

**Hard Choices, Mixed Incentives:
Globalization, Structural Reform, and the Double Dilemma of European Socialist
Parties**

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Abstract

This article assesses the double strategic dilemma facing the social democratic parties of the recent period. First, it examines the economic policy options available to social democratic parties under globalization and argues that rather than facing a stark choice between neo-liberal reform and policy stagnation, the West European left can find ways of making market-friendly ‘structural reforms’ compatible with traditional left values of redistribution and state intervention. Second, it seeks to understand why social democratic parties have so much trouble finding this virtuous combination of liberalizing reform and social solidarity. It explains the responses of different social democratic parties to the tensions between globalization and traditional left policies in terms of how longstanding political cleavages structure their electoral incentives. It is argued that the appeal to the external constraint of globalization as a rationale for neoliberal policies – the so-called ‘third way’ - serves the electoral interests of some of the parties of the left in Western Europe, but creates acute electoral difficulties for others. As a result, social democratic parties in West European countries with a strong Catholic tradition have less incentive to opt for structural reforms. At the other end of the scale, the UK Labour party has an incentive to push for further liberalization, even when there is probably little justification for it. By bringing the study of party politics more fully into the study of comparative political economy, this article identifies the often conflicting incentives facing social democratic parties in the electoral and policy spheres, allowing for a better understanding of the difficulties facing the centre-left in contemporary capitalism.

Introduction

In the second half of the 1990s, parties of the center-left briefly dominated West European politics, with Socialist, Labour or Social Democratic (SD) parties in power in almost all the EU member states. But this electoral dominance was shortlived, and two of these left governments (France's *gauche plurielle* or Italy's *Ulivo* coalition) suffered resounding defeats after just one term in office. Of those that won reelection, some, such as the UK Labour party and the German Social Democrats, have been subject to fierce criticism from within their own ranks for their perceived compromises with the neo-liberal, pro-market orthodoxy.

Much criticism has focused on the apparent reluctance of the European centre-left to challenge the mainstream view that globalization has made distinctive social democratic strategies impossible. Indeed, the most visible result of this period of SD dominance was the 2000 Lisbon summit, which exhorted EU governments to embrace neoliberal structural reform rather than continue with traditional SD goals such as income redistribution, public provision of important services or employment rights. The Lisbon summit appeared to confirm the most pessimistic arguments about how globalization has made SD policies unworkable.

This article seeks to assess the prospects for West European SD parties following distinctive, progressive programmes in the current, apparently inhospitable, political climate. It moves beyond the kinds of crude accounts of globalization and social democracy which have driven much of the public debate, drawing on the insights of two distinct fields of research: comparative party politics and comparative institutionalist political economy. These two fields provide accounts of both the electoral opportunity structures facing SD parties, and the institutional legacies and global economic constraints

facing these parties when they govern. However, the close connections between the two have not been fully drawn out by the existing scholarship on social democracy. As Peter Hall has argued, political economists tend to interpret policy change in terms of broad dynamics of social coalition-building, without looking too hard at how electoral coalitions are filtered through the institutions of representative democracy¹. Research into party politics, on the other hand, studies coalition-building and the electoral process in all its complexity, but pays little attention to the policy process. This article seeks to exploit the potential of bringing these two literatures together.

I will therefore make two inter-related arguments. First, I argue that the debate between proponents of neo-liberal ‘structural reform’ and an essentially conservative defence of existing West European models of welfare capitalism is misleading and unhelpful to SD parties. In fact, structural reforms *can* be combined with social democratic welfare institutions, as the example of the Scandinavian countries demonstrates. Second, I show that the difficulties SD parties face in achieving a virtuous combination of structural reform and welfare provision lie not only in the institutional legacies of their welfare states, but also in long-standing patterns of party competition that provide incentives for SD parties to adopt particular political discourses². This article examines the electoral strategies of SD parties in the five largest West European democracies, and finds that discursive traditions and electoral incentives deriving from historical cleavage structures can explain differing responses to the economic and social challenges of globalization and technological change. The SD parties of the largest West European states face a double dilemma, since their electoral incentives often do not square with the opportunities for progressive policy change in their political economies.

Globalization and Policy Change

No Alternative, or Still No Convergence?

Recent work in comparative political economy has brought a much needed correction to some of the more sweeping claims about globalization that characterized the debate in the early to mid-1990s. Many early contributions to this debate predicted dire consequences for the autonomy of the nation-state as the internationalization of capital flows and the dismantling of trade barriers unleashed a ‘race to the bottom’ among Europe’s complacent and inflexible welfare states³. Social democratic policies such as welfare entitlements, publically funded services, and employment protection legislation would have to be rolled back if Western Europe was to ‘compete’ in the new global economy⁴. Such claims have been revealed to be overblown however, and careful analyses of the realities of policy change under globalization depict a variety of responses dictated, in large part, by the different institutional arrangements governing politics and the economy in the advanced democracies⁵.

Contrary to the convergence hypothesis, the institutional constraints on welfare retrenchment appear decisive in determining the extent to which governments respond to globalization by cutting back social protection⁶. Countries with majoritarian electoral systems, decentralized wage bargaining, federal arrangements and limited welfare states have tended to reduce social provision, while those with inclusive electoral institutions, centralized wage bargaining, unitary structures and more encompassing welfare institutions have tended not to⁷. In other words, the countries that have cut back social protection in recent years have for the most part been those that had less generous welfare arrangements in the first place.

Similarly, extensive research on wage bargaining has demonstrated that both decentralized and centralized labour market institutions can contribute to economic efficiency, although ‘intermediate’ models are likely to be penalized by globalization⁸. Other research stresses the complex interactions between institutions, interests and exogenous constraints, concluding that institutional divergence has actually increased in recent decades, in spite of, and in some ways because of, globalizing pressures⁹. Finally, it has also been persuasively argued that many of the imperatives attributed to globalization are actually the result of other pressures, such as demographic and technological changes, and the shift in advanced democracies from a manufacturing-oriented economy to a services-oriented economy¹⁰.

Varieties of (Non-Convergent) Capitalism?

Much of this work implicitly or explicitly draws on longstanding models or types of advanced welfare capitalism in order to make sense of the variety of responses to globalization. Most prominently, Hall and Soskice and their collaborators see these responses reflecting two broad types of institutional arrangements in advanced industrialized capitalism: liberal market economies (LMEs) and coordinated market economies (CMEs)¹¹. In LMEs markets and the price mechanism regulate most economic activity, whereas in CMEs markets coexist with various kinds of coordination and cooperation between economic actors. The crux of the ‘varieties of capitalism’ argument is that neither model is inherently more economically efficient, and both can harness their respective institutional comparative advantages to good effect in the unforgiving global economy. However, Hall and Soskice note that the coordinated market economy, with strong labour market institutions and generally more generous social provision, is clearly less socially divisive than the liberal market model.

