From *The Future of Socialism* (1956) to a future without socialism? The crisis of British social democratic political economy

*Noel Thompson*

The national shift to the left, with all its implications for the balance of power, may be accepted as permanent . . . Any Government which tampered seriously with the basic structure of the full-employment Welfare State would meet with a sharp reverse at the polls . . . It is this which explains the otherwise curious phenomenon that the Conservatives now fight elections largely on policies which twenty years ago were associated with the left, and repudiated by the right . . . The fact that the political battle today is waged mainly on ground chosen by the left is remarkable evidence of the change in national ideology . . . (C. A. R. Crosland, *The Future of Socialism*, 1956: 28–9, 61)

While it may be read in other ways, *The Future of Socialism* can be seen as a paean to the ascendancy of Keynesian social democracy. In Crosland’s view of things, demand management had delivered full or near-full employment; affluence was on offer to a growing proportion of the working population with class tensions mitigated as a consequence; capitalist power had been circumscribed by the extension of public ownership and the increasing strength of trade unions operating in a tight labour market; and a welfare state, funded from sustained economic growth, guaranteed a basic level of subsistence and expanding social services. Of course, as Crosland was well aware, there was still much to be done to create that just and equitable society to which social democrats aspired. Limits might have been reached to the redistribution of earned income but the redistribution of inherited wealth and gains from stock-market speculation were still priorities. Educational provision might have been extended but the educational system still reinforced class divisions. And, more generally, Britain remained a class-ridden, philistine, ‘restrictive and puritanical’ society to which the principles of equality, fraternity and above all liberty still had a profound prescriptive relevance.¹ Nevertheless, by the mid-1950s a redistributive fiscal policy, the welfare state, the extension of public ownership to create a mixed economy, and Keynesian macroeconomic management
Social democracy in crisis

seemed to have laid a solid and stable basis for future social democratic advance.

The economic circumstances of the 1950s and early 1960s provided good grounds for such an optimistic perspective. Growth may not have matched that of Britain’s European competitors but it was at historically high levels and, for the most part, sustained. Living standards had improved to a point where socialist commentators agonised over the political and ideological challenges presented by an affluent society and, in particular, an affluent working class (see Black 2003). Full or near-full employment did prevail, the intermittent difficulties surrounding the balance of payments were periodically circumvented by a touch on the fiscal or monetary rudder, and the welfare state was increasingly well resourced. Bliss was it that dawn to be alive unless, of course, you were a member of the radical left.

In 1975 the annualised rate of inflation hit 25 per cent. At the same time unemployment continued to rise rapidly after having breached the politically sensitive one million mark earlier in the decade. Sterling entered yet another period of post-war crisis and in order to steady the ship the Labour government had recourse in 1975/6 to the financial lifeboat of the IMF (see Burk and Cairncross 1991; Hickson 2005). But this rescue came at a price for in theory, if not always in practice, pragmatically, if not always with intellectual conviction, the government felt obliged to embrace some of the nostrum of monetarism and exert a measure of control over public expenditure in general and its public sector borrowing requirement (PSBR) in particular. In this context Callaghan’s famous speech on the impossibility of spending one’s way out of a depression was simply one outward sign of a new internalised fiscal rectitude. And it was somehow both poignant and historically appropriate therefore that in the same year as this speech, the IMF loan and the embrace of public expenditure cash limits, Crosland died. For his social democracy had been predicated upon an economic dispensation whose foundations seemed to have been fundamentally damaged. The Keynesian trade-off between unemployment and inflation seemed vitiated by stagflation, the continued growth of social welfare expenditure in the context of a faltering economy was clearly jeopardised and, in the light of all this, the existing public–private balance of the mixed economy was being challenged from both the left and the right.

Yet one ideologue’s misfortune is another’s opportunity, and by the mid-1970s a radical, social democratic alternative was on offer that consciously sought to address the deficiencies of Keynesian social democracy and effect a socialist resolution of the contemporary crisis. The theoretical foundations of this were to be found, primarily, in the political economy of Michael Barratt Brown (From Labourism to Socialism, 1972), Stuart Holland (The Socialist Challenge, 1975), the work of the Institute for Workers’ Control
and that of the Cambridge Economic Policy Group—Wynne Godley, Frances Cripps, *et al.* It was from such components that the political economy of a radical, left, Alternative Economic Strategy (AES) was constructed.

