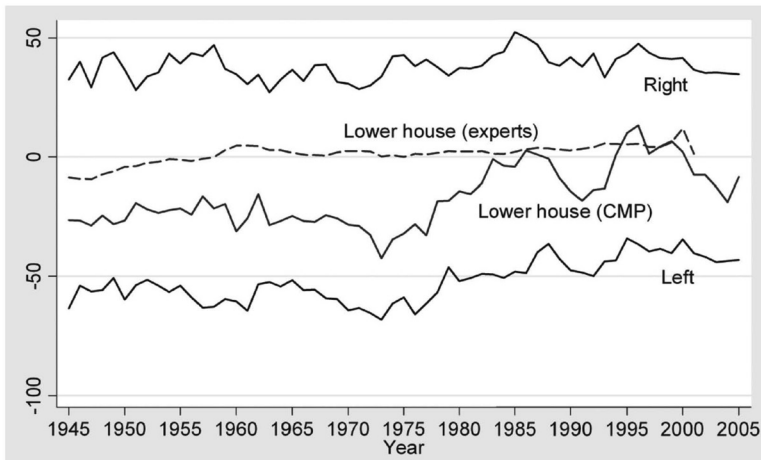


FIGURE 1.1 Movement of party platforms in 18 OECD countries between 1945 and 2005. Higher values on the y-axis indicate more neo-liberal positions on eight economic items in party platforms. The 'lower house (CMP)' line represents averages value for economic ideology weighted by share of seats. The dotted line is left-right orientation of legislature by share of seats.

Source: Courtesy of Torben Iversen, 'Class politics is dead! Long live class politics! A political economy perspective on the new partisan politics', *APSA-CP Newsletter* 17/20 (2006), pp. 1–6.

made heroic attempts to distinguish themselves from their conservative counterparts. In some cases, these efforts were largely rhetorical. Declaring himself in favour of a 'market economy' without a 'market society', Tony Blair tried to define and defend a Third Way in the UK.¹² Social policy was relabelled 'social investment' and the kinds of sums once spent on industrial policy were devoted to more or less active manpower policy in many parts of the continent.¹³ Ironically, social policies once designed to reduce the dependence of workers on markets were reoriented to ensuring that workers entered labour markets and had the skills to do so.¹⁴ However, the era also saw some distinctively social democratic accomplishments, especially with regard to the distribution of income. The French socialists, for example, made taxation more progressive in order to expand social spending; and, even though high incomes rose dramatically, the British Labour Party kept the gap between low and median incomes narrow, while parties in Spain and Portugal built modern welfare states.

Fear of Falling

A decade after the turn of the millennium, however, the distinctiveness of what social democracy offers and who supports it is less clear than it has been at many previous moments in history. American progressives and European social democrats are seen as competent managers of liberal capitalism, more humane than their opponents, but not animated by especially powerful visions. Paradoxically, to the extent that the position of progressive parties remains distinctive, as in the US, it is largely because their opponents have moved a long way to the right, taking the political spectrum as a whole with them (see Figure 1.2).

Thus, the question is: can European social democrats and American progressives fashion an effective response to the current economic crisis and build from it a durable electoral coalition? The challenges are daunting. In principle, recession should increase support for the social protection offered by parties of the political left, and such trends are visible in European opinion. However, this is no ordinary recession. Several features make it unusually difficult to resolve.

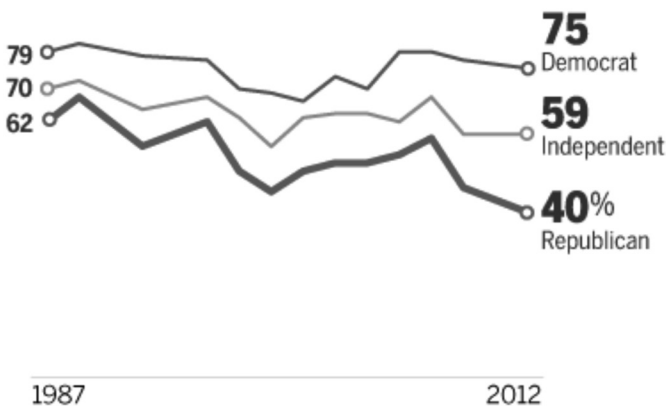


FIGURE 1.2 Change in views about the responsibility of government in the US between 1987 and 2012, in response to the statement 'It is the responsibility of the government to take care of people who can't take care of themselves.' As explained alongside the original figure, 'Republicans have become less supportive of the social safety net while Democratic views have shown little change.' <AQ1>

Source: Pew Research Center, *Trends in American Values 1987–2012* (Washington: Pew Research Center, 2012).