This school of thought therefore has emerged as a powerful counter to the convergence theorists' insistence that only 'structural reform' - liberalization and welfare retrenchment - will allow advanced industrial democracies to adapt successfully to globalization¹². These critiques of the 'globalization as convergence' thesis seem to offer some reassurance and encouragement for the disoriented left parties of Western Europe. However, SD parties remain on the defensive, advocating liberalizing measures at the European level, whilst struggling to protect existing welfare arrangements in the domestic arena. Why then has the evidence against the neo-liberal interpretation of globalization failed to provide left parties with the confidence to defend social democratic values?

Part of the reason is the poor economic performance of the largest CMEs - Germany, France and Italy - over the past decade. These countries' slow growth contrasts with the relatively stronger growth of Western Europe's LMEs.¹³ Given this, international economic institutions and the financial press frequently draw on comparisons of ideal-typical LMEs (the US and UK) and CMEs (usually Germany) to argue the case for the increased marketization of economic and social life. This places their left parties in a particularly difficult position, as structural reform runs contrary to their ideological traditions, and threatens the interests of part of the left electorate.

This structural reform discourse, however, rests on a potentially misleading dichotomization of economic models. Although there is relatively little controversy over membership of the market-friendly group of English-speaking democracies, the 'social Europe' alternative is more diverse. In much of the policy debate, the non-English speaking advanced industrial countries tend to be lumped together as market-averse welfare states, with sluggish growth and high unemployment brought about by well-meaning but wrongheaded systems of social protection. Sweden's generous social benefits, Italy's state pension liabilities, Germany's restricted shopping hours, and

France's insistence on 'national champions' are mixed together in the same Eurosclerotic bag. This 'continental corporatist' model is then contrasted with the 'Anglo-American' market-based model: a 'capitalist culture-clash' in which the latter is usually tipped as the winner.¹⁴

Much of the debate surrounding globalization and social democracy has revolved around this choice, with proponents of structural reform arguing that the European social model is unsustainable, and those on the left often denying the need for any fundamental reform. Given continental Europe's recent poor economic record, framing the debate in such terms places the left in an unpromising position. However, the following section demonstrates that the choice is far less stark – and the political dilemma of the left therefore less intractable - than the rhetoric might suggest.

Variation Within the Varieties of Capitalism: LMEs, CMEs and Structural Reform

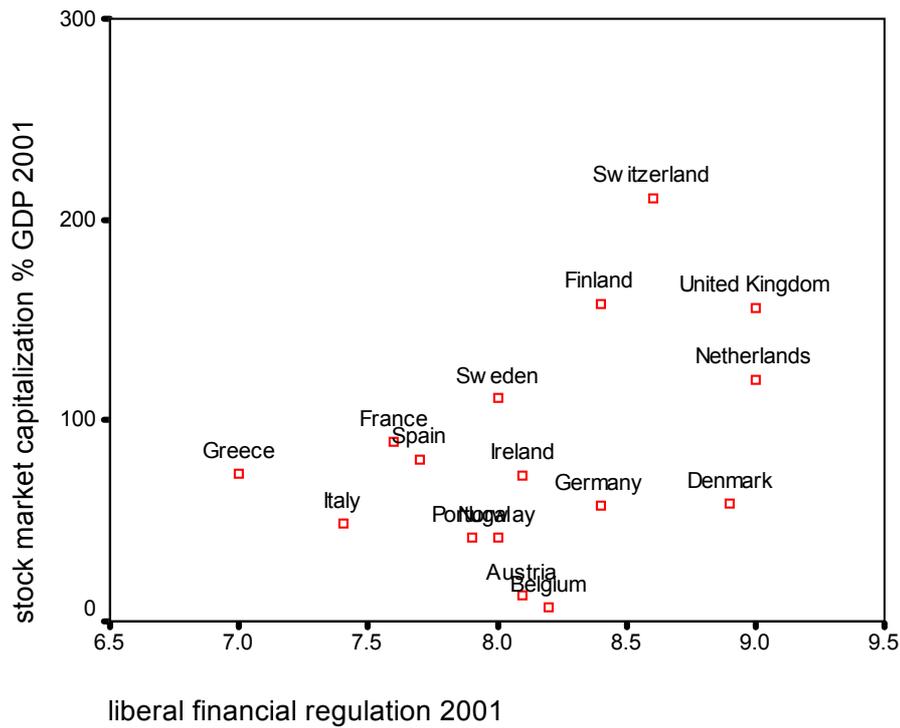
The distinction made by the 'varieties of capitalism' school between liberal market capitalism and coordinated market capitalism lumps together political economies that other typologies have perhaps more usefully separated out. For instance the CME group contains countries that Esping-Andersen divided into social democratic and conservative/Christian democratic welfare state types, whilst more recently Schmidt has revived a further distinction, between 'statist' and 'managed' CMEs¹⁵. Of course, any comparative effort will tend to elide some differences whilst emphasizing others, and the LME/CME dichotomy does indeed capture important features of the economic dilemmas facing advanced industrial democracies¹⁶. However there are patterns of differentiation

within the CME group which have important implications for the strategic opportunities facing the West European left and the policy choices that they can make.

The importance of disaggregating CMEs can be illustrated by drawing on Geoffrey Garrett's analysis of globalization and European political economies. For Garrett, globalization reinforces divergence since it benefits both economies with decentralized wage bargaining and those with highly centralized wage bargaining. Under globalization, states with 'intermediate' labour market institutions will face most pressure to converge around one of these two types. Thus, according to Garrett, CMEs face two diametrically opposed fates: the Scandinavian social democracies are well equipped to prosper in the global economy without having to sacrifice their generous welfare arrangements, while the continental 'Christian democratic' welfare states (such as France, Germany and Italy) face a more unpalatable set of choices¹⁷. By distinguishing between 'social democratic' and 'Christian democratic' CMEs, Garrett is able to present a powerful argument for the sustainability of welfare capitalism.

