

# The Only Game in Town? European Social Democracy and Neo-liberal Globalization

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## 1. Introduction

Reflecting on the social democratic political program, British Labour politician Anthony Crosland emphasized in 1957 that »new issues« have repeatedly challenged social democracy since socialist aspirations were first formulated in the mid-nineteenth century. He argued that such issues »may be highly significant for welfare, freedom, and social justice, even though not assimilable into the old socialist–capitalist categories« (Crosland 1963: 353–354). The recent attention paid to the challenges of globalization among (Western) European social democrats seems to signal that globalization is a »new issue« of the kind alluded to by Crosland almost 50 years ago. Importantly, a report written by former Danish Prime Minister Poul Nyrup Rasmussen (2003: 25) for the Party of European Socialists sees globalization as an important reason to develop a European »progressive policy agenda ... as part of social democracy's *raison d'être* in the new century.«

The challenges of globalization have resulted in a reconsideration by many social democratic thinkers and politicians of long-held ideas about politics at both the national and the international level. Contemporary social democracy, in Europe and elsewhere, is attempting to respond to the neo-liberal global agenda whose main objective appears to be the deepening of market-oriented development. This agenda is built, in important respects, on the political dominance of neo-liberal globalization, the first phase of which started in the late 1970s.

The objective of this article is to assess whether the social democratic response can be a feasible alternative to the political supremacy of neo-liberal prescriptions. In particular, the question is whether social democracy has surrendered to the neo-liberal approach to globalization, which has in many ways taken on the features of the »only game in town,« or whether social democrats are now mounting a real challenge to the agenda of neo-liberal regulatory governance.

The main reason for focusing on the social democratic response to neo-liberalism is that social democracy experienced a »magical return« (Cuperus and Kandel 1998) in terms of its electoral successes in many European countries during the second half of the 1990s, built, to a significant degree, on a programmatic reorientation. The repositioning came under different headings – for example, the »Third Way« (United Kingdom), the »neue Mitte« (Germany), and the »shaking off of ideological feathers« (the Netherlands) – but had in common a distancing of social democratic political parties from part of their traditional ideology (Kalma 2004: 13).

The argument of this article proceeds as follows. Section 2 briefly outlines some of the most pertinent characteristics of neo-liberal globalization. Section 3 contains a discussion of the return to power of social democracy in various Western European countries during the 1990s and zeroes in on attempts at renewal of social democracy (the »Third Way«). In section 4, the formation of social democratic ideas on global governance are analyzed. Section 5 concludes by identifying and discussing several weaknesses inherent in the social democratic approach to neo-liberal globalization.

## **2. Neo-liberal Globalization**

Neo-liberal globalization, the origins of which are to be found in the Reagan/Thatcher »revolution« of the 1980s, »prescribes that the contemporary growth of global relations should be approached with »laissez-faire« market economics through privatization, liberalization, and deregulation« (Scholte 2002: 8). It can be understood as a politically inspired project to limit the influence of the state on economic transactions. The embrace of libertarian prescriptions signaled the abandonment of Keynesian economic principles, which had emphasized regulation, planning, and macroeconomic management (Yergin and Stanislaw 1998: 141–149).

Liberalization was a complex of measures aimed at reducing government involvement through policies of privatization and deregulation, and implied the elimination of laws and rules that were assumed to hinder competition in the market. Together, these principles – along with some others, such as fiscal discipline, tax reform, unified exchange rates, and the abolition of barriers to foreign direct investment – were epitomized

in the »Washington Consensus« (Williamson 1997: 60–61), the set of principles propagated by the international financial institutions and the US Treasury as the basis for sound economic policies.

