Is Social Democracy Dead?: The Crisis of Capitalism in Europe

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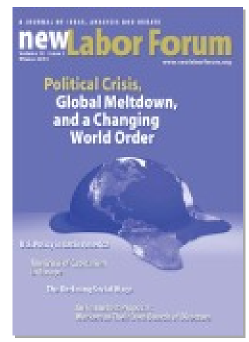

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IS SOCIAL DEMOCRACY DEAD?

The Crisis of Capitalism in Europe

At the end of the twentieth century, neither historical accident nor social purpose seemed capable of halting the ascent of a new capitalism. What was new about it was the supreme self-confidence of its apologists, the ruthless certainty of its agents, the global reach of its operations, and the now passive—only sporadically agitated—character of the resistance to it. True, there were the demonstrations in Seattle and Genoa, and at the World Social Forum in Porto Alegre. There were even (very occasional) discreet invitations extended to (selected) adversaries of the new leviathan to cross the police lines guarding the participants at the Davos Economic Forum's services of worship to explain their market-critical impieties. Pope John Paul II's reminders of the Christian character of institutions of solidarity were ignored by many in his own flock, and treated by others as a public exercise in sentimentalism which cost nothing and made some feel better.

Then came the global economic crisis of 2008. The contagion spread across time zones, as the availability of credit shrank—and then disappeared—within and between nations and continents.

In Europe, Iceland and Latvia were effectively bankrupt and had to be rescued by the International Monetary Fund, which imposed austerity measures otherwise applied only south of the Sahara. Ireland avoided the same fate only by imposing austerity upon itself, erasing two decades of gains in the standard of living.

In the United Kingdom, the government spent huge sums to save the threatened banking system. The European Central Bank, despite its inflationary obsessions and monetarist theology, suddenly lowered interest rates and printed money for immediate distribution throughout the Eurozone (especially in Eastern Europe). The government of Europe's largest economy, Germany, after insisting on the soundness of the German banks, rushed to rescue some of the nation's major ones. The president of

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France rejected the usual admonitions about budgetary deficits or state intervention from the European Commission in Brussels—he would do what was necessary to restart the national economy. He noted that the epoch of Anglo-Saxon-type capitalism was over, even if he had previously proclaimed his intention to make French capitalism less French, that is, to reduce the omnipresence of the French state in the economy.

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The public initially responded to the financial crisis with numbed shock. The European citizenry's confidence in government, and especially in government's capacity to master economic problems, has been declining (witness reduced voting rates in elections across the Continent in the recent past). Still, the solidity of banks and the reliability of public pension systems were not in doubt. Now average Europeans were told that they had reason to fear the worst.

Additionally, the crisis affected regional and local governments' funding, and threatened the continuity of the many public services they provided. In the private sector, firings, layoffs, and shortened work weeks (with the threat of even more scale-backs to come) intensified a general sense of apprehension. The reassurances proffered by governments, and the televised spectacles of European and world leaders rushing to meetings to issue stereotypical statements, evoked even more anxiety. The shock did not generate a European wave of protest, much less widespread social turmoil. The European Left could not organize protest, since it was divided, disoriented, and ideologically disarmed.

THE DECLINE OF THE POSTWAR SOCIAL CONTRACT

The postwar European social contract integrated large segments of the labor force and its employers in publicly organized processes of redistribution, and defined citizenship itself in terms of decent minima of economic equality in a regulated market. Since the nineties, however, the European Socialist and Social Democratic parties have compromised with their earlier compromise with capital. Smaller groupings to their left—the post-Communist parties agonizing about the collapse of the state socialist model, as well as other rhetorically revolutionary conventicles of the obdurate—had brief moments of electoral prosperity but little staying power. Demanding a reorganization of society to save the Earth and its inhabitants, the environmental movement has neither revived socialism nor radically revised it in ecological terms, even if it has had great influence on the larger parties. If any group has been on the front line, it has been

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the European trade union movement, itself reduced in numbers.

European Socialism has been routinized by its own successes. Much of modern European conservatism—the Social Christian parties especially—mimicked social democracy insofar as it rejected the absolute sovereignty of the market. Germany's Christian Democrat Angela Merkel and France's secular republican Nicolas Sarkozy prefer cross-class coalitions to market dogma. Meanwhile, Christian sensibilities marked the Socialist and Social Democratic parties as well. The British Labour Party had strong Methodist and Anglican roots, and the Italian Communist Party—before it dissolved itself into what is now the Democratic Party—had close ties to Italian Catholicism. Socialist president of the European Commission Jacques Delors, and his later Christian Democratic successor Romano Prodi were both adherents of Catholic social doctrine. Each acted as if the welfare state were here to stay—no matter which political groupings formed official governments.