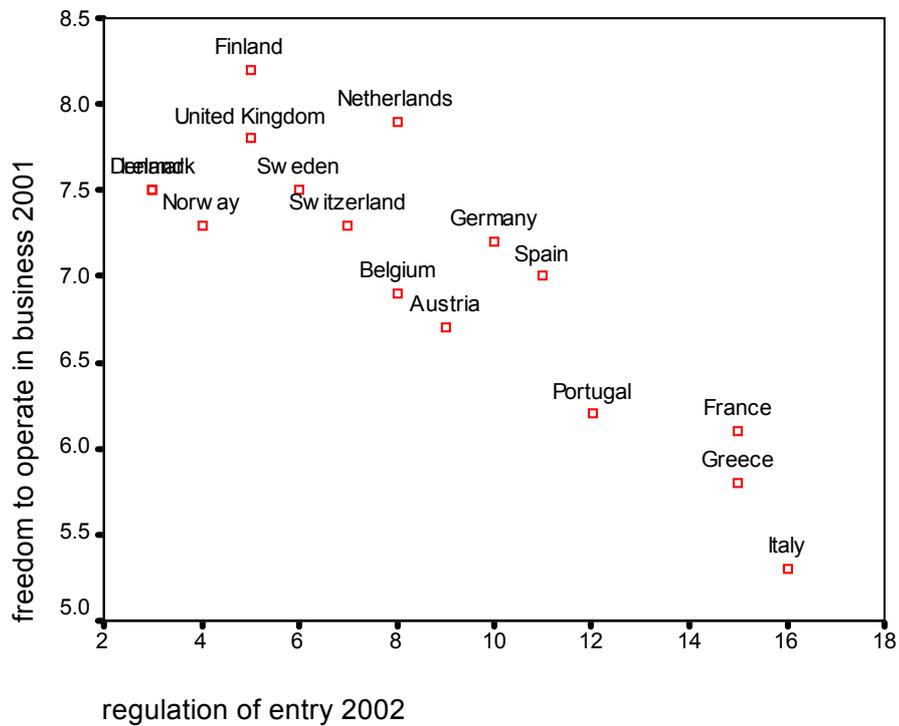
This line of argument can be taken further. In fact, in some of the policy areas where the pressure for structural reform is greatest, the CME-LME distinction all but disappears. Analysis of financial markets, business conditions and labour markets shows just about as much variation within the CME group as within the full range of Western European states. For example, as Figure One below shows, standard measures of financial market liberalization group some of the highest spending welfare states (the Northern European social democracies) close to the finance-friendly UK, whilst the conservative/Christian democratic welfare states tend to cluster towards the bottom of the scale.

Figure One¹⁸



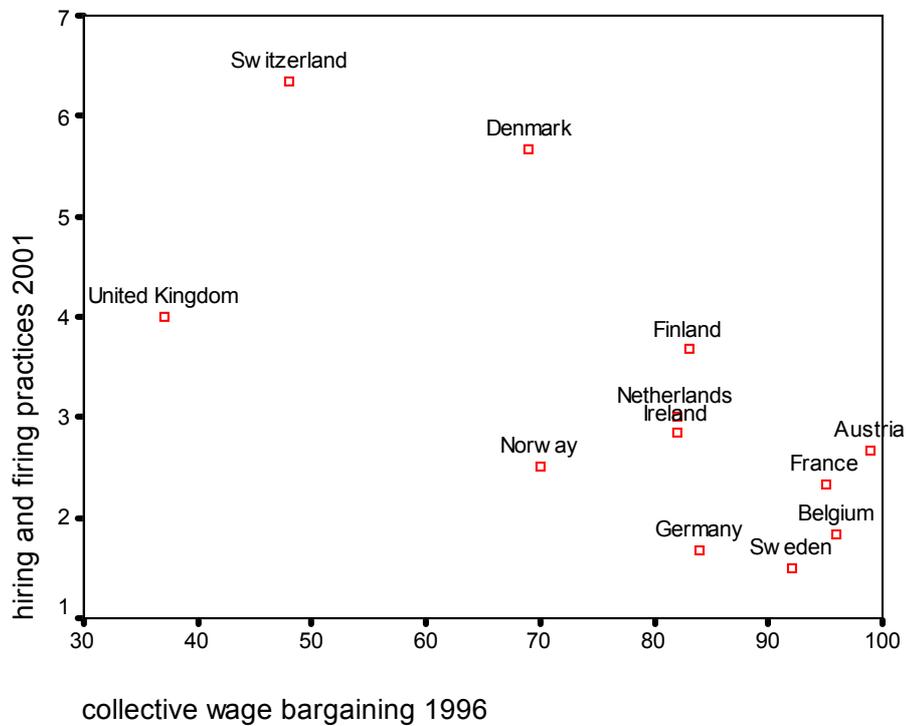
A similar picture emerges regarding product market regulation and business conditions. In Figure Two, the UK – the poster child of economic reform in Western Europe – fails to outperform the Northern European social democracies in providing a lightly regulated environment for business, with Finland and the Netherlands scoring higher for a broad measure of business conditions, and Denmark and Norway enjoying lower start-up barriers.

Figure Two¹⁹



Finally, even in the controversial area of labour market flexibility (Figure Three), there is a striking degree of variation amongst CMEs. Although the UK stands out here for its combination of low employment protection and decentralized wage bargaining, there are again some surprises. Denmark and Switzerland have even more liberal hire and fire rules than the UK, and Finland is not significantly more restrictive.²⁰

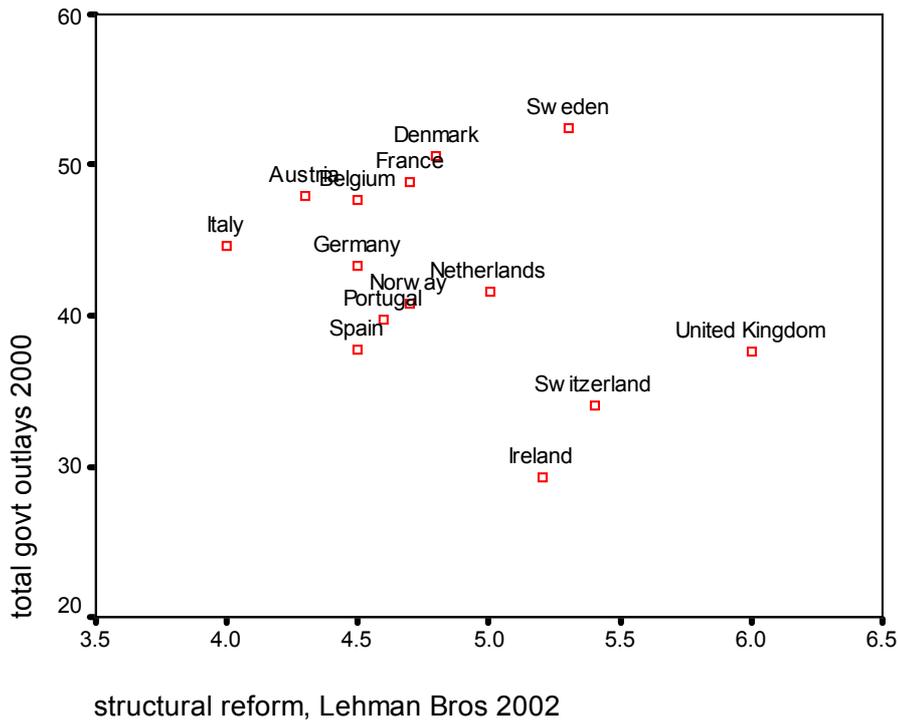
Figure Three²¹



Two important points emerge from this analysis. First, the LME-CME dichotomy fails to capture the variation of economic institutions amongst Western European states. Instead, in many policy areas the differences between Western European economies are best analyzed through continuous variables, which reveal gradations of ‘market-friendliness’ rather than clear demarcation lines between liberal and coordinated economies. To the extent that typologies remain useful, the picture is still better captured by Esping-Andersen’s ‘three worlds of welfare capitalism’, in which LMEs (liberal welfare states) are contrasted with two kinds of CME: the Scandinavian social democratic welfare state, and the continental European Christian democratic welfare state. Second, there is surprisingly little correspondence between the degree of market-friendliness of economic institutions and government size. Northern European social democracies such

