

**The death of social democracy: political consequences in the 21st century**

**Author**

Lavelle, Ashley

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PART I: THE DEATH OF SOCIAL DEMOCRACY AND ITS POLITICAL  
CONSEQUENCES

CHAPTER TWO

Social Democracy and Neo-liberalism

This book examines the death of social democracy in Australia, Britain, Germany, and Sweden. Each of these cases is important. While the ALP has been compared with British Labour (eg Johnson and Tonkiss 2002), it has been neglected in comparative work on social democracy more broadly. It served as a model for some 'modernising' social democrats, such as New Labour, partly because it commenced its neo-liberal program relatively early (in the early 1980s) and was in power for a long period of time thereafter (1983-1996). The British case has been influential internationally under Tony Blair, and is also widely thought to have embraced neo-liberalism more thoroughly than others. The SPD's age, position, size and international connections make it the most influential social democratic party in Europe, and therefore in attempting 'to assess the future of social democracy no party is more important than the SPD' (Paterson 1986, 127). Some may accept the death of argument as it applies to Britain or Germany, but protest that Sweden still offers a social democratic alternative. But, as we shall see, Swedish social democracy also has been neo-liberalised, and has suffered analogous political consequences.

To what extent can we compare these parties? A distinction often made is between the 'labourist' parties of the UK and Australia and the 'social democratic' parties of Europe (Scott 2000, 11-14; Clift 2001, 56). Undoubtedly social democracy comes in various national and political forms and styles (see C. Pierson 2001, Chs 2,

3). The differences between labour parties and social democratic parties have, however, been overstated. As Berger has argued, 'both the British Labour Party and the German SPD were party to a very similar form of socialism'. Both parties emerged as 'protest movements against a society which was understood to be unjust and immoral, they were both reluctant to work within that system. The majority within both parties finally overcame these doubts'. Marxism's influence on the SPD vis-a-vis British Labour also has been exaggerated (Berger 1994, 17, 254, 175, 177). Fielding argues that despite national variations, 'all social democrats sought to transform free market capitalism into a more regulated system they described as socialism'. Based mainly in the manual working class, they 'sought to improve their constituents' lot by contesting elections, winning office and using power to extend the state ownership and regulation of capitalism' (Fielding 2003, 60, 11). In this sense, social democrats are reformist because they see reforms within capitalism as ends in themselves.<sup>1</sup>

This compression of these parties into the 'social democratic' category is made possible also by the existence of the Socialist International, a grouping that contains 'socialist', 'social democratic' and 'labour' parties (Birchall 1986, 15). Furthermore, as we shall see in the following chapters, recent debates about constraints and challenges – including globalisation and electoral pressures – reveal how these different parties in different countries have been impacted on in similar ways. Each of the parties is bedevilled by perceptions that they no longer offer a

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<sup>1</sup> All social democrats are reformist but, as Moschonas (2002, 16) points out, not all reformists are social democrats (eg Green parties). Social democrats, therefore, are distinguishable by other characteristics, such as their connection to organised labour (see below). Nonetheless, the term 'reformist' is used henceforth to refer to social democratic reformists.

political agenda distinct from their rivals. The empirical record in the chapters also points to very clear similarities between the parties in terms of their embrace of neo-liberal policies.

The term ‘social democracy’, then, can encompass the different parties studied here. The definition preferred in this book is that provided by Birchall (1986, 15, 16), who refers to ‘a group of parties which have a programmatic commitment to some form of socialism and some link (organisational, traditional or ideological) with the working class, but whose practice is predominantly parliamentary and reformist’. Needless to say, social democratic parties traditionally are parties of the Left.<sup>2</sup> Also, the existence of a close relationship with trade unions is among ‘the characteristic features of social democratic parties’ (Taylor 1993; see also Moschonas 2002, 25). While some social democrats have much stronger ties with unions than others (Padgett and Paterson 1991, 3), Taylor’s point is true of the countries studied here. The similarities between the parties are again reflected in the deterioration in party-union relations as a result of the turn to neo-liberal policies.