The new Lisbon Treaty does not strengthen the European welfare state.

However, even before the current crisis, the European social model was being undermined by two processes which put the European Left on the defensive. One was the challenge to European economic stability (the capacity to sell in domestic and foreign markets and to maintain employment and living standards) presented by the rise of Asian industry. The integration of what had been Communist Eastern Europe into the European Union (EU) made it possible for Western European capital to exploit a cheaper labor force in Eastern Europe and reduce the bargaining powers of Western European labor.

The second process was an ideological and institutional counter-attack by capital, arguing that Western Europe could no longer afford its late twentieth century social model. The European Commission used its powers to impose budgetary limitations—as well as deregulation and privatization of the public economic sector—upon the nations with the most developed welfare states. The Western European parties (like the German Social Democrats) most enthusiastic about the European Union (as a way to defend their own welfare states by extending them across borders) have become victims of both the enlargement of the EU and its democratic and social deficits. The European Parliament, whose members are directly elected but within the context of invariantly low electoral participation, has insufficient power to stop the technocrats at the European Commission from a systematic attack on the national welfare states. The new European Union Treaty of Lisbon does not strengthen in any major way the European welfare state. The European Commission retains its power to interfere with economic and social policy in the separate member nations. (The Commission is trying to stop the German government from keeping the Opel automobile firm operating since, the Commission alleges, the government is disregarding open competition. That tens of thousands of jobs are at stake bothers the Commission not at all.)

What explains the paradox of a European public committed to welfare states within their own countries and subjected to a European Union working in the opposite direction? European coalitions of capital have been more effective, politically, than their socialist and trade union counterparts. At important turning points, the European socialists lacked the resolve, political imagination, and ideas to oppose finance and industry in the EU's capital city of Brussels. Their adversaries ostensibly accepted class compromise in the separate states, while systematically undermining it on a larger European scale.

The Brussels bureaucracy performed lamentably in the global economic crisis. More precisely, it left matters to the national governments it was supposed to complement and even, in major matters, supplant. The principal institutional contribution of the EU in the crisis has come from the European Central Bank. Its president, Jean-Claude Trichet, insists that its primary objective is monetary stability—and that full employment and a socially purposeful direction of the economy are not its business. In extremis, Trichet joined Bernanke of the Federal Reserve and the world's other central bankers in reducing interest rates and printing money in order to address the credit crisis of 2008-2009.

Most of the other significant steps to confront the crisis, however, were taken by the separate European governments—acting from within their own economies or occasionally via direct coordination with members of the G-8 or G-20 groups. These steps included broad programs of direct grants or loans to banks, as well as scattered and unsystematic measures to assist firms threatened with bankruptcy (such as occasional partial wage subsidies and emergency programs to extend unemployment assistance). Much was done as a response to immediate situations, with little or nothing by way of a new interventionist or regulatory regime. No large programs of public investment were advanced or adopted. In Germany, the Social Democrats (who have now been voted out of office) held the Ministries of Finance and Labor in a coalition government. The Social Democratic finance minister was more vocal about public indebtedness than unemployment. The Christian Democrats managed to present themselves as custodians of the German social model.

WHAT IS LEFT OF THE LEFT?

It cannot be said that the Social Democratic and Socialist parties fled their responsibilities. They defined these duties in conventional, market consonant terms. Much of the programmatic demand for permanent nationalization of at least part of the financial sector, to be accompanied by rigorous re-regulation, came from the parties to the left of the major formations, the Green movements, and the unions. These groups mobilized the academic expertise and moral support of the diminishing segment of the European intelligentsia (which has remained critical of capitalism) on grounds of efficiency and ethics. They placed before the public the idea of a large response to the crisis, not a restoration of the previous situation but a new relationship of public and private, state and market. They were joined, in the main, by Social Democratic and Socialist leaders and thinkers—who were often young people, rather than senior leaders of the parties—who favored alternative projects. These projects included extensive renewals of infrastructure in environmentally positive ways and the reconstitution of equality of access to education (in a climate in which the constraints of class, in several nations, negated the democratizing mission of schools and universities).

A contrast between the British Labour Party and the center-right party of French president Sarkozy illustrates what has been happening. British prime minister Gordon Brown was long thought of as the keeper of the party's socialist conscience—especially when he, as chancellor of the exchequer (treasury secretary in our terms), opposed former British prime minister Tony Blair on matters of public expenditure.

