The limits of social-democratic politics

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1 Introduction

How did social-democracy turn from being one of the most successful political mass movements in history into a series of national parties in political crises and deep ideological disarray during the course of one hundred years since the formation of the Second International in 1889? The thesis in this article is that the crisis of social-democracy is a long-term result of the fundamental problems that the reformist strategy of any workers’ movement invariably encounters in relation to the state and the economy. They have yet to be solved.

These problems will increasingly bring the question to the fore: is the goal of social-democracy to be a party in government or an organization for social transformation? Whilst this may at one point have been synonymous to its members, it will be argued why it necessarily ceases to be so with the passage of time.

2 Conceptions of the state

The struggle of early social-democracy for the modern democratic rights, and universal suffrage in particular, rested on an impulse that went back to antiquity, best summarised by Aristotle’s observations of ancient Athens:

A democracy exists whenever those who are free and are not well off, being in a majority, are in sovereign control of the government, an oligarchy when control lies in the hands of the rich and better born, these being few.1

It was this class aspect which formed the basis of the struggle by the upper classes to prevent or undermine democracy throughout centuries. Bourgeois thinkers, such as the liberal John Stuart Mill, worried about the “danger of class legislation on the part of the numerical majority, these being all composed of the same class”2 and could therefore not accept equal votes.

The struggle for democratic rights by the workers’ movement was a precondition for it to become a strong mass movement with a base in the industrial working class in the advanced capitalist countries. As long as organizing was illegal this strategy for social transformation would remain impossible. The struggle for universal suffrage was an element of the strategy. The spectacular membership growth of social-democratic organizations strengthened the belief that seizure of state power through the parliamentary road was inevitable. State power would be used for progressive reforms with the long-term goal to “transform the organization of bourgeois society and liberate the subjugated classes, to the insurance and development of intellectual and material culture”.3

The gains made by European social-democracy would eventually show that the communist parties’

1Aristoteles och Saunders [1, p.245].
2Mill [9, ch.7.§.1].
3Party programme of the Swedish Social-Democratic party (SAP) from 1911, [12, §.1].
conception of the state in capitalist economies was mistaken. The altered political balance of forces after World War II brought social-democracy to governments in several countries, in which it could implement a series of important working-class reforms. Even in a country like the United Kingdom, whose parliamentary system was long considered to have kept the state safe from the workers’ movement, the Labour party could implement a series of nationalizations of industry and the country’s most important reform during the 20th century: the introduction of a National Health System that provided the population with health care according to socialist principles.

At the same time it became increasingly evident for the Western European communist parties, for instance the large Italian PCI and French PCF, which had grown through their instrumental role in the anti-fascist struggle, that the revolutionary strategy based on the Comintern model was fruitless in societies with a stable capitalist economy and working parliamentary state with universal suffrage; unable to find an alternative they all eventually gravitated towards a reformist position during the post-war period. Only in parts of Asia, Africa and South America, where such social conditions did not pertain, did the original strategy still have relevance.

3 The blind spots of social-democracy

But the social-democratic conception of the state would also prove to be simplistic.

Firstly, the workers’ movement’s struggle for universal suffrage was not based on the classical theory of democracy as a form of government. None of the central institutions of Athenian democracy had elected representatives, instead they were drawn randomly among the citizens. Elected representatives were considered to be an ‘aristocratic’ principle for choosing ‘the best’ in terms of status and education. This method was used almost exclusively for electing the ten generals of the city. Only candidates chosen by lot could guarantee that poor farmers and artisans held political power. A look at the national parliaments in the modern world in terms of class, gender and ethnicity shows that the Athenian insight was correct: they are populated by representatives that are not statistically representative. For mass parties the formation of professional politicians, whose social background differs from the movement, leads to long-term problems since there is increasing risk that they cease to share the same perspectives and priorities. The risk is further increased when the primary goal is to win parliamentary elections and when the professional politicians can secure economic privileges.

Secondly, even if the state is a juridical subject, and can at times act unitarily, it is a hierarchy of state apparatuses that do not always act in concert. The most extreme example is Chile during 1970-3 when the class bias within the military establishment made it perceive the government of Allende as a threat to the order and decided to end it in blood. In the unlikely scenario that the armed forces would turn against an elected government in the advanced capitalist countries today, it would not be hard to guess which political direction the state would take. More plausible examples, however, are the Ministries of Finance or Central Banks, which can limit a government’s scope for economic policy and therefore influence its direction.