For the AES left, Keynesian social democracy had failed to maintain a high and stable, non-inflationary level of employment and sustained growth free from balance of payments crises. Nor had it delivered growth rates comparable to those enjoyed by Britain’s major competitors. These failures were in large measure a product of the growing economic power of major, multinational corporations, that could either ignore or circumvent the means and the measures by which governments sought to pursue their economic objectives. To this end, the AES proposed a fundamental alteration in the balance of power within the mixed economy in favour of a public sector which would be extended to include at least the top twenty-five major industrial corporations. Moreover, in view of the dismal fate of the 1965 National Plan, what was proposed was planning with teeth and to this end, in addition to a substantial extension of public ownership, the strategy insisted that those major industrial corporations remaining in private hands should be brought into a national planning process with the state deploying a range of incentives and sanctions to ensure that they adhered to the objectives that emerged from it. The trade union movement was also to be integral to this process; integral both at a national and, it was envisaged, at an enterprise level as well. Further, to address the balance of payments difficulties and the haemorrhage of foreign reserves traditionally precipitated by the pursuit of expansionary, employment-creating policies, and which could certainly be anticipated with the implementation of a radical economic strategy, a greater or lesser level of protectionism was proposed; something which it was believed would probably necessitate Britain’s exit from the EEC.

This strategy would lay the foundations for a marked improvement in economic performance and all that could follow from that in terms of increased social expenditure, but it would also, in particular through the democratisation of the planning process and enterprise decision-making, help to effect that ‘decisive and irreversible shift of economic power in favour of working people and their families’ that Keynesian social democracy had failed to secure (Labour Party 1973: 7).

The political economy of the AES left received considerable exposure in the 1970s and early 1980s. The proselytising efforts of the Institute for Workers’ Control ensured that the political economy of industrial democracy was widely and enthusiastically disseminated (Thompson 2006: 200–3). The ideas of Stuart Holland and Michael Barratt Brown on the mesoeconomy of multinational corporations and its implications for socialism found their way into a number of Labour Party publications (see
especially Labour Party 1973) and eventually into its manifestoes – most notably *A New Hope for Britain* (1983). And, within the Labour Party, there were those such as Tony Benn who were prepared to support and advance this strategy at Cabinet level.

The AES offered a different vision of capitalism from that of Keynesian social democracy and, in consequence, a different view of what needed to be done to ensure that the forward march of Labour was resumed. It was a view more in keeping with less propitious and more combative times; one more obviously tailored to the imperatives of crisis: both the national economic crisis and the ideological one that confronted the party. It is unsurprising therefore that it helped to set the parameters of its economic debates for a decade, from the early 1970s to the electoral debacle of 1983. In this respect it also reflected, and may indeed have played a part in effecting, a shift in the balance of power to the left within the party. Either way it was on an AES manifesto that the 1983 election was fought and comprehensively lost.

Yet within the AES, and for that matter within the AES-supporting left, there were critical tensions; in particular between the decentralisation of power implicit in the emphasis on the democratisation of enterprise decision-making and the centralisation of authority inherent in institutions such as the National Enterprise Board within the proposed planning apparatus. In this regard some aspects of the strategy were redolent of a socialist corporatism, with planning goals emerging from the interaction of trade union, political and enterprise elites, while others were couched in the neo-syndicalist patois of workers’ control and the erosion of management prerogatives. This tension within the ranks of the AES left manifested itself in a number of ways but, in particular, in the different degrees of autonomy which it was envisaged enterprises would possess in the context of the strategy. So while those who stressed its decentralist and democratising tenor saw it as opening up opportunities for the kind of worker-formulated plans that had emerged from enterprises such as Lucas and Vickers (e.g. Beynon and Wainwright 1979; Cooley and Wainwright 1981), others quite clearly saw it as the basis for a national economic strategy, involving central economic planning, coordination and control, including control of foreign trade and capital movements.

Given such tensions it was, as one contemporary commentator put it, best ‘to treat the AES not as a programme but as a field of debate’ (Sharples 1981: 25). And it certainly had a protean quality as regards the policy prescriptions that could be derived from it. As Sam Aaronovitch (1981: 6–7) wrote at the time, it was variously conceived

- as a cure for economic decline, as a socialist programme, as the start of a struggle for socialism, as a programme that is democratic and radical without being socialist, as a mobiliser of broad support for the socialist idea, as a way
of tipping the resolution of the economic crisis in favour of the working class and against capital, as a way of establishing enclaves of socialist production and working class power in a socialist society, or as a way of generating a revolutionary socialist mass movement.