as Sweden and Denmark, which have enthusiastically embraced structural reform, also have larger governments than than both the LMEs (the UK and Ireland) and the other CMEs (see Figure Four).

Figure Four²²



This suggests a way out of the left's strategic paralysis. Economic reform, often portrayed as a one-way street towards free market capitalism, is actually far more compatible with the institutions of the social democratic welfare state than is generally acknowledged. The Northern European social democracies have managed to combine market-friendly regulation of key areas of the economy with high levels of state spending, which permit generous welfare provision and public services²³. The relatively good economic performance of this group of economies through the difficult period of the 1990s has not been achieved at the expense of social solidarity. This of course has

important lessons for SD parties in the rest of Western Europe. SD parties in Christian democratic welfare states can, in principle, liberalize their economies and maintain high standards of welfare provision. Similarly, SD parties in liberal welfare states such as the UK can aim to expand social provision without necessarily undermining the functioning of markets. European social democrats can both defend left values and respond to the challenges of a changed economic situation. *So what is stopping them doing exactly this?*

Institutional Constraints, Party Strategies and Policy Change

One possible answer to this question is that SD parties are locked into particular policy choices by the institutional constraints they face when in power. Long-standing formal and informal institutions not only refract the pressures of economic internationalization in particular ways; they also constrain and condition policy change. Comparative political economists have stressed the ways in which the broad institutional features of advanced industrial states provide strong disincentives for certain types of policy changes, constraining political parties of both the left and right in the development and implementation of their preferred policies. Political systems with large numbers of veto players create an inbuilt bias towards policy continuity²⁴. Different constellations of economic and political institutions have varying degrees of openness to policy change, particularly in the crucial areas of labour markets and the welfare state. Hence, it is held that extensive welfare states are difficult to reform since they create a wide range of beneficiaries intent on protecting their positions²⁵. Faced with a broad range of vocal opponents, governments desist from fundamental policy changes with redistributive consequences, and choose instead to ‘go with the flow’, adopting policies which are consistent with existing institutional arrangements²⁶.

This line of argument is persuasive, but cannot alone explain the programmatic positions and electoral strategies of SD parties in Western Europe. Although globalization pressures are refracted through extant economic and political institutions, change in these institutions, and hence change in the available range of policy choices, is frequent and significant. For example, decentralization has been cited as a factor facilitating cuts in welfare provision, and yet SD parties have often been the promoters of decentralizing reform (France in 1984, the UK in 1998, Spain in the 1980s, Italy in the 1970s and 1990s) and such reforms have often occurred at the same time as *expansions* in welfare provision. Similarly, inclusive electoral institutions have been cited as a barrier to welfare retrenchment and economic reform since they increase the number of veto players in the system. However, these institutions have been changed by SD parties in both directions (to proportionality and back again, in 1980s France, and from proportionality to majoritarianism in 1990s Italy), again without the predicted consequences for economic and social policy. Finally, the 1990s have witnessed a powerful (albeit probably temporary) shift towards centralized corporatist bargaining in some of the Christian democratic welfare states (France, Italy, Spain and Portugal)²⁷.

Certainly, welfare arrangements are very sticky, with most reforms having some redistributive effects that can provoke fierce political resistance. However, policy change can overturn apparently ‘immovable’ policy institutions²⁸. The UK was perhaps closer to the Scandinavian social democratic model of welfare state than to American liberalism in the 1970s, and yet the Thatcher governments overcame strong resistance to impose structural change by making use of a highly centralized state apparatus.²⁹ The Netherlands successfully reformed its welfare and labour market in the 1980s and 1990s, moving from a Christian democratic model to a more social democratic one³⁰. Even in frequently cited cases of policy stagnation – such as France and Italy – SD parties have been able to adopt

economic and social reforms which challenged to some degree the existing institutional structure³¹.

So without wishing to underestimate the obstacles in the way of progressive reform in Western European political economies, there is evidence to suggest that the range of policy choices is wider than some observers, and some left party leaders, appear to believe³². Indeed SD parties' reluctance to embark on radical progressive agendas may well be explained as much by their willingness to subscribe to a particular view of the way the world economy works as by the real concrete opportunities and constraints they face³³.

While not disagreeing with such perspectives, an alternative understanding of this phenomenon based around social cleavages is developed here. Specifically, in the rest of this article I focus upon the electoral opportunity structure facing SD parties *and examine how this provides incentives for parties to adopt particular views of the world and policy prescriptions that derive from them*. In this regard I suggest how national patterns of party competition and the organizational dynamics of SD parties themselves can affect economic policymaking under globalization. I show how the institutions of party politics provide SD party leaders with incentives to adopt particular theories of the political economy which fit in with the most advantageous strategies of electoral coalition-building and party management. This approach can make sense of the variations in SD parties' responses to economic change, and explain the obstacles in the way of a realistic but progressive strategy of reform.

Governing With or Against Globalization? The Importance of Party Competition

The nineties appeared to present the Western European centre-left with two broad options, each of which was identified with a prominent SD party³⁴. The UK Labour party under Blair espoused the ‘third way’, a centre-oriented strategy which accepted globalization as unavoidable and adapted traditional social democratic policies to this new reality³⁵. Schroeder aligned the German SPD with Blair by signing a common document in 1998, although his closeness to Blair has oscillated since then³⁶. In contrast, the French Socialist Party under Jospin was markedly less enthusiastic about globalization and reluctant to countenance an abrupt ‘updating’ of his party’s traditional ideological identity³⁷. The Spanish Socialist Party and Italian Left Democrats have also, although less explicitly, taken some distance from the Blair-Schroeder position. Although the differences between Western European SD parties are less stark on closer examination of their policy choices in government, the Blair-Jospin debate reflected a real tension within Western European social democracy over how to deal with the changing political economy of advanced industrial states under globalization.