With the broadening of the neo-liberal agenda in the so-called »post-Washington Consensus« extreme market fundamentalism was rejected. Instead, the post-Washington Consensus »sees government and markets as complements rather than substitutes« (Stiglitz 1998: 22). In addition, Stiglitz emphasized governments' responsibility for the creation of institutions that help markets work efficiently, such as a legal framework and institutions, property rights, competition policies, and contract enforcement. In Stiglitz's view, the global agenda should not stop at advocating the liberalization of international trade and finance:

»We cannot simply ignore the people living in the poorest countries that also do not have good economic policies. We need to help put in place good policies by providing advice and technical assistance. In addition, we should make investments in areas such as human capital that will be ready to support growth once good policies are adopted (Stiglitz 1998: 27).«

### **3. The »Magical Return« of Social Democracy and the »Third Way«**

The 1990s, and especially the second half of the decade, were marked by the »magical return« of social democracy (Cuperus and Kandel 1998) after a period of relatively marginal political importance in several countries in Western Europe, during which political agendas were dominated by neo-liberal policies aimed at welfare state retrenchment, privatization, and deregulation. The dominance of neo-liberal policies in the 1980s and part of the 1990s induced speculation about the »end of the social democratic century« (Dahrendorf, quoted in Cuperus and Kandel 1998: 12). However, electoral victories led to the return to power of social democratic parties in various European countries, such as the United Kingdom and France in 1997, Germany in 1998, and Belgium in 1999, while other countries, such as the Netherlands, Sweden, Norway, and Denmark, had governments that included social democrats for the whole or a significant portion of the 1990s.

The most notable feature of the renewed presence of social democratic parties in European governments was undoubtedly the programmatic

and strategic reorientation process preceding the elections. Because of the great conflict that resulted from the reorientation of the British Labour Party under the leadership of Tony Blair – most importantly resulting in the expulsion of significant portions of the party's left wing – the transformation of Labour into so-called »New Labour« has attracted most attention. Also, the attempt to supply this transformation with an ideological underpinning (the »Third Way«) resulted in ideological and programmatic discussions that involved many people beyond the Labour Party, also outside the United Kingdom.

Anthony Giddens, »auctor intellectualis« of the new thinking about the Third Way, emphasized that globalization, in particular, requires the rethinking of classical social democratic precepts. Globalization, in this view, leads to increasing »manufactured uncertainty« which is »a result of human intervention into the conditions of social life and into nature« (Giddens 1994: 4). According to Giddens, the traditional reliance of social democracy on a cybernetic model of state activity, the aim of which was to control social, political, and economic change, is being made irrelevant by globalization. More specifically, the »crisis of Keynesianism,« induced by globalization, proved that it was »not possible to have national demand management in a globalized marketplace« (Giddens 2003: 2–3).

The »new mixed economy« was launched by Giddens as the Third Way's political-economic ordering principle: it aims at »a synergy between public and private sectors, utilizing the dynamism of markets but with the public interest in mind« and »involves a balance between regulation and deregulation, on a transnational as well as national and local levels« (Giddens 1998: 100). According to Giddens, the Third Way should continue to emphasize equality and redistribution as political principles, yet »it is no good pretending that equality, pluralism and economic dynamism are always compatible« (Giddens 1998: 100). Equality, for social democrats, should no longer be limited to redistribution but should rather, »pace« Amartya Sen, be »focused upon developing people's capacities to pursue their well-being« (Giddens 2002: 39).

Overall, »[t]hird way politics should take a positive attitude towards globalization – but, crucially, only as a phenomenon ranging much more widely than the global marketplace. Social democrats need to contest economic and cultural protectionism, the territory of the far right, which sees globalization as a threat to national integrity and traditional values« (Giddens 1998: 64).

In Giddens' view, the opportunities offered by globalization should pay off culturally and politically: »[t]he cosmopolitan nation implies cosmopolitan democracy, operating on a globalizing scale« (Giddens 1998: 138). The space beyond the nation-state, which has become more important because of globalization, should be regulated by regional and global institutions. For the purpose of enhanced governance, the integration of organizations such as the WTO, the IMF, and the World Bank, or the formation of an Economic Security Council in the United Nations would be desirable. Furthermore, the democratization of the United Nations, by adding an assembly or parliament – elected by national parliaments – to the current organs, would be a step in the right direction (Giddens 1998: 145–151).