And, as Aaronovitch’s remarks imply, it was multifaceted not simply in terms of its programme and strategy but in terms of the aspirations which were attached to these: aspirations that ranged from the decidedly reformist to the avowedly revolutionary: from those that were realisable within the framework of existing political institutions and processes, to those that could only be secured by means of the reality or threat of extra-parliamentary agitation and struggle. At best, therefore, it made for an unstable political alliance always likely to disintegrate should it be faced with the reality of political power or political defeat. The former never proved a problem and the latter duly precipitated such disintegration in the aftermath of the 1983 debacle.

Yet the crisis engulfing social democracy was not simply a function of unpropitious economic circumstances, the divisions within its political constituency or the redundancy, tensions and inconsistencies in its available political economies. For what it also confronted, from the 1960s onwards, was a fundamental, multifaceted, well-orchestrated and well-financed ideological challenge to social democracy and, more generally, the whole post-war Keynesian social democratic consensus. Of course such a challenge had existed in the 1950s. From the right, there was the free-market political economy that derived inspiration from Hayek’s *Road to Serfdom* (1944) and which was articulated in the work of writers such as John Jewkes and, from within the political community, Enoch Powell, Angus Maude and Geoffrey Rippon. But this radical right had a limited political impact and did little to dull the prevailing optimism of Crosland and others with respect to the future of social democracy. From the left, there were those such as Crossman, Bevan, Strachey, Cole and the Keep Left Group who saw a socialist project only partially completed, and who looked to a substantial extension of public ownership and planning in order to diminish capitalist power, enhance economic performance, redress the perceived imbalance between private affluence and public squalor and, most fundamentally, to effect a socialist transformation of economy and society. Yet, in truth, whether from left or right, these were clouds no bigger than a man’s hand that cast a negligible shadow on the kind of optimism to be found in *The Future of Socialism*.

But by the 1960s the critical fire coming from the right was intensifying. The work of Milton Friedman and others within the Chicago School called into question the capacity of the state to deliver on the commitment in the 1944 White Paper on employment policy to maintain a high and stable
level of employment (*Employment Policy* 1944: 3). Thus, it was argued that, with a greater or lesser time lag, employment-inducing government expenditure would result not in lower unemployment but a higher general level of prices. Nor was there, as the Phillips curve had suggested, any trade-off between employment and inflation (Phillips 1958); a view for which the experience of the late 1960s and 1970s appeared to provide empirical verification. Unemployment could not be decisively pushed below its ‘natural’ rate simply by macroeconomic expansion but only by eliminating rigidities in the labour market so that it functioned more efficiently. Keynesian demand management was, therefore, at best superfluous and, at worst, destabilising. Of course monetarism did not go unchallenged but from its spiritual home in Chicago it began to make important converts in Britain within the academic, journalistic and financial and political communities (see Cockett 1994; Denham 1996).

If the Chicago School challenged the efficacy of Keynesian demand management, those aspects of the economics of the Austrian School which had their roots in the work of Friedrich Hayek and Ludwig von Mises trumpeted the virtues of untrammelled markets, calling into question the possibility of rational state-initiated and/or directed collective action and intimating that it was only as a consequence of the process of learning and discovery implicit in the market-mediated maximising activity of individuals that the most efficient and socially beneficial allocation of resources was likely to arise.

Further, and central to the ideological challenge of the right, there was the public choice theory of the Virginia School, most notably the ideas of James Buchanan and Gordon Tullock, who took the methodological individualism of Austrian economics and applied it to the sphere of public decision-making. In their scheme of things, the actions of politicians and public bureaucrats, not just those active in the economic sphere, were explained by reference to the pursuit of utility maximisation. Power, prestige and career advancement became the maximands of public officials, with the maximisation of the size of public bureaus the means by which this was to be achieved. In the case of politicians, the primary objective was the maximisation of political power, which involved the building of political alliances to maximise votes, both within representative institutions and in terms of the electoral process. Both public officials and politicians were seen as pursuing their objectives through symbiotic relationships with producers and pressure groups: the latter seeking the bureaucratic and legislative support necessary to further their interests, while at the same time emphasising the imperative need for those public bureaucracies through which it could be provided (see Buchanan and Tullock 1962; Tullock 1965).