These contrasting positions cannot easily be explained in terms of the broad structural and institutional features of their respective political systems and political economies. Although the UK economy is more open to global trade than Germany, and France is less open than either, the differences are not particularly striking. Germany has higher industrial employment than France and the UK, but there is little difference between the latter two. The UK certainly stands out for the size and importance of its financial services sector, but in this respect there is little difference between France and Germany. France and the UK, although in different ways, have strongly majoritarian political institutions and relatively centralized states, whilst Germany is a federal state with more inclusive political institutions. In short, macro-structural variables and political system characteristics, although they should be integrated into any account of responses to

globalization, do not seem to correlate in any consistent way with the discourses and policy preferences of SD parties.

A more fruitful approach is to examine the opportunity structures the parties face in their attempts to win votes and obtain political power. Formal political institutions such as the territorial distribution of power, the level of inclusiveness of electoral institutions, and the balance of power between executives and legislatures, are an important feature of these opportunity structures. But just as important is the nature of the party system. By providing incentives for adopting particular electoral strategies and discourses, the structure of party competition gives SD leaders strong reasons for favouring one theory of the world economy over another. Responses to globalization may in fact be responses to the exigencies of party competition.

Class, Religion, and Left-Wing Rivals

Two features of party systems appear particularly important for understanding SD parties' strategic imperatives, and the ways in which a discourse on globalization and the national economy develops. First, the presence of rivals within the left bloc that set constraints on how the SD party can make strategic shifts without losing support. SD parties tend to face two types of left rivals: communist parties, and left-libertarian or Green parties³⁸. Second, SD parties' strategic choices are also affected by the nature of the cleavage structure, and in particular the role of class and religious cleavages in channeling votes towards the political parties³⁹. Although the class cleavage has been important in structuring party competition in all of Western Europe (except Ireland⁴⁰), in some countries the religious cleavage has had a major impact on the strategic incentives facing SD parties.

Although the processes of deindustrialization and secularization have changed the ways in which the class and religious cleavages filter through into electoral and party behaviour, these cleavages remain relevant for two reasons. First, social class identity and religious practices remain important predictors of the vote, although weaker than in the past⁴¹. Second, the organizational and ideological legacies of party experiences in the period when social identities were stronger than today continue to permeate party behaviour and choices. On this basis I propose an alternative account of why Western European SD parties choose to ‘embrace’ or ‘resist’ globalization.

Industrialization, Incorporation, and Cleavage Structure

SD parties in Western Europe emerged as the parties of the industrial working class and the landless peasantry, mobilizing society’s ‘have-nots’ around a programme of political emancipation and social transformation. European societies in the first part of the 20th century were deeply polarized, and the majority of citizens had a desperately poor material standard of living. This class of politically excluded poor people constituted a formidable support base for early SD parties. In early industrializing countries, left parties could mobilize the excluded on the basis of class identity – the communality of interests amongst workers in the manufacturing sector facilitated the emergence of cohesive trade unions which underpinned the growth of SD parties. In contrast, in many of the European countries where industrialization was late or patchy, class identity was slower to develop, as industrial manual workers and landless peasants had less obvious shared interests. Communist parties tended to be stronger in these countries, so that SD parties were unlikely to enjoy a monopoly of representation of the industrial working class. To compound this dilemma, in Catholic Europe the religious cleavage tended to cross-cut the class cleavage, so that left identity became as much a question of a shared hostility to the

temporal power and social influence of the Catholic church as one of shared economic interests. For SD parties seeking to protect their working class vote from Communist pressure whilst attracting sections of the middle classes, the optimal strategy was to mobilize around the religious as well as the class cleavage.

The development of political cleavages and the resulting patterns of party competition have therefore affected the ways in which West European SD parties mobilize around materialistic issues. In Northern European countries, earlier industrialization and the limited role of religious conflict allowed SD parties to institutionalize as parties of the industrial working class, and mobilize around issues of economic policy, income redistribution and material security. The SD parties of Catholic Europe, on the other hand, had heterogeneous social bases permeated by deep economic contradictions, even in the ‘golden age’ of post-war Keynesian welfare states. These SD parties (with the help of long period of opposition) therefore maintained their economic discourse at a high level of abstraction, shunning detailed economic policy prescriptions. Especially since the post-materialist ‘silent revolution’ of the 1960s and 1970s, the ‘Latin’ SD parties have emphasized non-economic issues of socio-cultural norms, lifestyle choices and intellectual freedom⁴². An essentially anti-clerical and anti-authoritarian discourse has proved an effective way of maintaining an electorate with no real class identity. Appeals to the memory of past conflicts against authoritarian regimes and fascism play a key role in articulating this discourse.

Cleavage Structures, Globalization, and Varieties of Policy

These differing paths of SD party development imply that the challenges of deindustrialization and globalization look very different to different SD parties. For the ‘Northern’ group of SD parties which developed as the representatives of a sizeable

industrial working class, deindustrialization in particular has been a major threat to their existence, forcing them to look for ways of extending their reach beyond the *classe gardée* to attract new electoral clienteles. In part, as Herbert Kitschelt argued in his influential book on social democracy, they have done this by integrating post-materialistic concerns such as the environment and personal freedoms, especially when pressed by left-libertarian rivals⁴³. But this strategy requires the parties' economic discourse to be adapted so that an increasingly heterogeneous social base can be held together.

Globalization is an extraordinarily useful concept for these purposes. The external constraints imposed by global markets push SD parties to embrace public sector reform, restrictive fiscal and monetary policy and labour market liberalization, as necessary tools for survival in a competitive global economy. Structural reform is therefore *presented as an imperative rather than a choice*, and the discourse of external constraints helps hold together a heterogeneous and potentially contradictory social coalition of the 'winners' and 'losers' in economic change. On the one hand, the policies deriving from the globalization discourse tend to be the same policies that benefit the middle classes; on the other, the view that such policies are imposed by outside forces provides a defence against working class accusations of 'betrayal', and the suggestion that new jobs will be created by labour market and welfare reforms offer some hope to the economically excluded. The material conflict of interests within this coalition – the issue of progressive taxation and transfer payments – is therefore attenuated by appeals to the external constraint of footloose international capital.

For the 'Latin' group of SD parties, which have traditionally elided many of the economic conflicts within a necessarily heterogeneous social base, globalization is a threat rather than an opportunity. For these parties, the conflict of interests between 'winners' and 'losers' of the market economy within the SD electoral base is not a

novelty, and has been dealt with by stressing non-economic issues such as the liberalization of social policy, the modernization and democratization of the state, and the defence of lay values in the public sphere. Therefore globalization, if anything, makes maintaining the cohesion of the SD electorate more difficult, for two reasons.