The regulation of financial markets is taken to be »the single most pressing issue in the world economy« (Giddens 1998: 148). Importantly, financial regulation should take place through the countering of currency speculation, for instance by the introduction of a tax on financial flows (the so-called Tobin tax) or the creation of a world financial authority, whose main task would be to manage »systemic risk in the world financial economy« (Giddens 2000: 126). Furthermore, there should be attempts to regulate corporate power, at the national as well as the international level, aiming, among other things, at enforcing competition policies, countering the creation of international monopolies, monitoring corporate activities, and fostering socially and environmentally responsible practices (Giddens 2000: 142–150).

#### **4. Social Democracy and the Neo-liberal Global Agenda**

The social democratic response to the neo-liberal global agenda centers around the establishment or strengthening of global governance institutions. Ideas about global governance have been put forward on at least two interlinked levels. The first level is what Cuperus has referred to as the political-ideological layer, which is concerned mainly with the implications of globalization for social democratic thinking. The second level is what he has labeled the »more programmatic level of political projects,« which has to do with »the general platform of a party or the ›political ideologies‹ of a government« (Cuperus 2001: 156).

## 4.1 The Political-ideological Level: Governance and Cosmopolitan Democracy

Paul Hirst and Grahame Thompson were among the first analysts to stress, from a social democratic perspective, the need to strengthen governance in response to globalization. The core of their argument, which predates Giddens' Third Way, is that »market economies need to be appropriately governed if they are to perform effectively in meeting the substantive expectations of a wide range of economic actors. ... Most markets need to be embedded in a context of non-market social institutions and regulatory mechanisms if they are to produce effective outcomes« (Hirst and Thompson 1999: 192–193).

Apart from governance at the international level, Hirst and Thompson focused on trade blocs, which are argued to »represent a vital intermediate level between general institutionalized governance mechanisms for the world economy as a whole, such as the WTO, and the economic policies of the nation-states« (Hirst and Thompson 1999: 228).

The idea of international governance has been developed by British social democratic political theorist David Held, who has outlined elements of what he called »the project of global social democracy« in his contribution to »The Progressive Manifesto.« The project contains several »priority measures« for a »new global covenant,« elements of which can also be found in other social democratic responses to globalization (see section 3 above and subsection 4.2 below). The measures include the regulation of global markets, the promotion of development, enhanced security, the strengthening of international legal mechanisms, and the reform of global governance (Held 2003: 165–166). Europe could play an important role, according to Held (2003: 168): »As the home of both social democracy and a historic experiment in governance beyond the state, Europe has direct experience in considering the appropriate designs for more effective and accountable supra-state governance.«

Held's ideas about governance are founded upon the concept of cosmopolitan democracy, which »is a way of seeking to strengthen democracy »within« communities and civil associations by elaborating and reinforcing democracy from »outside« through a network of regional and international agencies and assemblies that cut across spatially delimited locales« (Held 1995: 237). Importantly, the cosmopolitan project is an attempt to make accountable »those sites and forms of power which presently operate beyond the scope of democratic control« (Held 2001: 399).

Elements of the cosmopolitan model of democracy, as summarized by Held (1995: 273), would be: the creation or strengthening of regional parliaments, the establishment of regional or global referenda, the entrenchment of civil, political, economic, and social rights, the establishment of international courts to enforce these rights, and – as a final goal – the formation of an authoritative global parliamentary structure.

Interestingly, French political scientist Zaki Laïdi has pointed out that global governance is itself a potential battleground because of the different »collective preferences« (values) involved. Where neo-liberal globalization has a clear preference for free trade and liberalized capital markets, social democratic globalization will prefer intervention into the workings of the market in order to achieve just outcomes (Laïdi 2003: 31–32). Laïdi and former EU Trade Commissioner and current WTO Director-General Lamy identified six collective preferences for Europe: the non-market production of public goods; a non-hegemonic culture of global relations (human rights, cultural diversity and the rejection of unilateralism); the reduction of global inequalities; enhanced environmental protection; food security and health; and respect for basic social rights (Lamy and Laïdi 2002: 62–63).