First, this recession is rooted not in the business cycle but in a debt crisis that was the culmination of several decades of lax regulation that saw vast increases in public- and private-sector debt, accompanied by disproportionate expansion in the financial sectors of some countries.¹⁵ Therefore, the problem has become one of securing growth amid deleveraging, in terms that will promote a return to fiscal balance over the medium term. Although growth is by far the best solution to this problem, some (on both the left and right) argue that it demands a politics of austerity.¹⁶

Second, where banking systems are overextended or levels of public debt are high, governments face pressure from international financial markets for contractionary policies that is difficult to resist. While the image of the Cabinet waiting in the garden of 10 Downing Street to hear whether J.P. Morgan could secure a loan for Britain in 1931 reminds us that this phenomenon is not new, the demands of international finance limit the room for manoeuvre available to many contemporary governments.¹⁷

Third, in the eurozone, the problem is complicated by rules that prohibit the European Central Bank (ECB) from purchasing government debt, cumbersome decision making processes that require transnational consensus, and the challenges of securing agreement to transfer resources across national borders. The response to the euro crisis resembles the desperate, and politically disastrous, efforts to maintain the gold standard of the 1920s.¹⁸ It borders on a transnational Ponzi scheme in which the European Union (EU) lends funds to national governments that are then sequestered to pay the interest on previous loans from the EU, while those governments borrow to bail out banks that are in turn lending to them with the encouragement of the ECB.

Social democratic parties can be forgiven for not having a distinctive solution to these problems. Moreover, high levels of unemployment, sluggish growth and threats of further recession are making the politics they face more challenging. Economic insecurity has given rise to a *sauve-qui-peut* politics in which people are worried about holding onto what they have and more resistant to measures that might redistribute resources to others.¹⁹ There is evidence for this in American public opinion, where swing voters, including many on modest incomes who

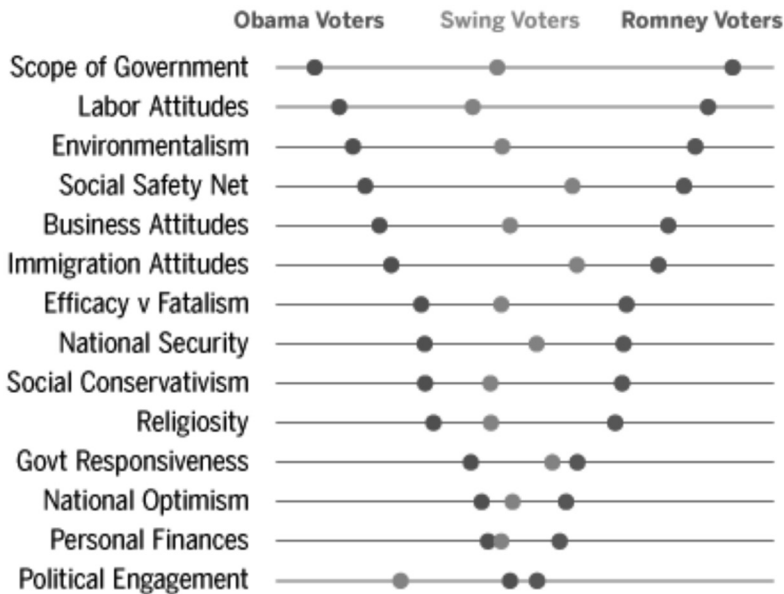


FIGURE 1.3 Attitudes of swing voters relative to those of Obama and Romney supporters, 2012. The original figure explanation reads: 'Each line shows the position of swing voters relative to the positions of Obama and Romney supporters on each of 14 values indices based on related survey questions. On most issues, opinions of swing voters fall squarely between those of Obama and Romney supporters. On others they tilt closer to Obama voters or Romney voters.'

Source: Pew Research Center, *Trends in American Values 1987–2012* (Washington: Pew Research Center, 2012).

are natural Democrats, were drawn to the Republican Party in 2012's presidential campaign, not by the religious or moral concerns usually cited but by the strong stance that party took against redistribution (see Figure 1.3). In much the same way, economic hard times tend to increase hostility to immigrants.²⁰ These developments pose special dilemmas for social democratic parties because they evoke a 'fear of falling' that the radical right can exploit to attract working-class voters.²¹

Some of the effects can be observed in the bitter polarisation of political debate in the US, where a battle rages between Republicans committed to reducing social spending and Democrats trying to preserve the social safety net. In continental Europe, electoral systems built on proportional representation sustained generous welfare states in good times,

but, during the politics of bad times, these systems have given legislative footholds to the radical right. In many countries, politics has not been so ugly since the 1930s.