### **Traditional Social Democratic Policies**

As well as having these common characteristics, the different parties have pursued similar (though not identical) policies. In countries such as Australia and Britain there has been a commitment (programmatically at least) to socialisation of the means of

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<sup>2</sup> The contemporary relevance of terms ‘Left’ and ‘Right’ has been questioned by some (eg Giddens 1994). But as the Italian political theorist Noberto Bobbio (1996, 29-31) has argued, the left has always been distinguished by a belief in equality. That social democrats tolerate inequality, and therefore perhaps are no longer left-wing, does not mean that the framework itself is invalid.

production; in others, such as Sweden, there has been more emphasis on extending the welfare state. Yet, there are many commonalities. Hay suggests three historical characteristics of social democracy. First, social democrats are committed to redistributing wealth in response to the inequalities created by markets. Second, social democrats believe in government economic intervention to deal with market failure. Third, social democrats are socially protectionist, in that they stand for the provision of better health care, education and welfare for their citizens (Hay 1999, 57). Seyd and Whiteley (2002, 185) suggest that social democracy has been characterised by a belief in democracy on the one hand and, on the other, ‘curbing the excesses of capitalism and redistributing power and resources to the disadvantaged and the forgotten’. Social democrats have also believed in government intervention to ‘civilise’ capitalism.<sup>3</sup> With a largely German focus, Egle and Henkes (2005, 163, 164) include among traditional social democratic policies reforms such as progressive taxation aimed at redistributing wealth, generous welfare provision and legal protections for employees, and full employment. Social democrats from Australia mention similar policies, including spending on pensions, unemployment relief and public health and education, investment in infrastructure and publicly owned enterprises, and policies aimed at reducing workers’ exploitation (Kerr 2001, 4).

In terms of the implementation of such policies, the quarter century after WWII is regarded as a ‘golden era’. According to Harvey (2005, 11), during this period ‘market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that

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<sup>3</sup> Hence, the title to former ALP leader Mark Latham’s (1998) book, *Civilising Global Capital: New Thinking for Australian Labor*, which itself was based on Bede Nairn’s (1973) classic book, *Civilising Capitalism*.

sometimes restrained but in other instances led the way in economic and industrial strategy'. Many social democrats were attracted to the ideas of the British economist John Maynard Keynes, who argued that it was of 'vital importance' for the state to 'exercise a guiding influence on the propensity to consume partly through the scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways'. A 'somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment...' (Keynes 1973, 377, 378). While it is debatable to what extent Keynesian policies contributed to the consistently high economic growth rates of that period (see Chapter Three), social democrats seized upon Keynesianism, whose status as orthodoxy allowed them to avoid having to choose between mainstream economics and government intervention to raise living standards, expand welfare, and reduce inequality (Scharpf 1991, 23; Padgett and Paterson 1991, 22, 23). According to Plant (2004, 112), Keynesianism became social democrats' answer to the Marxist critique of their strategy of seeking justice and equality by political means while ignoring the economic power of capitalists (see below).

As we shall see in the chapters that follow, it was the buoyant economic conditions that enabled social democrats some measure of success in the post-war period. Yet, social democrats have often failed to implement their traditional policies in government, and have instead ended up enacting policies beneficial to capital rather than their working class constituents. This (at best) chequered history runs through each of the case studies. As Callaghan (2002, 436) comments, one reason why the post-war period is referred to as a 'golden age' is that social democrats' pre-war record was 'sufficiently grim'. The most persuasive explanation for social democratic failure has come from the Marxist tradition.

## **Social Democracy and Revolutionary Marxism**

According to Tudor and Tudor (1988, ix), among the outstanding features of politics in the 20<sup>th</sup> century was ‘the conflict between revolutionary Marxists and non-revolutionary Social Democrats’. Unlike social democrats, Marxists have seen reforms not as ends in themselves but as a necessary step on the road to the ultimate goal of transcending capitalist social relations (see Lenin 1970, 75-78). Social democrats abhor class struggle. In contrast, witness Marx’s (1973, 108) lauding of the ‘struggle of class against class’ as ‘the prime mover of all social progress’.