#### 4.2 The Programmatic Level: Reforming and Strengthening Global Governance

Over the past decade, several prominent European politicians – among them Tony Blair and Gerhard Schröder – have made contributions to social democratic thinking about globalization and governance. In addition to – and in several cases as a result of – the initiatives of these politicians, a number of key social democratic platforms, such as the Socialist International, the Party of European Socialists, and the Progressive Governance Network, have formulated programmatic proposals on global governance.

In September 1996, the Socialist International attempted to stimulate the discussion about a social democratic response to globalization. The organization emphasized its positive attitude to globalization for reasons of economic efficiency, but called for »an effective international system of collective responsibility to safeguard the market economy and the environment« (Socialist International 1996: 3).

The Global Progress Commission, founded by the Socialist International in 1996 and chaired by former Spanish prime minister Felipe

González, stressed the need to strengthen leadership and governance in response to neo-liberal globalization: »The hawks hold the market to be sacred and commend it to us as a golden calf. Deregulation is the linchpin of their strategy, and a political vacuum is therefore, in their eyes, a necessity. ... When all is said and done, globalization poses a problem of governability« (González 1998b: 2). Europe would, according to González, take a prominent place in the social democratic response to neo-liberalism. He considered Europe to be a model for the organization of the international community, and its approach to »open regionalism« an example of the »new balances« needed for the establishment of peace and international cooperation (González 1998a: 7–8).

British Prime Minister Tony Blair and former German Chancellor Gerhard Schröder expressed, in several key documents, that globalization is a new reality to which social democracy would need to adjust. According to Schröder (2003), »[g]lobalization is not an ›option.‹ Globalization is a reality. It holds risks and anxieties, but it also opens up enormous possibilities.« Blair (1998: 6), in a Fabian Society pamphlet, stressed that the main challenge for social democracy would be to »engage fully« with the implications of economic and social changes, the most important of which were summed up as: the growth of increasingly global markets and culture, technological advance and the rise of skills and information as the key drivers of employment and new industries, a transformation in the role of women, and radical changes in the nature of politics. The response to these changes, according to Blair (1998: 3) should be informed by four values: »equal worth, opportunity for all, responsibility and community.« In the international domain, institutions should be strengthened »for the management of trade, finance, the peaceful resolution of disputes, and to ensure swift responses to pressing new problems, like the crises in Asia and Russia and the threat to the global environment« (Blair 1998: 18).

A joint declaration of the British and German social democratic leaders – which came to be known as the Blair/Schröder document – published in June 1999 displayed an approach along similar lines. The document contained a call for the modernization of social democracy, which would imply »adapting to conditions that have objectively changed,« such as »ever more rapid globalization and scientific changes« (Blair and Schröder 1999: 1–2).

Blair and Schröder were among the politicians who called the Progressive Governance Summits of heads of state and government, held since 1999. The Progressive Governance meeting of June 2000 launched the



idea of a new international social compact, aimed at »a more inclusive and sustainable international division of wealth and opportunity« (Progressive Governance Network 2000: 3). The main governance issues singled out at the meeting were:

- ▶ strengthening of the multilateral trade system and enhanced market access for products from the least developed countries;
- ▶ improvement of the institutional framework of financial markets and debt-relief for highly indebted developing countries;
- ▶ prioritizing of direct effective development assistance;
- ▶ the development of new mechanisms, such as emissions trading, for sustainable development (Progressive Governance Network 2000: 3–4).

At a later meeting, reform of the United Nations and development-related trade issues, such as abolition of agricultural subsidies and market access, were added to the priorities (Progressive Governance Network 2001).