In fact, before he became prime minister, Brown did very little to reorient Britain's economy away from its dependency on the financial industry in London. When the economic crisis broke, Brown conspicuously rushed to reinforce the banks and vociferously demanded coordinated international action to rescue the financial industry worldwide—these actions were hardly calculated to displease the City of London, since much of its operations were international. Now that the British state is heavily indebted on account of these expenditures, Brown—who faces a serious electoral challenge from the Tories—will limp into next spring's general election with no credible project for extending, or even reforming, the welfare state. All he can promise is his judiciousness in reducing public expenditures. Labour's warnings about Tory intentions are no doubt well-founded—but since the Labour party, in power since 1997, has mostly been at pains to depict itself as rejecting an egalitarian or redistributionist agenda, it is unclear what program of its own it can offer.

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Nicolas Sarkozy was elected president of France in the Gaullist tradition. Despite an emphasis on France's independence in matters European and international, Gaullism is a modernized version of the older French tradition of Bonapartism. It involves both a strong central state with a redistributive role intended to reinforce national solidarity, and an entrepreneurial one intended to set standards of national efficiency. Sarkozy met the economic crisis with a series of strident denunciations of the sovereignty of the market and now proposes to revise international standards of economic measurement. He suggests that national income statistics should specifically measure health and longevity, and should attempt to quantify quality of life measurements. Truer assessments of real income, he declared with much plausibility, would show that France was far closer to the U.S. in national income per capita than as shown in the nominal indices now in use. Our own Joseph Stiglitz and the critical French economist Jean-Paul Fitoussi were among his advisors. Meanwhile, Sarkozy has insisted that France will not be bound by the attachment of the European Commission to deregulation and privatization. A half-century ago, the British Labour Party argued that the UK should not join the EU's predecessor, the European Common Market, since Britain's socialist project would be blocked by the united forces of Continental capitalism. In the current crisis, however, a French president of the center-right is more willing to reconfigure capitalism than a British Labour prime minister deferring to the City of London.

The official German response fell somewhere in between. At first, it amounted to a denial. The minister of finance (the technocratic Social Democrat Peer Steinbrueck) and the chancellor (the ideologically evasive Christian Democrat Angela Merkel) suggested that the crisis was due to American economic indiscipline. As it became clear that German banks were as undisciplined and irresponsible as American ones, and as the credit crisis had immediate effects on an economy heavily dependent upon exports, the government (amidst very audible internal disagreements) lent money to the banks. Amidst even louder disagreements, it provided wage subsidies to enable stricken firms to keep their workers on payroll—if only on a part-time basis.

The German situation was complicated by the imminence of the September 2009 national elections. The Social Democratic candidate for chancellor, Foreign Minister Frank-Walter Steinmeier, depicted Chancellor Merkel as devoid of conviction. He sought to mobilize those who had deserted the party (either in favor of electoral passivity or to vote for the Left Party) by warning of the consequences of a coalition between the Christian Democratic Union—and its Bavarian sister party, the Christian Social Union—and the only German party unambivalently espousing market capitalism, the Free Democrats. The warnings did not work, and the Social Democrats dropped from 35 percent of the vote to an historic low of 23 percent. Regular Social Democratic voters either abstained (the 70 percent participation rate was also a new low for postwar Germany) or voted for the Left Party, which gained votes, especially in the western part of the nation. The Left is a hybrid party. In the eastern part of the country, it comprises the heirs of the party that ran the Communist state. In the western part of the country, it attracts those disillusioned with the Social Democrats' program of economic rationalization, which involved the downsizing of the welfare state during Gerhard Schroeder's chancellorship (from 1998 to 2005).

The German trade union federation conspicuously refrained from endorsing the Social Democrats, a break with tradition explained by its leadership as due to the ideological diversity of its membership. As chancellor, Schroeder headed a coalition with the Green Party, which drew 11 percent of the vote in the most recent national election (amounting to about as many votes as for the Left). The German "Greens" are floating in socioeconomic space, and it is difficult to see how they can make good on their commitment to social renewal. Even if these parties had overcome severe antagonisms and real differences to form a bloc, they would not have had a parliamentary majority.

In terms of industrial policy, taxation, and social expenditures, the economic crisis has brought to the surface the contradictions within and between the Christian-denominated parties. These parties have electoral clienteles, in small and large firms, but they also (particularly in Bavaria) have corporatist traditions which cede a large economic role to government. Chancellor Merkel, in coalition negotiations with the Free Democrats, has already made it clear that she will play the role of a defender of the welfare state against her coalition partners. How much authenticity she can claim is questionable—but she has already managed, in the most recent election, to temporarily reconcile opposing perspectives. Whether she can do so for the next four years is very doubtful, but some large part of the electoral decline of the German Social Democrats has to be attributed to the Christian parties' success in portraying themselves as the effective managers of the welfare state.