The Limits of Technocratic Social Democracy

In this context, social democrats face the challenge of devising programmes that will promote sustainable economic growth and an imagery of social justice appropriate for the twenty-first century. This is easier said than done and these programmes have to be tailored to the circumstances of each country. But some elements of the current conjuncture offer opportunities for social democracy. Unlike the recession of the 1970s, the current crisis cannot be blamed on the failure of state intervention. Instead, it has dealt a severe blow to the overweening faith in markets that was a fixture of the neo-liberal era. Survey evidence suggests that many people blame the crisis on the banks at least as much as they do on governments, and support for ‘free markets’ is waning in many countries (see Table 1.1). This crisis is also associated with rising levels of income inequality: many people resent the high rates of pay in the financial sector and more than a few wonder why the banks were bailed out when individuals were not.

TABLE 1.1 Support for Free Markets 2007–10.

	<i>Percentage completely or mostly agree</i>				
	<i>2007</i>	<i>2010</i>	<i>2012</i>	<i>2007–12 change</i>	<i>2010–12 change</i>
Britain	72	64	61	–11	–3
Czech Republic	59	—	50	–9	—
France	56	67	58	+2	–9
Germany	65	73	69	+4	–4
Greece	—	—	44	—	—
Italy	73	—	50	–23	—
Poland	68	68	53	–15	–15
Spain	67	62	47	–20	–15
US	70	68	67	–3	–1

Source: Pew Research Center, *European Unity on the Rocks* (Washington: Pew Research Center, 2012).

In other words, the faith in free markets that was a dominant element of the neo-liberal creed has been shaken, and there is a new willingness to believe that governmental initiatives can make important contributions to economic growth. Social democrats should respond to this, especially in the Anglo-American democracies, by making a new commitment to public investment, understood to mean investment in human as well as material infrastructure. In countries like the US, the need to replace ageing physical infrastructure is manifest, and this kind of commitment evokes a distinctively social democratic confidence in the ability of states to advance social welfare. Although some might claim that the demands of austerity stand in the way of such policies, the best way to reduce debt is to inspire growth. Where real interest rates are at unprecedented lows, borrowing to make public investments offering higher returns than the cost of the loans makes eminent sense.²²

However, social democrats need more than good sense. They can speak effectively to those disillusioned with neo-liberal policies and the politics of self-interest only by articulating a moral vision of a better society focused not only on what states can do for societies but also on how better societies can be built. The technocratic social democracy of previous decades, marked by claims to operate market economies as efficiently as the right, has reached its limits. In this context, one of the central pillars of the social democratic vision should be its commitment to fairness – understood as equal treatment, fair dealing, respect and equal opportunity (long a core social democratic value). In the wake of a new gilded age, this could again be the keystone of progressive platforms. Many people are animated today by a diffuse sense of unfairness, born of promises not kept and expectations unfulfilled. In the developed democracies, markets have not delivered ordinary citizens many returns.

What matters most in substantive terms is equality in life-chances, the central element of a fair society, now threatened by a market culture gone wild. Despite the rhetoric linking markets to meritocracy, the income inequality generated by unfettered competition has eroded equality of opportunity. Recent studies show that intergenerational mobility varies inversely with the level of income inequality across nations, and in many societies social mobility is stagnant or declining (see Figure 1.4).²³ In short, highly unequal incomes do not simply confer privilege;

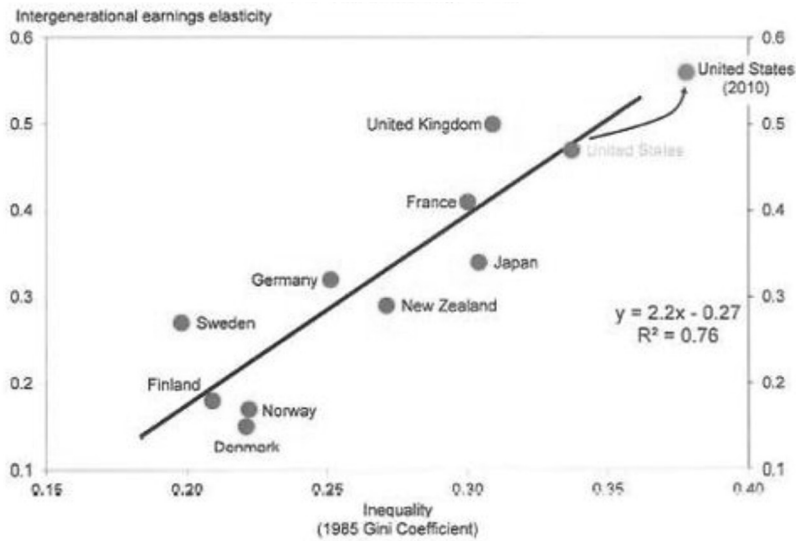


FIGURE 1.4 The relationship between income inequality and social mobility.