A landmark of recent social democratic writing about globalization and global governance is a report written for the Party of European Socialists (PES) in preparation for the 2004 elections of the European Parliament. The report stated that the European Union should »play an active role in shaping globalization« (Rasmussen 2003: 115). One important recommendation was that the EU should establish itself as a partner of the developing world, among other things by initiating development policy innovations and by playing an active role in the WTO's Doha Development Round. Another notable proposal called for a leading role for the European Union »in developing and promoting ... a new global vision« (Rasmussen 2003: 117), which would imply, among other things, the elaboration of a global legal order, reform of the IMF and the regulatory framework for the financial sector, the development of a new agenda on global taxation, and support for the provision of global public goods. As part of its efforts, the EU should try to improve the capacity of existing global governance institutions in the medium term, and advocate profound reform of the United Nations system in the long term. The latter would imply the creation of a host of new institutions, such as a World Environment Organisation, a Human Development Council (or Social and Economic Security Council), and a UN Parliamentary Assembly.

The declaration on »Governance in a Global Society,« adopted by the Socialist International in 2003, emphasized three dimensions of a social democratic strategy (ecological, economic, and social), which would

need to result in a »New Global Deal« between industrialized and developing countries. This New Global Deal would require that developing countries pursue integration into the global economy and improve their policies and institutions, while industrialized countries open their markets, encourage investment, and increase financial assistance (Socialist International 2003a: 2). The Socialist International (2003b: 18–25) emphatically rejected the neo-liberal Washington consensus and structural adjustment and argued for the reform of the Bretton Woods institutions and the regional banks, as well as a form of global taxation to fund global public goods and development policies. Reform of the international financial architecture should include, in the view of the Socialist International, changes in the decision-making procedures of the international financial institutions and the creation of a World Financial Authority, linked to the establishment of a UN Council for Sustainable Development. Finally, a new international finance facility, funded by a form of global taxation, to achieve the Millennium Development Goals, and a new debt workout mechanism for developing countries (an »international bankruptcy system«) would serve to make the international financial system more development-oriented.

## **5. European Social Democracy and the Neo-liberal Global Agenda**

The discussion in the preceding sections has made clear that European social democracy has taken a fundamentally reformist position vis-à-vis the current international political-economic system. Globalization is not normally rejected, but some of the system's features are felt to be in dire need of a system of governance that would guard against the excesses of wealth concentration in certain parts of the world and the marginalization of other parts.

The core element of contemporary social democratic thinking on globalization lies unmistakably in the establishment and strengthening of global governance mechanisms. Contributions at the political-ideological level (see subsection 4.1) have made it clear that social democracy opposes the neo-liberal emphasis on the further liberalization of trade and capital markets. Instead, social democrats tend to focus on the need to regulate international markets in order to avoid undesirable and unjust outcomes. Social democrats emphasize the provision of global public goods, in par-

ticular development, security, and environmental sustainability. Finally, they stress rule-based governance as opposed to the »might makes right« approach inherent in power politics, and they see the need for enhancing democracy and accountability at the international level.

At the programmatic level, social democratic thinking generally supports the efficiency-enhancing character of globalization, but adds that the rules of globalization should be taken seriously (see section 4.2). Addressing the distributive effects of the contemporary economic system, various social democratic programs have stressed that systemic rules should be taken seriously and that producers in the developing world be guaranteed access to markets in the industrialized countries. Several authors have pointed to the desirability of a partnership between Europe and the developing world. Furthermore, social democrats have underlined the need for institutional reform of the international system. Reform proposals include the regulation of financial markets, debt relief for highly indebted developing countries, the introduction of a form of international taxation, and reform of the international financial institutions (IMF, World Bank, and regional development banks) and the United Nations system (by creating, for instance, a World Environmental Organisation, a Human Development Council, and a UN Parliamentary Assembly).

Several commentators writing about contemporary social democracy in Europe have argued that the political movement, in terms of the title of this article, has essentially submitted to playing »the only game in town« (neo-liberal globalization) and is no more than a marginal variant of hegemonic neo-liberalism. For instance, Marxist Alex Callinicos (2001: 124) has argued that social democrats, in their attempt to regain electoral support, have embraced capitalism and have stopped being genuinely reformist. The programmatic reorientation, in his view, is »the tragedy of social democracy« as it means »abandoning its attempt to achieve a fairer and more humane world.«

The traditional character of social democracy – which can be understood as the attempt to embed and guide market forces and to limit the extent to which the profit mechanism and the distribution of income and wealth are allowed to affect society (Kalma 2004: 23) – suggests a different conclusion. This locates contemporary social democracy in the middle ground between neo-liberal orthodoxy, which embraces the current form of globalization, and the radical anti-globalization movement, which calls for fundamental opposition to current globalizing tendencies (Cavanagh et al. 2002: 37–52).