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Much like the French government, the German government has criticized the European Commission for its relative passivity throughout the crisis. Similar critiques have also been voiced by the Green, Left, and Socialist parties in the European Parliament. Having lost seats in the 2009 European elections, these parties were unable to prevent the re-election of Commission President Manuel Barroso, who is very attached to the global leadership of the U.S. and free market ideology. That the European Left, in elections held amidst a global economic crisis, did poorly is evidence of a deep programmatic crisis. Singly or united, the European Left parties haven't presented a convincing plan of action.

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As in the United States, members of the media, the various political parties, and the general public in Europe have expended disproportionate amounts of energy on deploring executive salaries in the private sector. In the United States, such a discussion is an ephemeral substitute for a more systematic analysis of class relations which is missing from our public sphere. In Europe, churches, political parties, unions, and an appreciable segment of the intelligentsia have been discussing alternatives to capitalism ever since the Industrial Revolution. Nonetheless, much of the current European public discussion has also been an exercise in trivialization.

A decidedly non-trivial contribution to the discussion was a document submitted to the September 2009 Pittsburgh G-20 summit meeting by the global trade union alliance (with the help of the European Trade Union Confederation).[1] This document took full account of the internationalization of the economy, outlined specific steps for the reform of international economic institutions, and severely criticized the complacency of governments and their propagandistic certainties about recovery. Indeed, it depicted the notion of recovery as illusory in view of the foreseeable increase in unemployment and decline in the standard of living (in nations rich and poor). The document also portrayed the idea of recovery as a transparent device to avoid a serious political discussion about the causes of the crisis. More, and not less, economic stimulus is required, argued the unions, as is a more long-term planning strategy for investment in human and social capital.

What is most compelling about the document is its joining of developmental and environmental themes with measures for increasing economic equality and political participation within the industrial democracies. Whether this will be largely limited to the intellectual vanguard of the trade union movement, while ordinary union members and their families and neighbors drift into political obscurity, is a question that only a series of elections in the coming years can answer. In any event, the document does suggest that some members of the left are intellectually equipped to face the challenges of the epoch.

Certainly, the number of popular protests in the streets, strikes, and workplace seizures—measured against the anxiety induced by the crisis and the prevailing levels of unemployment (averaging 10 percent in the European Union states)—was strikingly limited. In France there were some ritualized gestures (i.e., holding managers of firms hostage overnight); but for a nation in which demonstrations are an art form, both organized and spontaneous activities were sparse.[2]

The same was true across Europe. A benign explanation is that, for many, the welfare state was still effective (as demonstrated by high and continuous unemployment payments, the continuation of health insurance, and so on). A less sanguine view is that, especially given the disappointment and disorientation induced by the failures of the entire spectrum of parties on the left, a considerable amount of frustration and anger is temporarily being restrained.[3] Right-wing xenophobia is frequently combined with hostility to capitalist elites. Modern European history is replete with social fascism. Should democratic Socialism, and its Social Christian equivalent, fail to restore and improve the economy, it would be unwise to suppose that European society will simply lapse into resigned quiescence.[4]

Notes

1. The trade union documents can be found at: "Trade Unions' Statement to the Pittsburgh G20 Summit: Global Unions' Pittsburgh Declaration, 24-25 September 2009," http://www.tuac.org/en/public/e-docs/00/00/05/57/document_doc.phtml; see also Andrew Watt, "European Economic and Employment Policy: The Economic and Financial Crisis in Europe: Addressing the Causes and Repercussions," policy brief (Brussels: European Trade Union Institute, March 2008).

2. Very good reportage of the local incidence of the crisis can be found in a blog posting on the *Le Monde* website, "Engrenages—Les Français Face à la Crise," October 10, 2009, www.lemonde.fr. For continuing analysis of the European Left, see Werner Perger, *Discomfort, and Some Hope* (London: Policy Network, September 2008), available at http://www.policy-network.net/index.aspx?id=2618.

3. See Robert Taylor, "Europe's Left and the Employment Crisis," *Dissent*, Winter 2010; and Matt Browne, John Halpin, and Ruy Teixeira, "Beyond the Third Way," *Social Europe*, August 2009.

4. See Norman Birnbaum, *After Progress: American Social Reform and European Socialism in the Twentieth Century* (New York: Oxford University Press, 2001); and Vivien Schmidt, *Democracy in Europe: The EU and National Politics* (New York: Oxford University Press, 2006).