Thirdly, the power of the state apparatuses flow from the monopoly of the legitimate use of violence. No decisions taken within the state, no executive orders by ministries, no laws passed by parliament, would be effective without the possibility to sanction those whom do not follow them. To the extent that this state power is used to reproduce the capitalist mode of organizing social production it is effectively capitalist by nature regardless of what party or intentions are in government.

Fourthly, and most significantly, is the structural dependence between the state apparatuses and the capitalist sector. This is the central problem of the reformists’ instrumental conception of the state and needs to be elaborated at greater length below.4

4 The state in a capitalist economy

The total labour performed in the capitalist sector results in a product that is distributed among the

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4The following analysis is based on Block [2] which was a response to a debate initiated by Nicos Poulantzas [11] and Ralph Miliband [7, 8] i New Left Review.
agents in Figure 1. People who administer the state hold a position in the economy that gives them opportunities to privileges, wealth and power through its capacity to levy taxes. The state provides the capitalist sector with a juridical system and laws without which it could not operate, but at the same time the state is dependent on tax revenues from the incomes in the sector and credits in order to act in the world economy.

This dependency forces state managers to be concerned about maintaining the economic activity, irrespectively of whether they are bureaucrats or elected professional politicians; regardless of whether their goals are to build military capacity or implement social reforms. At the same time they have to assume an economy-wide perspective in order to keep the destructive effects of the capitalist sector—e.g. crises and unemployment—in check, or else the state rapidly risks losing political support from other sections of the population on which it is dependent to various degrees.

Economic activity is highly dependent on the level of investments in the economy. This fact gives individual capitals a collective veto over policy: Firms make productive investments and rentiers provide credit depending on how they perceive profitability and the political-economic climate, i.e. if society is stable; if the economy is expanding; of the workers' movement is kept under control; if the level of taxes do not rise, and so on. If the business confidence of capitalists falls, the level of economic activity and hence the scope for state policy does too. This occurs in the context of rivalling states, that historically pre-dates capitalism, which act in a world economy. An investment strike is followed by capital flight to other states and difficulties in obtaining credits for foreign exchange.

This structural mechanism disciplines individual states under stable conditions to implement policies that do not harm the confidence of owners of capital and, on the contrary, act to maintain a stable development of the entire capitalist sector.

5 Economic growth and scope for social-democratic reform

During certain historical periods—war, international crises, reconstruction, mass mobilization—the balance of forces between the agents in the economy is altered and the individual capitalists' confidence carry less weight. This increases the scope for the state to conduct an alternative set of policies depending on the other forces in society. But as the situation stabilises, the weight is shifted back to the dependence on the incomes in the capitalist economy. This creates sooner or later insuperable problems for the reformist strategy. The only way to reduce the dependence then is to increase the non-capitalist sector's share of production from which it is possible to redistribute resources in order to implement progressive reforms. Within the early workers' movement it was clear that this meant some form of common ownership but it did not have a worked-out theory for how the economy would be run and political strategy for how to organise it. The policies that social-democracy mainly applied was nationalization of industries, measures that had grown out of a period of global mobilization for war and economic catastrophe 1914-1950.

The question of the structure of the political economy was, however, not central to the reformist strategy that was established immediately after WWII, when the nation-states prioritised reconstruction and industrial development. The balance of forces in the economy shifted to the benefit of industrial capital and workers at the expense of the rentier capital; whose movement and ability to extract interests and dividends were restricted to maintain high levels of investment. Under these circumstances social-democracy in power could be a progressive force without having to challenge the economic order.

The high levels of investment contributed to an enormous growth of wealth and facilitated full employment in Western Europe while avoiding to severely damage the confidence of industrial capital. The dependence on the incomes in the capital.

5 See for instance SAP:s first 'general thesis' up to 1990 or the British Labour party's Clause IV from 1918 to 1995:

To secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service. (Emphasis added.)
The capitalist sector did not appear to be an obstacle, on the contrary the scope for social-democratic reform was wide. The capacity that the workers’ movement had built since the days of the foundation of Second International in 1889 finally yielded political dividends on a scale that was impossible before 1945.