<AQ2> Source: Alan Krueger, 'The rise and consequences of inequality in the United States'. Presentation, 12 January 2012.

they perpetuate it, as children without access to good housing, effective schools, solid career tracks or parents with time off work and dedicated to them are unable to find footholds to a secure life. In this context, the incomes of the very rich may not matter much to the facts on the ground for most people, but they symbolise a fundamental unfairness about which social democrats should be thinking and talking.

That conversation may not always be comfortable, however, because this is not simply a matter of redistribution as usual. The challenge is to rethink what people owe one another, with a view to refashioning the social contract for a new century. Some long-standing policies may have to be reconsidered. Western welfare states, for instance, are typically more generous towards the elderly than the young. Unemployed youth in Europe might well have the impression that welfare states are a preserve for the old, and the American Tea Party movement is partly an effort by the elderly to defend their Medicare benefits at the cost of providing health insurance to the young.²⁴ Thus, complex issues of intergenerational redistribution are involved in rewriting the social

contract, especially in economies facing high levels of debt and slow rates of growth.

In much the same way, Europeans have to decide what they owe to citizens of other member states. In the context of the Euro crisis, does social solidarity stop at national borders? And, after decades in which racial inequality, which is still serious, was the primary focus of attention, Americans are now discovering gaps in educational achievement across social classes that loom even larger than those across races.²⁵ Social democracy has to construct a new understanding of social justice for an era profoundly different from the prosperous age following World War II, when its modern principles were forged. The challenge is to confront rather than avoid these dilemmas.

Active Government and Social Imagination

In the Anglo-American democracies, a case will also have to be made for the effectiveness of active government. One of the principal impediments to the social democratic project is the prevalent view, pounded into people by three decades of neo-liberalism, that government is part of the problem rather than the solution. In contemporary economic doctrine, governments appear primarily as sources of inefficiency in the economy. While that is a minority view in parts of Europe, elsewhere it is an ideological totem that will not disappear overnight. The argument for effective government will have to be made, in new and inventive ways, by intellectuals and politicians.

Here, the concept of a government that is investing in its people, with a view to making a better future for all of them, has real promise. Although too often used to dress up policies designed to force people into dead-end jobs, the idea of social investment still has power. It deserves to be rescued and applied in programmes that confer new skills and seed new enterprises.²⁶ Public facilities (such as libraries, neighbourhood sports halls, extramural learning programmes and health clinics) have pay-offs that extend into the community well beyond their immediate users. It is time to give new meaning to the notion of public services.

Moreover, if the objective is a fairer society, governments can do more than redistribute, and social democrats offer more on this front

than their opponents. After three decades in which market principles have penetrated ever more spheres of social life, people yearn for more decent social relations, which vacuous aspirations for a 'Big Society' are unlikely to supply. The social capital embodied in Britain's robust voluntary sector, for instance, was long dependent on how governments funded social services.²⁷ Ordinary people draw social resources, crucial to their health and well-being, from social connections in the local community, and studies suggest that these can be augmented or eroded by public policy.²⁸ Thus, governments attentive to the conservation of social, as well as natural, resources can make it easier for people to help themselves. As Jacob Hacker observes in this volume and elsewhere, the burden on governments to redistribute can also be reduced by regulations that ensure the distribution of market resources is more equitable.²⁹ By mandating private pensions that are more generous, higher minimum wages and better working conditions, governments can create fairer societies where new norms of social justice take hold.

To sustain such endeavours, however, social democratic parties need social allies. One of the most striking developments during the neo-liberal era has been the collapse of trade unions. Their membership is now half of what it was across the OECD three decades ago. As a result, people who once earned a decent wage no longer do so and many countries have seen their most prominent tribunes for social justice enfeebled.³⁰ It is time for progressive governments to acknowledge that trade unions are not only important political allies but also bulwarks for fairness in the allocation of resources that progressive societies cannot do without.

Ultimately, the construction of such a society is not simply a matter of allocating resources but one of constructing a moral vision of what people in a common community of fate owe one another. The effects of the current crisis have exposed many of the neo-Victorian myths in the social vision of neo-liberalism. And, if one legacy is still a residual cynicism about what governments can do and how people should behave, another is a void in the social imagination that deserves to be filled by something more than simple-minded nationalism. That is a task for which social democracy is in many ways fitted. As a General Secretary of the British Labour Party famously said, that party has long owed more to Methodism than to Marxism. If it is to appeal to a new electorate,

its leaders will have to explain why social democracy is important in human and moral terms. Compassion can be as powerful a force in politics as cynicism, and people will respond to calls to create a better society. In this respect, the fate of social democracy lies in its own hands. The failure of market-oriented policies provides a new opening, but to step through it political progressives will have to shake off the shibboleths of their own past and evoke the passions to improve the world that can inspire new generations.

Notes

1. I am grateful to Michael McTernan and Rosemary C.R. Taylor for comments on an earlier draft.
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