The division between reformists and revolutionary Marxists was not always so clear. The current association of social democracy with peaceful parliamentary reform, Moschonas suggests, is a post-war thing. Earlier social democrats could have been considered ‘orthodox, revisionist, [or] revolutionary’, the latter evidenced by Lenin’s description of himself as a social democrat (Moschonas 2002, 19-21). While there is some truth to this, the ALP was from its inception reformist and parliamentarist (see Nairn 1973). The British Labour Party was formed by the trade unions with the aim of representing the grievances of working class people, not overthrowing the system of wage labour. Even the SPD, despite being comprised of revolutionary currents early on, had become thoroughly reformist by WWI (Waldman 1958, 27, 28). The question of reform or revolution was settled in the SAP not long after its foundation in 1889 (Sparks and Cockerill 1991, 93). This raises the question of continuity between social democracy, old and new (see below).

A key additional difference between revolutionaries and social democrats is that the former were influenced by a Marxist approach to the state.<sup>4</sup> While Marx did not thoroughly theorise the state (Miliband 1973, 7), he and Friedrich Engels (1975, 34, 35) had famously argued that the progressive accumulation of wealth by the capitalist class reduced government to the position of ‘a committee for managing the common affairs of the whole bourgeoisie’. Marx (1975, 78) had elsewhere argued that: ‘Legislation, whether political or civil, never does more than proclaim, express in words, the will of economic relations’. The way in which this structural power translates into political outcomes congenial to business investment has been recognised even by some theorists in the pluralist tradition (Lindblom 1977).<sup>5</sup> There is considerable empirical evidence of social democratic governments succumbing to capitalist and other establishment pressures. Perry Anderson observes that a British Labour government is ‘a spot-lit enclave, surrounded on almost every side by hostile territory, unceasingly shelled by industry, press and orchestrated ‘public opinion’. Each time it has been over-run’ (cited in Cairns 1976, 7). Reflecting on the ALP government’s downfall in 1975, Lionel Bowen claimed that ‘the whole of the establishment, the hierarchy and the wealth of [the] country [were] anxious to destroy us’ (cited in ALP 1979, 360). The Mitterand government’s reform programme in France in the early 1980s infamously concluded with the French Socialist Party

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<sup>4</sup> There are numerous Marxist approaches to the state (see Poulantzas 1969; Miliband 1973; Jessop 1982; Harman 1991). The Marxist approach to the state adopted here is an orthodox one: the state embodies the interests of capital, and while capable at times of granting reforms to the working class – either through pressure placed upon it by direct action and/or because economic conditions permit them – its general purpose is to implement laws favourable to capital accumulation.

<sup>5</sup> For a contrary argument, see Przeworski and Wallerstein (1988).



implementing 'austerity with a human face' as a result of capital flight and other economic pressures (Hobsbawm 1994, 411).

The source of social democrats' relative failure thus lies in their pursuit of social reforms within the strictures of capitalism. This was a point Marx (1974, 348) made in his *Critique of the Gotha Programme* when he attacked the SPD for striving to redistribute the 'means of consumption' while leaving undisturbed the distribution of the 'means of production'. One of social democracy's deepest flaws is the separation of politics from economics: decisions can be made in the sphere of parliament and law-making (politics) independently of the daily acts of business investment and production (economics), and political equality can happily prevail amid economic inequality (Callinicos 1997, 17; Miliband 1973, 237). This flaw is exposed all too starkly when social democrats gain power and attempt to enact reforms damaging to capital's interests:

Such interference may well produce adverse reactions from big business – for example, the flight of capital from the country – which will weaken and may even destroy the government. But if the social democratic ministers therefore avoid reforms for fear of annoying the bosses, then parliamentary democracy turns out after all to be incapable of even moderating the inequities of capitalism (Callinicos 1997, 17).

Similarly, Coates (cited in Birchall 1986, 22, 23) pointed to a catch-22 at the heart of social democratic politics: on the one hand, strong economic growth was necessary to finance social reforms beneficial to workers and the poor, but the generation of such growth was possible only by overseeing policies favourable to capital (and by assumption unfavourable to labour). Raymond Plant argues that New Labour's attempt to reconcile 'social justice' with a market economy and private

ownership is 'just the most recent version' of a mistaken belief that social justice and equality can be achieved through the conquest of political power while leaving economic power in the hands of capital (Plant 2004, 106, 107). Social democratic governments are therefore expected to implement reforms in their constituents' favour but simultaneously compelled by economic pressures to introduce pro-capitalist policies that conflict with their constituents' interests. From this flow the inevitable charges of betrayal.