First, the prominence of globalization in the public debate highlights economic issues about redistribution and the institutions of welfare capitalism which these SD parties prefer not to address in any detail. Second, countries where the religious cleavage has traditionally been strong also tend to have welfare state and labour market institutions which appear particularly ill-suited for dealing with the socio-economic pressures resulting from globalization. In the 'Latin' Europe, welfare states tend to rest on cumbersome social insurance arrangements and protective labour market regulation, both of which appear unsuitable for job creation in increasingly competitive markets, but which are difficult to reform⁴⁴. Globalization is therefore an opportunity for SD parties in countries where the class cleavage is dominant, and a threat for SD parties in countries where the class cleavage cross-cuts the religious cleavage. The following section will present some qualitative empirical support for this explanation of the strategic choices of West European SD parties.

Global Opportunities and Threats in Europe's Divergent Capitalisms

Global Opportunities: The United Kingdom and Germany

The British Labour Party under Tony Blair, and more haltingly the German Social Democrats (SPD) under Schroeder, are the most visible representatives of the 'third way' in Western Europe. These two parties share a similar dilemma. For much of the twentieth century they were able to draw on a traditional industrial working class constituency for

social democracy, but as industrial employment began to decline, a class-based appeal was an increasingly inappropriate electoral strategy. Both suffered defeats around the beginning of the eighties, and after long periods of opposition were ultimately able to win power in the late nineties, building a cross-class coalition by overtly appealing to centrist voters.

The British Labour party is a paradigmatic case of a left party whose electorate was predominantly composed of the manual working classes and which managed to win political power on that basis until the 1970s⁴⁵. The party's decline between the 1970s and the 1980s is emblematic of the fate of class-oriented SD parties in advanced societies: as the size of the traditional working class shrank (from 47% of the electorate in 1964 to 34% in 1983) the Labour vote declined accordingly (from 44.1% in 1964 to 27.6% in 1983)⁴⁶. Electoral analysts in Britain disagreed over whether social democracy could survive such a change in the social structure: some suggested that Labour's fortunes were dependent on the size of the working class and that little could be done⁴⁷; others contested that class voting had declined in Britain and that Labour had simply adopted unpopular policy positions and could recover by moving to the right⁴⁸. Labour's recent electoral trajectory provides strong support for the latter thesis, with historically low levels of support in 1974-1983 with more radical manifestoes, and a recovery to a more respectable level in 1997 with a clearly centrist programme⁴⁹. In particular, it is worth noting the party's historically high levels of middle class support in 1997 and 2001⁵⁰, with the party's least left-wing manifestoes in its history.

In the German case the religious cleavage cross-cut the class cleavage to an extent. However the similarities with the UK case outweigh the differences. The SPD shared with Labour (from the early 1950s on) the lack of a Communist rival, which allowed it to monopolize the left political space until the arrival of the Greens in the mid-

1980s (with the help of Germany's relatively high electoral threshold). Although religion did push some German workers into the Christian Democratic camp, the relative weakness of the Catholic Church and strength of lay values denied the SPD an obvious alternative to a class-based, materialist appeal. Of course, as in Britain, an appeal was made to a broader electorate; the SPD's abandonment of Marxism at Bad Godesburg (1959), like Labour's retreat to 'Butskellism' in the early 1960s, showed an awareness of the need to win middle class votes⁵¹. But the core of SPD and Labour support remained the industrial working class, and the extent of 'class voting', as measured by the Alford index⁵², was very similar in Germany and the UK in the 1950s and 1960s⁵³. The SPD therefore faced a similar dilemma to Labour in the 1980s and 1990s, as its natural social base declined as a proportion of the electorate, and the need to attract new supporters amongst the middle classes became more pressing.

Crucially, Labour and SPD responded in similar ways to this dilemma in the 1990s. The 'Third Way' in Britain and the 'Neue Mitte' in Germany were clear attempts by formerly workerist parties in post-industrial states to overcome their electoral dependency on traditional manual labour and construct a new coalition of workers and sectors of the middle class⁵⁴. Appeals to globalization play an important role in this strategy. As the intellectual inspiration of Blair's 'third way' discourse, Anthony Giddens, argues, 'third way politics should take a positive attitude towards globalization', and adapt to it whilst rejecting the path of 'market fundamentalism'⁵⁵. This adaptation involves reforming economic and welfare institutions to maximize both personal freedom and market efficiency on the one hand, and social cohesion and security, on the other.

Similarly, Gerhard Schroeder cites as a principle of the *Neue Mitte* 'to evolve new policies to exploit the opportunities offered by globalization', policies which include reducing unit labour costs, increasing flexibility in the labour market and fiscal reforms to

improve economic incentives⁵⁶. Globalization is clearly identified as an external constraint which forces the abandonment of traditional protective social policies. In this way (albeit with varying degrees of conviction) both Labour and the SPD have been able to reconcile the conflicting interests of their working class and middle class electorates.

Global Threats: France, Italy, and Spain

The picture in the large states of Latin Europe - France, Italy and Spain – is very different. Here the industrial working class was, for most of the democratic period, a smaller proportion of the electorate than in Northern Europe, and socialism was originally as much a movement of radicalized landless rural labour as of the industrial working class. Further (in part because of more inclusive electoral institutions), SD parties in these countries faced the complication of powerful Communist parties. In the postwar period SD parties therefore had to expend as much effort on competing for left-wing voters with the Communists as on competing for middle class voters with conservative or Christian parties. The persistence of strong communist or radical left movements in these countries, and in France and Italy the added complication of Green parties capable of winning parliamentary representation, has made ‘third way’ strategies extremely risky for SD parties.

The role of the religious cleavage, which has played an important role in structuring voter alignments in these countries, created a natural barrier to left support and entrenched conservative or Christian parties in power (and in the Spanish case, an authoritarian regime) for a good part of the post-war period. Long periods in opposition therefore allowed SD parties to maintain a tough (although often abstract) left-wing discourse without having to damage middle class voters with concrete policy choices. Moreover, the ‘Latin’ SD parties were helped rather than threatened by the social changes

of the 1960s and 1970s, as the process of secularization weakened the religious cleavage, making part of the middle class vote available for the left for the first time. The decline of Catholic values and the demands for greater personal freedom of the '1968' generation provided SD parties with an opportunity to build a cross-class coalition by emphasizing their anti-clerical and anti-authoritarian identity, and downplaying the conflicts of material interests amongst the left electorate.