While, therefore, Keynesian social democracy was predicated upon a
neo-Fabian conception of a public bureaucracy which was characterised by its dispassionate rationality, its expertise, its knowledge base, its competence, its independence, its industry, its integrity, its discharge of business according to calculable rules and, above all, by its inclination to perceive its work as a vocation and to labour primarily for the public good, public choice theory portrayed that bureaucracy as pursuing self-interested objectives that made for an inexorable expansion unwarranted in terms of the social utility which it yielded.3 In this respect, public choice theory furnished not only a critique of the imperatives driving public decision-making but also an explanation of what was coming to be seen as an inflationary growth of public expenditure which was inflicting significant damage on the wealth-generating private sector (see Buchanan and Wagner 1977). And, of course, the Keynesian idea of ‘deficit spending and inflationary finance [also] tended to undermine whatever resistance there was to the expansion in the size of public budgets’ (Buchanan and Wagner 1977: 69).

As regards this onslaught upon the central tenets of Keynesian social democracy, two other components of what came to be termed the New Right critique are worth noting. First, there was the idea that as a consequence of the inexorable rise of public expenditure, driven either by bureaucratic ambition or by a predilection for employment-inducing deficit financing, the private sector had been and was being ‘crowded out’ of the capital markets: something which explained Britain’s poor, post-war growth performance and her relative economic decline. Such a skewed resource allocation made for ‘too few producers’; or, as two of the most prominent proponents of this view – Bacon and Eltis – saw it, too few producing a marketable product (Bacon and Eltis 1976). This in turn was something which exacerbated balance of payments problems and inflationary pressures.

Second, and in line with this, there was the problem of ‘overload’ (King 1975). Thus because the state was assuming an increasing range of responsibilities, it was rapidly losing its capacity to do what it did do effectively. Overload also raised issues of individual choice, freedom, initiative and independence, while the costs entailed by a burgeoning range of activities made for a growing fiscal burden; one that militated against enterprise and competitiveness and acted as an incentive to corporate disinvestment and exit.

The coherence of the New Right assault upon Keynesian social democracy has been much debated. What cannot be disputed, though, is both the breadth of the front upon which it was mounted and the scale and intensity of its popularisation. As to the latter, think tanks such as the Institute of Economic Affairs, the Centre for Policy Studies and the Adam Smith Institute played an important role both in disseminating these ideas
within the Conservative Party and to a wider political constituency. And they can, certainly, be frequently found in the speeches and writing of key figures within that Party by the mid-to-late 1970s (see, in particular, Joseph 1976). More generally by that time they were beginning to dominate the ideological debate that arose in Britain in the last quarter of the twentieth century.

Of course, by the mid-1980s, elements of the New Right political economy were theoretically and prescriptively bankrupt and therefore ceased to present a significant challenge to social democracy, but the philosophy of marketisation retained its hegemony throughout the 1980s and into the 1990s and, as a result, social democracy remained on the back foot. In terms of its popular resonance, the philosophy was a potent one. It articulated the virtues of individual freedom, choice and consumer sovereignty: the freedom to purchase one’s council house, to choose between utility suppliers and, in the aftermath of successive privatisations, to participate in the equity market. It was a philosophy that conceptualised the users of public services as clients or customers not as supplicants. It spoke the language of efficiency and value for money in relation to public services and of opening them up to quasi-market imperatives. It looked to the dismantling of concentrations of administrative power: the streamlining of bureaucracies, with a consequent reduction in the burden on taxpayers, leaving them with more money and therefore more choice in the marketplace. It underpinned the idea of privatisation and deregulation which furnished the multiple providers of ‘public’ and private goods and services that made choice a reality. Whether the reality matched the hype was of little consequence. Such ideas and ideals both shaped, and resonated with, the popular mood, imbuing it with notions that the opportunity to secure what was desired in the cheapest market was an unqualified good and that the acquisitive instinct was something to be applauded not derided or condemned.