It is thus by no means a recent development for social democratic governments to implement policies that both favour business and disappoint the working class. What is novel is social democrats' abandonment of any ambitions to reform capitalism. Whereas the above analysis suggested that social democrats often harboured such desires for reform only to be frustrated by the realities of power, social democrats today have no intentions of reforming capitalism.

### **Neo-Liberalism and Social Democrats**

Potthoff and Miller (2006, 421, 424) argue that social democracy ought to be, *inter alia*, a 'corrective to neo-Liberalism' and an 'alternative to the conservative-liberal camp'. Social democracy is no longer either of these. It has embraced neo-liberalism and there is no longer any agenda for the transformation of capitalism that distinguishes social democrats from conservatives and liberals. Its relationship with organised labour – once a distinguishing feature of social democracy – is strained to the point where unions are treated as just another interest group. While it is not possible to pinpoint a date for the death of social democracy, it is argued that the

turning point was the collapse of the post-war boom, which robbed social democracy of the economic foundation on which it could act as a 'corrective to neo-Liberalism'. In order to demonstrate this point, it is important first to define neo-liberalism. According to Harvey (2005, 2):

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.

Neo-liberalism is fundamentally at odds with social democracy, which as we have seen traditionally has stressed the need for government to protect workers and the disadvantaged, redistribute wealth, and 'civilise' capitalism. Rather than seeing capitalism as something that needs to be reformed, as social democrats traditionally have believed, neo-liberals strive to liberate capitalism: tax breaks and other incentives to invest, privatisation, deregulation of finance, freer trade and the removal of planning controls help to open up new areas for capital accumulation. On top of this, the neo-liberal state 'withdraws from welfare provision and diminishes its role as far as possible in the arenas of health care, public education and social services that had been so central to the operations of the social democratic state' (Harvey 2006, 25, 26). Neo-liberalism is almost synonymous with the 'Washington Consensus', a term coined by economist John Williamson, and which comprises ten policy areas: fiscal discipline, re-ordered public expenditure priorities, tax reform, interest rate liberalisation, competitive exchange rates, free trade, foreign direct investment liberalisation, privatisation, deregulation, and property rights (Williamson 2002). This broader conception is preferable to those who interpret neo-liberalism as

primarily about reducing the size of the state through reduced levels of taxation and government spending.

The term 'neo-liberalism' implies some variant on liberalism (Dumenil and Levy 2004, 15). Treanor argues that, while widely used as a term, it is 'more a phenomenon of the rich western market democracies' given their historical legacy of liberalism. Whereas liberalism aspired to a market economy, neo-liberalism seeks to subordinate every aspect of society to the market (Treanor 2005). There is no doubt that neo-liberalism has contributed to the further marketisation of many areas of life. It is not clear, however, that this is something peculiar to neo-liberalism. Capitalism has always been driven by a permanent search for new markets and sources of profit. Marx wrote in the late-1840s of the emergence of capitalism as the time 'when the very things which till then had been communicated, but never exchanged; given, but never sold; acquired, but never bought...when everything finally passed into commerce' (Marx 1975, 34).

What is clear is that neo-liberalism is strongly pro-business, and this may not necessarily mean 'pro-market' (Pollin 2003, 8). As Ashman (2003) puts it, neo-liberalism is not opposed to state involvement in the economy, but is instead about 'freedom' for capital from state 'interferences'. Neo-liberalism deploys a strong state to protect private property and open up new areas for capitalist exploitation (Harvey 2005, 21). The dominance of neo-liberal ideas is partly a reflection of the structural power of capital as well as low rates of profit and accumulation that drove states to open up many new areas for business investment (see next chapter). The neo-liberal state, Harvey (2005, 7) argues, pursues policies that 'reflect the interests of private property owners, businesses, multinational corporations, and financial capital'. Treanor (2005) correctly writes that a neo-liberal government 'will pursue policies

designed to make the nation more attractive as an investment location'. Neo-liberalism's overarching aim is 'to create a 'good business climate' and therefore to optimise conditions for capital accumulation no matter what the consequences for employment or social well-being'. This contrasted with social democracy's commitment 'to full employment and the optimisation of the well-being of all of its citizens subject to the condition of maintaining adequate and stable rates of capital accumulation' (Harvey 2006, 25).