In France, Mitterand's clever strategy of the Left Union (*Union de la Gauche*) allowed the Parti Socialiste to first coopt and weaken the communists (PCF), and then capture the votes of the more progressive middle classes. The themes of modernization and democratization served to mobilize both workers and progressive emerging sectors of the middle class around projects to reform archaic and hierarchical state structures and consolidate new social freedoms. In the 1980s, the decentralization of the 'oppressive' central state and the vague notion of *autogestion* applied to the sphere of production were sufficiently broad themes to unite industrial workers and the growing middle class. In a short time, the strategy of *front de classe* with which the PS was elected in 1981 was replaced by imprecise talk of *Modernisation et Progrès Social* (Cole 1994). The PS's control of the institution of the presidency allowed it to present itself as a representative of a higher, national interest, mobilizing support beyond narrow sectoral interests. This strategy has allowed the PS to build an extremely heterogeneous electorate. In the 1997 elections, the party won almost identical shares of the vote amongst the upper-middle class, clerks and workers, with only the self-employed (a traditional bastion of conservatism anywhere) deviating from the pattern⁵⁷.

This successful track record of building cross-class electoral coalitions has obviated the need for the PS to address the difficult question of how to reconcile the conflicting economic interests of this social base. As a result, the 'third way' has few

attractions for the Socialist leadership. On the one hand, the imperative of structural reform does not serve any useful purpose in the party's electoral strategy. On the other, structural reform threatens the institutions of *dirigiste* French welfare capitalism more fundamentally than the more liberal and universalistic welfare arrangements of Northern Europe. Not surprisingly, therefore, the PS under Lionel Jospin took a much more defensive view of globalization than Blair and Schroeder. Jospin recognized that globalization cannot be ignored, but pays much greater attention to its dangers⁵⁸. Whereas Blair and Schroeder have both advocated, and to some degree implemented, labour market liberalization, the banner policy of Jospin's *gauche plurielle* government was a statutory limitation of the working week to 35 hours, a policy which is difficult to reconcile with the 'third way' declaration.

Similar arguments can be made of SD parties in Spain and Italy, both of which have sought to distance themselves from the 'third way', particularly after 2000. The Spanish PSOE followed a strikingly similar strategy to that of the PS, although more successfully given the weakness of the PCE. Here too, a rapid process of secularization from the 1960s on made the Catholic vote available for the left once democratization took place. The broad notion of modernization served as a unifying discourse, uniting both workers and the emerging middle classes around the aim of bringing Spain economically, socially and culturally into line with the rest of Western Europe. Economic reforms were explicitly defended in terms of integration into Europe, so the middle classes could be courted whilst the left was reassured that Spain was being modernized and democratized⁵⁹. At the same time, a series of liberalizing social and political reforms (legalization of abortion, support for lay education, administrative decentralization) served to satisfy the demand for progressive change amongst left voters. Appeals to the imagery of the Spanish Civil War – which became increasingly frequent as the party

lost ground in the 1990s – served to identify the Socialist Party with democracy, and implicitly, the conservative opposition with dictatorship. Until the corrupt misuse of state resources provoked outrage in the 1990s, this discourse of modernization, lay values and anti-authoritarianism was successful in constructing a broad electoral coalition including both workers and the progressive middle classes.

In Italy the picture is complicated by the disappearance of the Socialists (PSI) in the early 1990s and their replacement in the SD space by the former communists (now Left Democrats [DS]). However, similar dynamics are present. The dominance of the religious cleavage has attenuated real class divisions, making it possible to construct electoral coalitions on the basis of broad notions of political, social and cultural modernization. The PSI emphasized its lay identity in opposition to its governing partner the Christian Democrats, and supported modernizing institutional reforms. At the same time it mobilized poorer voters in the impoverished South through a clientelistic use of state resources, creating an ‘alliance of merit with need’⁶⁰. The Left Democrats, after adopting limited structural reforms while in government, have reverted to a defensive view of globalization once in opposition, setting their stall against the Berlusconi government’s proposed labour market and pension reforms. The rhetoric of modernization and democratization, bolstered by a strong identification of the left parties with the anti-Fascist partisan movement in the Second World War, serves to win support beyond narrow class lines. Both the PSI and DS have faced radical left and left-libertarian competition, making a reliance on the votes of the industrial working class impossible.

The divisions between a broadly Catholic subculture and a more progressive anticlerical subculture cut across class lines, and therefore SD parties in the ‘Latin’ countries can mobilize middle and working class support with the same broad ‘modernizing’ message. SD parties have continued to mobilize along the traditional

Catholic/authoritarian-secular/progressive faultline, precluding the need to dilute their ideology in order to maximize support in a homogeneous, 'consumerist' electorate. Voting for the left, rather than an expression of economic interests, becomes an expression of socio-cultural belonging, almost of lifestyle⁶¹. Social class, therefore, has not been a useful predictor of the vote. SD parties in Latin Europe have been largely successful in averting situations in which the contrasting economic interests of working and middle class sectors of their electorates have become politically salient. This explains the reluctance of the French, Italian and Spanish parties to sign up to the 'Third Way', and suggests that the dilemmas facing Social Democracy may be quite different in countries with different traditions of political conflict⁶².

Conclusion

This article has set out to bring party politics back into the debate on social democracy and globalization. The literature on political parties and electoral politics can make an important contribution to our understanding of globalization and the constraints it imposes on national governments and their choices of economic policies and institutions. After all, political parties still do the job of governing Western democracies, and although their freedom of action may be more limited than in the past, the ways in which party leaders interpret opportunities and constraints, and the institutionalized patterns of electoral competition they face, refract the pressures of globalization in different ways. Many political economists have assumed SD parties' electoral coalitions to be essentially a function of economic interests, yet decades of research into party politics have provided us with a more complete picture of the electoral process. This

article has drawn on this research tradition to offer a different interpretation of how West European SD parties respond to the pressures of globalization.

It is often argued that SD parties in Western Europe must choose between two unpalatable options. On the one hand, they can accept the dominant view of a competitive global economy in which market forces economic outcomes, and reduce the expectations of their electorate, insisting on the need for liberalizing ‘structural reforms’, and limiting themselves to smoothing the rougher edges of the market system. On the other, they can take a skeptical view of globalization, resist structural reform and commit themselves to protecting society from market forces. But this stark choice between neoliberal conformity and an essentially conservative defence of existing arrangements is both unrealistic and unhelpful. Structural reforms can be made compatible with SD goals, as SD parties in Scandinavia and the Netherlands have demonstrated. The SD parties of the largest West European states are finding it difficult to find this virtuous mix of economic efficiency and social solidarity. Although much of the ‘new politics of welfare’ literature has emphasized the inertial properties of welfare state institutions themselves, rather less attention has been paid to the complexities of the electoral process and the incentives it presents to social democratic party leaders.