By way of response to the challenges such a political economy posed and to the electoral disaster it precipitated, there was an attempt, in the 1980s, to reconstitute Keynesian social democracy on a sounder basis; one that took account both of the ideological ascendancy of the New Right and the cumulative consequences of Conservative economic policies. As to the second of these, there was a belief, particularly in the earlier part of the decade, that Keynesianism had once again acquired a compelling relevance as an economic strategy in the light of what Thatcherism had produced. Mass unemployment and a crumbling industrial base were once more, as in the 1930s, salient characteristics of the British economy and, as Giles Radice saw it, ‘a Labour government’ would be ‘entitled to have confidence in sensible, moderately applied and well-balanced Keynesian policies’ (Radice 1989:}
Once again public expenditure could and should be ‘an important element in getting the economy moving’, and Austen Mitchell was even prepared to defend the Barber–Heath dash for growth of the early 1970s as an experiment that had fallen victim to adventitious circumstances rather than one which was theoretically flawed (Gould et al. 1981: 202; Mitchell 1983 and 1989). Moreover, as the 1980s progressed, monetarist theory came to look increasingly suspect as a guide to macroeconomic policy and was progressively abandoned in consequence.

By the late 1980s privatisation had also altered the landscape confronting social democracy and therefore parameters of the debate surrounding public ownership. Given the costs involved, it became difficult to aspire to any return to the status quo ante and so discussion came to be focused on whether, at the margins, it was possible to establish a more balanced mixed economy than that which Thatcherism was creating. In this context there was a tendency to favour the micro expedients suggested by Crosland, Jenkins and others in the 1950s: social ownership taking the form of equity participation and the public ownership, or creation, of individual enterprises; the idea being to compete with, stimulate or complement the private sector. What was wanted was a ‘healthy pluralism’ of forms of ownership, with the state eschewing a dominant role: its general objective, in the words of Austen Mitchell, was ‘to manage and work with capital to the benefit of all, not to expropriate it’ (Mitchell 1989: 114–15). In the work of Mitchell, Gould, Hattersley, Radice and others there was, therefore, a Keynesian social democratic vision of a mixed, pluralistic, competitive market economy, with an emphasis on social control rather than ownership, which was markedly similar to that of the revisionists of the 1950s (for further discussion, see Thompson 2006: 246–7). However, while this represented an attempt to recognise and accommodate some of the harsh realities that emerged with the hegemony of Thatcherism, for many within the party in the 1990s even these writers failed to understand how far the tide of public ownership had and would continue to ebb; a view of things that was to underpin the determination on the part of the leadership to abandon clause IV, which it duly did in 1994. In effect, therefore, the new realism of these writers led inexorably to an abandonment of any aspirations for extending public ownership; an abandonment, therefore, of the vision of a mixed economy which had previously been one of the central pillars of Keynesian social democracy.

Moreover, while it might be argued that the revisionist liberal socialism of the 1980s was more relevant to a new age of mass unemployment and a regressive redistribution of income and wealth, there was little to distinguish it from the Keynesian social democracy which had failed to negotiate the crisis of the 1970s. The continued existence of the inflation,
balance of payments and international confidence constraints of those years was acknowledged, but the expedients suggested to circumvent them were remarkably similar to those already tainted with failure. So balance of payments pressures were to be mitigated by devaluation and/or a flexible exchange rate, together with selective import controls (Gould et al. 1981: 204–6; Mitchell 1981: 49). As Mitchell saw it, ‘the economy must be insulated in order to expand and in this respect the exchange rate is the key to both competitiveness and insulation’ (Mitchell 1989: 52). There was, admittedly, a recognition that devaluation had been tried before as a means of creating the economic space required to pursue an expansionary policy but, it was argued, only in extremis and never as part of a coherent strategy.

As for the danger of a capital flight precipitated by such expansionary policies and redistributive social democratic economic strategy, this was to be addressed by the restoration of exchange controls and inducements to pension funds, insurance companies and other institutions to repatriate a proportion of their overseas investments. In any case, sustained growth would attract inward investment; though this presupposed the presence of what the strategy proposed to deliver (Hattersley 1985a and 1985b).

Of course it was recognised by many that Britain’s membership of the EEC clearly constrained the capacity of any government to put in place the kind and level of economic insulation needed to permit a crisis-free expansionary strategy. And, as Hattersley himself opined, ‘no one believes that British withdrawal from the EEC will be a major feature of the next general election campaign’ (Hattersley 1983: 5). Indeed, by the late 1980s, there were few serious politicians who did not accept Britain’s membership as a fait accompli.