There is, of course, not one model of neo-liberalism. Ryner invokes the notion of left and right 'poles' of neo-liberalism (Ryner 2004, 98, 102). Watkins refers to the 'high road' of class warfare, pursued by the likes of Thatcher and Reagan, and the more common 'low road' likely to be pursued by social democrats, involving the imposition of neo-liberal policies by 'stealth' (Watkins 2004, 26). It is therefore possible for two quite different regimes to both be neo-liberal. For instance, Thatcher's regime was arguably neo-conservative (Ignazi 2003, 25). Yet, it pursued neo-liberal policies that New Labour – a different regime constrained by a working class constituency in a way Thatcher's was not – continued in important respects (see Chapter Seven).

Just as there is not one version of neo-liberalism, social democrats have not embraced it in an identical manner. Ryner argues that, while not adopting Thatcherism, through its reforms to the welfare state, its more distant relationship with trade unions and support for European integration, the SAP has occupied the 'left pole' of neo-liberalism (Ryner 2004, 98, 102). The SPD's policies in office between 1998-2005 arguably put it more to the right in comparison.<sup>6</sup> Driver and Martell argue

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<sup>6</sup> Then-SPD MP Ernst von Weizsaecker (2005) put Schroeder to the right of even Swedish conservatives.

that New Labour's neo-liberal policy moves were faster and more ideologically driven than in France, Sweden and Germany, which can be partly explained by British 'traditions of individualism and limited government' (Driver and Martell 1998, 172, 173). Privatisation figured more prominently in the neo-liberal record of the ALP in the 1980s and 90s than it has in recent SAP and SPD governments, where there has been more emphasis on welfare retrenchment (see case studies).

Whatever differences there have been in the styles or speed with which neo-liberalism has been adopted, the international trend is clear. Former SPD Finance Minister Oskar Lafontaine (2000, 25) maintains that in Europe 'we are now all neoliberals and supply-side politicians'. Harvey (2005, 2, 3) writes that in the 1970s there was an 'emphatic turn towards neoliberalism', with countries ranging from post-Soviet states to 'old-style social democracies and welfare states such as New Zealand and Sweden' embracing 'some version of neoliberal theory' and moderating 'some policies and practices accordingly'. The American version of free market capitalism has been dominant (Stiglitz 2003, 4). There has been an indisputable trend towards neo-liberalism in the case studies conducted in this book. While not always been hostile to markets (Vincent 1992, 109), it is clear that social democrats believed in government action to insulate the most vulnerable from the vagaries of laissez-faire, and their policies – in the post-war period at least – reflected this. Contemporary social democracy does not believe in intervening in the market beyond the existence of basic social programmes that few parties oppose.

There is, of course, continuity between traditional and modern social democracy in the sense of its restriction to what capitalist political and economic structures will sanction (see Chapter 2). After all social democrats were, and still are, 'bourgeois politicians' (Miliband 1973, 64). What is different now is that social

democrats employ a neo-liberal policy approach that contradicts their historic aim of reforming capitalism, giving rise to the phenomenon of 'reformism without reforms'. The parties will continue to fund the welfare state and will point to individual policies (for instance, the minimum wage in Britain) as proof of their social democratic credentials. Yet, when implemented within a broader neo-liberal program that offsets most of their benefits, such policies cannot be considered as proof of social democracy. Moreover, they pale into insignificance compared to the reforms implemented by social democrats during the post-war boom.

Some will argue that social democrats operate in different contexts and under different pressures, and therefore social democracy does not look the same as it once did. The problem with this argument is that it could be used to claim that even Thatcherism is social democratic so long it is implemented by parties bearing the social democratic label. Here it is worth recalling Marx's point that 'in historical struggles' it is important to 'distinguish the phrases and fancies of the parties from their real organism and their real interests, their conception of themselves from their reality' (cited in Molyneux 1983, 3).