As already shown, European social democrats emphasize the need to regulate international economic, social, and political processes. Their response to globalization is one of reformism rather than outright rejection. The dominant tendency among European social democrats is to play along with what they take to be the only game in town, while at the same time trying to change the rules of that game by emphasizing regulation, regional and global governance, and accountability and democracy.

As Peter Evans (2000: 238) has convincingly argued, the current global order is witnessing a new variant of the »Polanyi problem of reconciling free markets with stable social and political life.« Certain recent events may be read as »disruptive strains« (Polanyi 1957: 209–219). The Asian financial crisis of 1997–1998 gave credence to the skeptics' view about financial liberalization and led to renewed attention being given to attempts to regulate international finance. Fears about the effectiveness and representativeness of the United Nations brought the UN Secretary-General to install, in September 2003, a high-level panel to review UN functioning and recommend institutional changes. Opposition from various developing countries to the so-called Doha Development agenda at the Cancún Ministerial Conference in September 2003 produced a temporary crisis in the WTO and ultimately led, in August 2004, to substantial changes in the direction of the current round of trade talks. Finally, the opposition of various Latin American governments, based on electoral victories by the »left,« led to the halting of the US-led program for a Free Trade Area of the Americas.

It is probably too early to draw firm conclusions about the impact of these and similar »disruptive strains,« but social democrats may try to build on the increasing doubts about the neo-liberal agenda to press for changes analogous to the »compromise of embedded liberalism« (Ruggie 1983: 209–214) that came into being after World War II. While »rejectionist« proposals from the anti-globalization movement may only appeal to a relatively small radical constituency, the more moderate social democratic focus on governance mechanisms, institution-building, and democratization may elicit support from people across the political spectrum, who share the fears about the recurrence of financial crises, the inequitable character of the existing trade system, and the inability of the international community to respond to humanitarian tragedies and terrorism.

The fact that the social democratic approach to globalization is potentially promising does not mean that it is without weaknesses. Several

weaknesses can be identified. First, the reliance on governance and institution-building at the international level makes the social democratic project vulnerable to non-cooperative behavior on the part of important states. International institutions are generally perceived as positive: they are associated with coordination, order, and predictable – and, some would add, just – outcomes. However, this generally positive evaluation of international institutions overlooks the fact that the institutions are rarely in a position to act truly independently of the political units that created them. As leading IPE scholar Susan Strange (1983: 345) pointed out two decades ago: »All those international arrangements dignified by the label ›regime‹ are only too easily upset when either the balance of bargaining power or the perception of national interest (or both together) change among those states who negotiate them.« The social democratic position is thus susceptible to the unilateral behavior of states that find it not in their interest to conform to international decisions. The decision of the Bush administration in 2001 to withdraw US support from the Kyoto protocol illustrates how changes in the perception of political interests may render institutional arrangements impotent, even though many observers would argue that the impending threat of global warming constitutes one of the most important »disruptive strains« threatening neo-liberal growth policies. Likewise, the Bush administration's decision to »sign off« from the Rome Statute on the establishment of the International Criminal Court in May 2002, almost one-and-a-half years after the Clinton administration had signed up to it, demonstrates the clash between considerations of national interest and the desire to arrive at global governance instruments in the face of humanitarian atrocities.