In addition, a number of other developments had by that date rendered defunct or inapplicable the insulatory expedients mooted by these liberal socialist revisionists. With respect to exchange controls, for example, in 1988, as part of the moves towards the Single European Market of 1992, all European countries agreed to remove them completely within two to four years and, of course, Britain had already removed its controls in 1979. In addition, and globally, ‘OECD countries agreed in May 1989 to extend the OECD Code of Liberalization of Capital Movements to cover all international capital movements’ (Helleiner 1994: 166). In consequence, exchange trading and international capital flows grew exponentially in the late 1980s and 1990s. The daily value of the former, which had stood at $150 billion in 1985, had risen by the late 1990s to $1.2 trillion; international bank lending grew from $265 billion to $4.2 trillion in the twenty years after 1975 and, in the same period, the value of foreign direct investment rose from $21.5 billion to $400 billion (Strange 1986; Helleiner 1994).
The Big Bang in October 1986, by opening up the London stock exchange to foreign securities firms, also made for a liberalisation of financial markets that militated against the idea of Keynesian demand management in one country. Finally, by the late 1980s, the world’s top 200 transnational corporations (TNCs) had an annual turnover equivalent to 30 per cent of the gross world product, while the late 1990s saw the emergence of the first corporations with trillion-dollar turnovers (Costello et al. 1990: 39). And this expansion in the power and resources of TNCs seemed increasingly to vindicate the AES critique of any social democratic strategy that failed to recognise and obviate their capacity to frustrate or circumvent macroeconomic management at a national level.

Many might have demurred at John Gray’s view that ‘it is no exaggeration to say that the global freedom of capital effectively demolishes the economic foundation of social democracy’ (Gray 1996: 26). But few would have disagreed that in the light of these developments the autonomy necessary to pursue a Keynesian social democratic strategy had been severely circumscribed. Leaving aside the haemorrhage of imports and capital that a radical social democratic strategy might precipitate, a redistributive policy that sought to effect an irreversible shift in economic and political power in favour of working people and their families, because of its fiscal implications, would almost certainly provoke the exit of investors intent on maximising their returns under fiscally more benign regimens (see e.g. Gill 1992: 172). John Smith, in a speech to the TUC Congress in September 1993, might still feel able to state that ‘the goal of full employment remains at the heart of Labour’s strategy’ but in retrospect this seems to have been little more than the death throes of an aspiration the realisation of which was no longer nationally realisable by Keynesian means (Anderson and Mann 1997: 88–90).

As to the problem of inflation, the Keynesian social democrats of the 1980s believed that consensus over the rate of wage and salary increases could be achieved and would dampen the expectation and thence the reality of such pressures. The notion of a statutory incomes policy was rejected but great faith was placed in non-statutory notions such as ‘income planning’, ‘a consensus on income and wage increases’ and a ‘social compact’ (Hattersley 1987: 241; Radice 1989: 117; Mitchell 1983: 102). Of course, it could be argued that with a profoundly weakened trade union movement such ideas were more obviously within the realm of practical policy than they had previously been, but this aspect of a rejuvenated Keynesian social democracy had about it the feel of a political economy that had had, if not its day in the sun, then at least its winter of discontent in the gloom of 1978/9. In particular, this continued willingness to truck and barter with the trade union movement was, and would remain, an electoral asset for
Social democracy in crisis

the Conservatives; one which they ruthlessly exploited, with few speeches on the subject failing to evoke images of unburied corpses and rubbish-strewn streets.

Taking this reformulation of a Keynesian social democratic political economy as a whole, therefore, it would seem that little, or at least too little, had changed; an impression strengthened by Labour’s electoral fortunes in the 1980s and early 1990s, which showed little sign of altering even after the principles and proposals of this reconfigured social democracy had begun to infuse Labour’s literature. But more than this, in terms of winning hearts and minds, there was, as we have seen, the major difficulty that Keynesianism in one country appeared to have been rendered otiose by developments at a European and a global level. Despite the best efforts of Mitchell, Hattersley, Radice, Gould and others, the political economy, and political performance, of British social democracy therefore remained in crisis throughout the 1980s and on into the next decade: a crisis of conviction as to whether its policy prescriptions were relevant, viable or coherent.

Yet there remained the possibility of multilateral or multinational social democracy. Thus as Michael Barrett Brown had come to see it, while in the past

the nation state and the power of national association, and particularly of organised labour, offered the only realisable countervailing power. Now . . . such national resources are no longer adequate. In the face of the concentrated power of the organisations of capital in the giant European corporations, nothing less will do but that European-wide structures – both political and economic – should be built and maintained and European-wide social policies should be conceived and fought for. (Brown 1991: 1)

In particular, European-wide or global structures were seen as permitting a multilateral, Keynesian-style pursuit of full employment that would avoid balance of payments and exchange rate pressures, while making available the financial resources necessary to counter the effects of capital flight, or even hinder its occurrence. So, for some, Keynesian social democrats should now ‘concentrate their hopes on the high road of macroeconomic coordination between the United States, Japan and Western Europe or on the low road of economic policy integration in the European Community’ (Scharpf 1991: 249).