This article has shown that the dynamics of electoral politics are an important variable in understanding the way SD parties approach structural reform. Parties face historical legacies – in the form of ideological traditions and institutionalized patterns of electoral mobilization – which can push them to adopt discourses which are inappropriate for reforming economic and welfare institutions effectively. In consequence, SD parties in continental Christian democratic welfare states are often the least inclined to embrace liberalizing reforms since they are able instead to construct cross-class electoral coalitions on the basis of essentially non-economic policy issues. In contrast, in the UK, probably

Europe's most marketized political economy, the Labour party has quite different incentives. Appeals to globalization and liberalizing proposals are essential for the purposes of building a cross-class electoral coalition, even though Britain has already pushed structural reform much further than its neighbours, and would likely benefit much more from greater state intervention and welfare expansion. Political parties often face conflicting incentives in the electoral and policy spheres. In Western Europe's largest states these conflicting incentives stand in the way of a balanced response to economic change.

Notes

¹ In a broad-ranging review of the field, Hall points out that 'the study of political economy has largely been divorced from the study of representation' (1997: 197).

² For the importance of political discourses in the shaping of policy, see Schmidt 2002.

³ This view has been adopted both by opponents and proponents of social democracy: for the former, Ohmae 1995, for the latter Scharpf 1991, 1997, Kitschelt 1994, Rhodes 1998, Stephens, Huber and Ray 1999.

⁴ Often these arguments are built on a fundamental misunderstanding of the nature of international trade; see Krugman 1996.

⁵ The literature emphasizing these institutional arrangements is often labelled the 'varieties of capitalism' approach, after Hall and Soskice 2001.

⁶ For a range of arguments making this case, see Kitschelt *et al* 1999, Pierson 2001.

⁷ Swank 2002.

⁸ Garrett 1998, Golden, Wallerstein *et al.* Iversen.

⁹ Franzese 2002.

¹⁰ Glyn 1998, Iversen 2001.

¹¹ Hall and Soskice 2001.

¹² For a recent example of the standard view on structural reform in Western democracies, see Llewellyn *et al* 2003.

¹³ Ireland has posted the fastest growth in the EU, whilst the UK has outperformed the other large EU economies.

¹⁴ See 'Britain and Europe: Business and Finance: Slump Intervenes in Capitalist Culture-Clash', *Financial Times*, 6 November 2002.

¹⁵ Esping-Andersen 1990, Schmidt 2002.

¹⁶ Hicks and Kenworthy 2003.

¹⁷ Here Esping-Andersen's typology of welfare states is extended to the broad institutional features of the political economy.

¹⁸ Sources: World Bank, www.worldbank.org (stock market capitalization 2001); Fraser Institute, Gwartney *et al* 2001 (liberal financial regulation 2001).

¹⁹ Sources: Fraser Institute, Gwartney *et al* 2001 (freedom to operate in business 2001); World Bank, www.worldbank.org, also Djankov *et al* 2002 (regulation of entry 2002).

²⁰ Moreover, the well-documented efforts of the Northern European social democracies in the area of active labour market policies make an important contribution to allocative efficiency which is not reflected in this data.

²¹ Sources: Fraser Institute, Gwartney *et al* 2001 (hiring and firing practices); Union Centralization Dataset, Golden, Wallerstein and Lange 1999 (collective bargaining 1996).

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- ²² Sources: OECD Historical Statistics (government outlays 2000); Llewellyn *et al* 2003 (Lehman Brother structural reform rating 2002).
- ²³ Indeed, the World Economic Forum's 'Competitiveness Report' for 2004 found that Finland, Denmark and Sweden – all high-spending social democratic welfare states – were more competitive than even the United States ('US Still More Competitive than EU', *Financial Times*, 27 April 2004, p.2.).
- ²⁴ Tsebelis 2002.
- ²⁵ Swank 2002, Esping-Andersen 1990, Olson 1982, Pierson 1994.
- ²⁶ Przeworski 2001.
- ²⁷ Rhodes 2001, Royo 2000.
- ²⁸ Pierson 1998.
- ²⁹ Gamble 1988.
- ³⁰ Hemerijck and Visser 2000.
- ³¹ In this regard Levy's 'vice into virtue' argument seems overstated, at least for the French and Italian cases.
- ³² Ross 2000.
- ³³ Hay, Watson and Wincott 1999, Blyth 2002.
- ³⁴ See for instance Clift 2002.
- ³⁵ Giddens 1998.
- ³⁶ For a presentation of Schroeder's 'new centre' discourse, see Hombach 2000.
- ³⁷ Jospin 2002.
- ³⁸ Przeworski and Sprague 1986, Kitschelt 1994.
- ³⁹ Pioneered by Lipset and Rokkan 1967 and Rokkan 1970. For more recent work see Bartolini and Mair 1990, Bartolini 2000.
- ⁴⁰ See Mair 1987.
- ⁴¹ For evidence, see Kaase and Newton 1995, Lane and Ersson 1999.
- ⁴² Inglehart 1977. On the role of post-materialism in the development SD party strategies, see Kitschelt 1994.
- ⁴³ Kitschelt 1994.
- ⁴⁴ Esping-Andersen 1990, 1996.
- ⁴⁵ Butler and Stokes 1974.
- ⁴⁶ Heath, Jowell and Curtice 1985.
- ⁴⁷ Heath, Jowell and Curtice 1985, 1991.
- ⁴⁸ Crewe and Sarlvik 1983, Crewe 1987.
- ⁴⁹ Budge 1999.
- ⁵⁰ Evans, Heath and Payne 1999, 90. Curtice et al 2002
- ⁵¹ As argued by Kirchheimer in his influential 'catch-all party' thesis; Kirchheimer 1966.
- ⁵² The Alford index estimates the percentage of working class votes cast for the 'class party' (ie the SD party in these two cases). See Alford 1963; also Evans 1999.
- ⁵³ Bartolini 2000: 494.
- ⁵⁴ Although these strategies have met some internal opposition, particularly in the SPD; see Lafontaine 2000.
- ⁵⁵ Giddens 1998:64.
- ⁵⁶ Schroeder 2000: 154-5.
- ⁵⁷ Boy and Mayer 2000: 157.
- ⁵⁸ 'Globalization is the reality within which we are living. But it is an ambivalent reality. It promotes global growth, yet bring growing inequality. It encourages the exploration of human diversity, but carries within it the risk of uniformity. It releases our energies, but also brings negative forces which must be brought under control' Jospin 2002: 3.
- ⁵⁹ Boix 1998.
- ⁶⁰ Claudio Martelli, 'Per un'alleanza fra il merito e il bisogno', *Avanti!*, 4-5 April 1982; cited in Merkel 1987, 106-107.
- ⁶¹ See for example Hincker 1997.
- ⁶² Cf Kitschelt 1999.

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