When we refer to the death of social democracy, then, we are referring not to the death of social democratic parties as organisations. It is rather the social democratic content of these parties that is dead. While modern social democratic parties remain transfixed on gaining parliamentary power, there is no longer any legislative desire to reduce inequality and restrain capitalism. Lafontaine (2000, 205) argues that the contemporary task of social democrats is 'to bring under control a capitalist system that is running wild'. It is clear that nowhere do social democratic parties see their role in this way. Moschonas argues that any social democracy worthy of the name would favour the re-regulation of capital flows in order to reduce

global inequality. He also argues that social democrats ought to prioritise employment, oppose the redistribution of wealth to the rich, defend the welfare state, and invent ‘novel, complementary social institutions to combat the new zones of poverty and inequality’ (Moschonas 2002, 264, 316). Any attempt to ‘civilise’ capitalism today would surely involve policies such as limits and regulations on capital movements (including speculative capital through means such as the Tobin tax<sup>7</sup>), strengthening the rights of unions and workers, increasing the tax burden on corporations and the wealthy, and extending regulations governing the environmental conduct of business. But regulating globalisation runs counter to the thinking and practice of most social democrats, who have enthusiastically embraced the globalisation agenda, despite believing that it undermines social democratic policies (see case studies).

Of course, one can argue about what difference some of the above measures would make while capitalist social relations remain in place, or about the likelihood of passing such laws in the teeth of capitalist resistance. If the issue were about how these policies could best be achieved – by ‘reform’ or by ‘revolution’ – this would be consistent with traditional debates between social democrats and those on its left. But social democracy no longer believes in ‘reform’. As recent as the early 1980s (eg Mitterand’s in France), social democratic governments came to power with intentions to reform only to be rebuffed by economic pressures. Yet the Swedish, British and

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<sup>7</sup> The Tobin tax (named after Nobel laureate James Tobin) involved imposing a tiny tax on speculative investment as a way of raising funds for Third World development. If implemented, the Tobin tax could make a substantial difference (see Callinicos 2003, 77-79) but social democrats have shown little interest in pushing the idea.



German social democrats that took power in the 1990s showed no intentions of social democratic reform (see case studies).

While the absence of any social democratic policy agenda is the most important measure of the death of social democracy, the changed relationship with organised labour provides further evidence of this. Most parties still retain a distinctive formal link, and social democratic politicians will frequently meet with and address gatherings of trade unionists. Moreover, unionists still provide a key source of finance and candidates, as well as ‘foot soldiers’ during campaigns. Yet, the relationship no longer has any political content, for it does not lead to policies implemented in the interests of labour. Most of the European social democratic parties have disassociated themselves from unions (Moschonas 2002, 253). The neo-liberal policies implemented by social democrats in some countries have led to the ‘break-up of the socialist family’ or talk of divorce and disaffiliation (McIlroy 1998, 538). Unions are often seen as just another interest group jockeying for influence over government. The input of business, on the other hand, is celebrated and welcomed. While it is doubtful that there will be a complete divorce with unions, there is no doubt that the trend is increasingly in the direction of de-unionising or de-labourising the parties, and further ruptures are likely in the future, with the potential for union figures to seek alternative political allies (as is the case to some extent in Germany, and to a much lesser extent, Australia). There is evidence of tensions between social democrats and unions in earlier periods of social democracy (see Pothoff and Miller 2006, 245, 263). But as we shall see in the case of the ALP, which has been in Opposition for twelve years, this is not just a cyclical thing wholly attributable to social democrats being in government, but rather a permanent feature of neo-liberalising social democracy.