Such a strategy was given some credibility and political impetus by the European Commission President, Jacques Delors, who declared that the EU would be ‘the theatre in which social democracy accomplishes its missions’ and who, in 1992, argued for an ambitious European programme of infrastructural investment both to enhance European competitiveness and to
reduce the level of European unemployment (Delors 1989: 31); a strategy which was articulated at some length in publications such as Coates and Barratt Brown’s *A European Recovery Programme* (1993) and Holland and Coates’s *Full Employment for Europe* (1995; see also Holland 1983). These ideas also found their way into Labour Party literature of the early 1990s in pamphlets such as *Labour’s Economic Approach*, 1993. Further, many of these writers looked to Europe to advance the redistributive ambitions of the welfare state on a supranational basis; ambitions which, in a national context, had been eroded by the public expenditure ‘crises’ of the 1970s and 1980s and the ideological assault of the New Right. And it was indeed the case that, in the early 1990s, the socialists formed the largest group in the European Parliament and interpreted the concept of ‘Social Europe’ in ways which highlighted its redistributive, egalitarian and socially cohesive potential.

A supranational welfare state was therefore seen by some in Britain as being able to advance the social welfare ambitions of social democrats while at the same time furnishing a basis for greater European social cohesion and solidarity in the face of trans-national capital. More specifically, in place of the existing competitive pursuit of TNC-related inward investment which, among other things, could threaten labour rights, the EU, by means of monitoring and enforcement, could ensure an acceptable standard of corporate practice, thereby preventing complicity in so-called ‘social dumping’ by investment-hungry nation states. In this regard, many on the left were to stress the potential of the Social Charter and then the Social Chapter of the Maastricht Treaty (see e.g. Hughes 1991: 4).

But there were, and are, fundamental problems with a political economy of multinational social democracy. First, the kind of macroeconomic leverage that could be exerted within and by the EU to achieve broad strategic objectives was severely constrained by the funds available for deployment at a European level. As late as 1997, EU expenditure accounted for only 3 per cent of the total public expenditure of its member states, while throughout the 1990s the EU budget remained less than 1 per cent of their GDP (Delors 1993: 46; MacKay 1995: 170). Moreover, commentators identified formidable coordination problems as well as difficulties surrounding the abandonment of, or reduction in, control over key economic policy instruments conventionally seen as integral to national sovereignty. In fact, the Delors plan ran into the sands after 1993, spelling an end to any possibility of a Euro-Keynesian expansionary strategy. And, certainly, there was not even a whiff of Euro-Keynesianism in *New Labour: New Life for Britain*, the Labour Party’s draft manifesto published in 1996. Greater European labour market flexibility not demand-led expansion was what New Labour now saw as creating jobs.
Second, this deficiency of resources, and consequent absence of significant leverage, was indicative of a more general obstacle in the way of a radical social expenditure strategy. For while member states were prepared to concede autonomy, sometimes considerable autonomy, in matters relating to monetary and exchange rate policy, this did not extend to those areas of policy which necessitated significant public expenditure, for this would entail the loss of control over some considerable part of the nation’s finances. For that reason alone, the formulation of a comprehensive European social welfare policy was unlikely to occur.

Third, the social dimension of the EU was always likely to be an ideological battleground: something militating strongly against concerted action. And, in any case, even assuming a sustained ascendency of the social democratic left, there was an absence of democratically accountable institutions, parties and individuals, subject to a popular mandate, by means of which a popularly driven European economic and social strategy might be pursued (on this point, see Chapter 9 in this book). Further, even assuming away these difficulties, there was still the problem that any harmonisation upwards of social welfare provision and workers’ rights was seen as likely to create major competitive difficulties for those nations at a lower level of economic development.

Finally, with respect to monetary management, some social democratic writers fantasised about a European Central Bank, operating under guidelines established by the European Parliament and pursuing an employment-generating expansionary policy. But a Bundesbank-style independence was the modus operandi of choice at Maastricht, with little scope envisaged for democratic control, even if the requisite European institutions had been available. And, as for the Labour Party, it was of course to embrace and to realise the principle of central bank independence at a national level shortly after coming to power in 1997.