This observation leads to a second weakness of the social democratic response to globalization. The creation of institutions, which is the hallmark of the social democratic project, is not identical to achieving certain desired policy outcomes. When created, international institutions acquire their own dynamics, which is the result of the interaction among their members and which may have partly unforeseen consequences. The recent history of the process of European integration makes this abundantly clear. European social democrats were largely in favor of the relaunching of European integration in the early 1990s and of the treaty that established the European Union in 1992 (the Maastricht Treaty). Support for the Economic and Monetary Union (EMU) was, at first, coupled with the promise that simultaneous negotiations would start on a political union (Tsoukalis 1997: 50–51). Lack of progress with the latter is-

sue, caused by the outright resistance of some member states to strengthen European institutions, resulted in the creation of an independent European monetary authority without either a complementary political locus of power or centralized economic and budgetary policies (Tsoukalis 1997: 184–185). The discussion on the budgetary and fiscal guidelines that were to be imposed on EMU members' policies resulted, in 1997, in the Stability and Growth Pact. This agreement focused heavily on budgetary discipline and was widely perceived as an attempt to rule out the possibility of expansive budgetary policies aimed at reducing unemployment, the preservation of which social democrats appeared to value very highly.

The third potential weakness of the social democratic approach to globalization relates to strategy. At the level of nation-states, social democratic parties have achieved a majority position only in exceptional cases and even then only for limited periods of time. At the international level, social democracy is likely to continue operating from a minority position. This means that support from other political forces is necessary to get elements of the social democratic program on globalization adopted. The example of the creation of the European Stability and Growth Pact already made clear that attempts at regulation may not be fully consistent with social democratic objectives. Given the fact that social democrats have historically opted for reform of rather than outright opposition to the existing capitalist order – their approach to globalization was shown above to follow that pattern – they are reliant on coalitions with other forces within the orthodoxy, rather than with rejectionist movements such as the anti-globalists (although the latter may well adopt a more reformist program, as shown by the history of the German Greens, and thereby become »salonfähig«). It remains to be seen whether coalitions with other political forces from within the orthodoxy will provide enough backing for the social democratic program of international governance, institution-building and democracy, or that changes to the system will remain essentially cosmetic.

Connected to this is a fourth potential weakness of social democracy, which has to do with domestic support for its policies. It was shown above that various social democratic politicians, most notably Britain's Tony Blair and Germany's Gerhard Schröder, have stressed the need to reform national welfare state regimes in light of the pressures exerted by globalization. The implementation of policies aimed at, among other things, increasing labor market flexibility has produced increasing disen-

chantment among the electorate – in the recent past most visibly in Germany – with the social democrats in power. The replacement of social democratic by more conservative governments may result in the adoption of policies that are grafted upon orthodox neo-liberal assumptions, and the discarding of social democracy's policy heritage.

A fifth potential weakness of the social democratic response to neo-liberal globalization relates to the inability of social democrats in power to effectively change the direction of policymaking in certain issue areas because of the hegemony of neo-liberal policy precepts. The dominance of the neo-liberal approach to development policy, an area traditionally cherished by social democratic politicians, may serve as one – though certainly not the only – case in point. Under the influence of the Post-Washington Consensus (see section 2 above), a central assumption of current development policies is that certain institutional requirements need to be met for the proper functioning of markets in developing countries. Social democrats worldwide cannot get away from the dominance of this essentially neo-liberal assumption – witness, among others, Joseph Stiglitz's (1998) »agenda for development,« which was included as an example of the »global third way« by Giddens (2001), the policies initiated by Dutch social democratic Minister Eveline Herfkens between 1998 and 2002 (see Hout 2002), and the proposals of Tony Blair's Commission for Africa (2005: 228–229). The space to support »heterodox« development policies, as advocated, for instance, by former Dutch social democratic Minister for Development Cooperation Jan Pronk (2001: 625), is effectively limited because of the hegemony of such neo-liberal policy prescriptions.

The impending »Polanyi problem,« which involves the reconciliation of markets and political and social stability, will need to be addressed in the years to come. The signs are that the strains resulting from neo-liberal globalization are putting increased pressure on the neo-liberal global agenda. To the extent that neo-liberal solutions are perceived as unsuccessful or illegitimate, social democracy may experience new opportunities to implement its reformist agenda of global governance and institutional change.

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