Rather than this emanating from the electoral interests of social democrats in distancing themselves from apparently unpopular unions, as Moschonas (2002, 253) argues, the changed relationship is in fact a product of social democrats' shift to a pro-business policy approach, which in turn was based on the need to revive rates of accumulation when the long boom came to a halt. While the timing and details differ in each case, there are nonetheless many similarities. The unions were effectively a speed-bump on the road to a pro-business neo-liberal stance. Traditionally there is tension between traditional social democratic policies and the needs of business, whose interests have often conflicted with the redistributive policies of social democracy. This tension was reduced considerably during the post-war boom when strong capital accumulation went hand-in-hand with social democratic reforms (see below). Social democrats' abandonment of such policies since has antagonised workers and unions, which stand to lose from the regressive and iniquitous effects of neo-liberal policies. Witness the way in which the SPD's Agenda 2010 labour market and welfare policies inflamed relations with German unions (see case study). There have, no doubt, been rifts between the wings before, but today it occurs in a context where there is almost no prospect of a restoration of the economic base that would underpin a return to the social democratic policies that might heal the rifts (see next chapter).

### **Hugo Chavez and Venezuela: Signs of Life for Social Democracy?**

It could be argued that the cases I have chosen fit the argument that social democracy is dead but that the example of Venezuela and President Hugo Chavez does not. Chavez has been a strong opponent of neo-liberalism in recent years and has

nationalised sections of industry, and introduced programs to reduce poverty and improve levels of education and provide better health services to the poor (Gott 2005, 256). According to some analyses, these programs have significantly cut poverty rates (Weisbrot, Sandoval and Rosknick 2006, 3), though others argue that the reforms have been much more limited (Denis 2006). Chavez is aligned with the AGM (Gott 2005, 273), while others count him as part of a Latin American 'social-democratic alternative to neo-liberal capitalism [that] is rising from below and infecting politics everywhere' (Ali (2006, ix).

One problem with the latter claim is that 'social democratic alternative' is not defined. It is debatable whether Chavez is a social democrat.<sup>8</sup> But a more important reason why the experience of Chavez and Venezuela does not hold out hope for social democracy is that his policies rely on circumstances virtually unique to Venezuela. The success of Chavez hitherto in reducing poverty rates and implementing social programmes has been based on the strong rates of economic growth witnessed in recent years, and the high world oil prices. Economic growth increased by an extraordinary 17.9 percent in 2004, and by 9.3 percent in 2005 (Weisbrot, Sandoval and Rosknick 2006, 3). On top of experiencing soaring growth rates, Venezuela is the holder of the largest oil reserves of any country outside the Middle East, and possesses the fifth largest reserves in the world (Lupi and Vivas 2005, 83). Ali (2006, 41) concedes that the reforms are 'fuelled by oil revenues'. Former Brazilian president Fernando Cardoso argues that:

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<sup>8</sup> Chavez has attracted support from people in the social democratic tradition as well as the revolutionary left (Lupi and Vivas 2005, 84, 93). Furthermore, 'Chavismo' has been labelled 'populist' by numerous observers (Hawkins 2003; Ellner 2003).

The government of Hugo Chavez has plenty of money because of oil. So he has the possibility to be populist without fiscal worries...

Bolivia, I'm afraid, doesn't have enough money to be populist. Evo Morales doesn't have oil and he doesn't want inflation. So, what can he do? (Cardoso 2006, 63).

As Starr (2007, 8) comments, 'governments can only apportion handouts when the cash box is full. When oil prices fall, government revenue plummets, and the state is forced to curtail the spoils'.

As is shown in the next chapter, reformist governments' success is invariably based on strong economic conditions, which make it easier to simultaneously satisfy the desires of working class constituents for reforms and meet the accumulation needs of business. Thus far, Chavez has managed to do this: his reforms are accompanied by close relationships with sections of capital (Denis 2006), and the 'government has not engaged in mass expropriations of private fortunes' (Parenti 2005). Should conditions change, the scope for social change will narrow considerably (a point to which we shall return to in Chapter 13). Aside from the impact of Latin American political culture and tradition, and the pressure of a mass movement from below, these conditions of high growth and massive oil revenues make it difficult to see the Chavez model being applied elsewhere.<sup>9</sup> This might explain why there has been no flow-on from Chavez to social democratic parties in other countries, which remain as wedded to neo-liberalism as ever.

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<sup>9</sup> It is true that the economies of both Australia and Britain have been growing at relatively high rates in recent years, but the rates seen in these countries are not remotely comparable to those enjoyed in Venezuela, and the economic strength experienced in those countries falls short of that experienced during the post-war boom (see Chapters Five and Seven).