The actual experience of the 1990s confirmed the magnitude of these obstacles in the way of social democratic progress at a European level. So while ‘the programme to create a single market has surged ahead on the basis of concrete EC law . . . the proposals to build a Social Europe have dragged behind and encountered the utmost difficulty in being translated into European action’ (Wise and Gibb 1995: 257). As one commentator put it in 1996, ‘today, the battle on the political economy of European Union is over . . . Thatcher won and Delors lost, and . . . this is very likely to be irreversible’ (Streeck 1996: 302).

The contemporary crisis surrounding the political economy of social democracy is therefore profound. In the 1950s and early 1960s some such as Crossman, Bevan, the Socialist Union, and the New Left might talk the language of crisis and wonder how to take forward the Fabian project of
the Attlee years, but there was then, in Keynesian social democracy, a dominant paradigm that had established the parameters of political debate and policy-making. By the 1990s, however, there was no such political economy. Indeed, there was compelling evidence that the alternative political economies available to the post-war left had been tried and found wanting, or simply inapplicable, to the economic circumstances of fin de siècle capitalism. Either, like the AES, they sought to accommodate contemporary developments in a manner that was neither economically feasible nor electorally viable or, as with the reconfigured Keynesian social democracy of the 1980s, they presupposed a national economic autonomy that failed to appreciate the magnitude of qualitative and quantitative changes in the global economy. As to the multilateral socialism which did show that appreciation, this was predicated upon such a fundamental change in institutions and mindsets as to render it otiose from the outset; something which even its devotees rapidly came to understand.

Global economic developments aside, there was also the major alteration in the political landscape that had occurred in the 1980s and which influenced the terrain upon which elections might be fought and won. The privatisation of national assets; the attack on, and erosion of, the notion of a public service ethos; the celebration of possessive individualism; the fostering of a culture of contentment; all left their imprint on popular consciousness, or strengthened already existing characteristics and trends in ways that constrained the kind of political economy which, consonant with its electoral ambitions, the Labour Party could embrace. Certainly, this is one likely reason why in the run-up to 1997 the radical, social democratic ‘stakeholderism’ of Hutton and Kay was first diluted and then jettisoned altogether (Thompson 2003).

In this context, British social democracy found itself between Scylla and Charybdis. If it failed to meet the challenge of the New Right on the terrain of freedom, choice, consumer sovereignty, property-owning democracy, and the marketisation of public provision, it was likely to lose electoral ground. In so far as it sought to accommodate these ideals it risked diluting some of its fundamental principles. The AES adopted the former stance which proved electorally disastrous. New Labour adopted the latter and thereby locked itself into a political economy which many social democrats regarded as neo-or, at best, post-Thatcherite. Electoral suicide or ideological death: these were the alternatives on offer.

Of course for some the evolving political economy of the third way has provided a modernised social democracy; or, at least, the basis for one. It can be argued too that it has opened up actual and potential avenues of social democratic advance, even if it does not provide the overarching theoretical framework and meta-narrative furnished by Fabianism or Keynesian social
Social democracy in crisis

democracy. This political economy may not entirely resolve the ideological crisis of contemporary social democracy but it may be seen as providing the lineaments of such a resolution. It is beyond the remit of this contribution to discuss such contentions, which are examined in detail elsewhere in this book (see, for example, Chapters 4, 6 and 7). It is clear, though, that many of the following chapters, like the conferences which inspired them, are predicated on a faith that there still exists the ideological space in which to rethink the social democratic project. Faced with this belief it would, at this early stage of the book, be churlish to demur.

Notes

1 For a discussion of Crosland’s social democratic ideas and their relevance to contemporary politics that contrasts with that offered in this chapter, see Chapter 11 in this book.

2 On this aspect of the Alternative Economic Strategy, see Thompson 2006: 203–4. For a fuller account of the political economy of the Alternative Economic Strategy than can be provided here, see Thompson 2002: 29–69 and, for a detailed account of the politics surrounding it, Wickham-Jones 1996.

3 For a more extended discussion of the Virginia School critique of public bureaucracy and its implications for the idea of a public service ethos, see Thompson 2008.

4 For further discussion of how the philosophy of marketisation impacted on thinking about public service provision in the 1980s and 1990s, see Chapter 8 in this book and Thompson 2007.

References


Social democracy in crisis