6 Obstacles on the parliamentary road

But high levels of investment imply huge consequences for the development of a capitalist economy. When the size of the workforce stabilises and the growth rate of productivity in large-scale industries cannot be pushed further upwards, high investment levels will lower average profitability of invested capital.6

At the same time workers are concentrated in industries that strengthen their bargaining power since union actions there affect a large part of the entire economy.7 The Polish economist Michal Kalecki predicted already in 1943 that the maintenance of full employment would create social and political changes that would destroy the confidence of industrial capital:

\[ R^* = g_l + g_p + d \]

where \( g_l \) and \( g_p \) are the relative growth rates of labour and productivity, respectively; \( d \) is the rate of depreciation of the capital stock and \( i \) is the ratio of gross investments to profits. Cf. [4, 16].

Indeed, under a regime of permanent full employment, the ‘sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension.8

Furthermore, industrial capitals would try to compensate wage demands and taxes by raising prices, i.e. inflation, which damages the interests of the rentiers.

In other words, it was precisely the high levels of investment, which had facilitated the scope for progressive reforms, which led to two separate processes (i) a declining rate of return on invested capital and (ii) the rising strength of the workers’ movement, resulting in a crisis of profitability and business confidence in the advanced capitalist economies during the mid-1970s. In general, social-democracy did not have a strategy to fall back upon, other than the same Keynesian policies. The attempts to formulate a new path either did not result in worked-out political programmes and strategies or they arrived too late.9

The most ambitious plans within the West-

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6The average rate of profit rate follows a dynamic equilibrium rate \( R^* = \frac{g_l + g_p + d}{i} \), where \( g_l \) and \( g_p \) are the relative growth rates of labour and productivity, respectively; \( d \) is the rate of depreciation of the capital stock and \( i \) is the ratio of gross investments to profits. Cf. [4, 16].

7See Silver [13].

8Kalecki [6, p.351]. This prediction originated in Marx’s theory of a ‘reserve army’ of unemployed.

9For instance the Labour party attempted to formulate plans to nationalise parts of the manufacturing industry and subject the economy to a public planning framework, but did not advance beyond this. Cf. [5].
ern European workers’ movement was the Swedish ‘wage-earners funds’ proposal of 1975 in which a share of the value-added from highly productive firms would be transferred into funds controlled by the movement in order to transform the structure of ownership in the economy. This would have reduced the dependence on the capitalist sector in the long-term, increased the scope for reform and control of development. But the proposal arrived too late for it to be developed into a political strategy in the international context of the 1980s, and was further weakened by an influential section of the Social-Democratic party that persistently maintained a non-confrontational reformist strategy whose possibilities were exhausted.\footnote{See Olsson och Ekdahl [10].}

In an attempt to embark a path of its own, a parliamentary coalition led by the French Socialist party conducted a series of nationalizations of industry and finance in 1981, as part of a package of reforms. But despite generous compensations such policies were at this point met with falling business confidence, capital flight and hence macroeconomic problems. The scope for policy actions by the state was further limited by the rules of the European Monetary System. The government chose to turn around policy completely by 1983, as predicted by the theory of the state outlined above.

Instead of the workers’ movement it was the representatives of the rentier interest which took the initiative during the crisis and shifted the balance of forces in the global economy during the 1980s: Capital mobility was opened up, as well as new markets and labour reserves in the East; full employment was abandoned in favour of low inflation and high interest rates\footnote{In the countries in which full employment was an institutionalised commitment it took longer time to break down those policies. Cf. Therborn [15].}; privatizations and slashing of publicly financed welfare services followed. This also implied the end of the successful ‘classical’ politics of European social-democracy. But instead of trying to deal with the cause of the decreasing scope for progressive reforms, in other words, the structural dependence on the capitalist sector, social-democracy moved away from the issue altogether and towards the so-called ‘Third Way’.

Nation-based social-democratic parties continued to pursue the same goals they were set up to achieve, namely winning elections in national parliaments but now with an internationally weakened workers’ movement, a decreasing scope for reform and abandonment of the issue of an alternative political economy. What remained then was nothing but their role as administrators of the state. In practice, therefore, they had fewer alternatives to offer other than “budget cuts with a human face”. The crisis and ideological disarray of social-democracy that exists to varying degrees throughout Europe is the result of this development. It has also left the field open for the extreme Right to win support among a part of the population that has conservative social values but who support progressive economic policies and therefore had a reason to vote for social-democracy in the past.\footnote{Cf. Svallfors [14].}

At the same time a return to expansive welfare policies, which relied on economic growth in the past in order to redistribute resources and facilitated progressive reforms without threatening incomes, is becoming increasingly problematic when the national product per capita must be restricted in order not to accelerate the growth of greenhouse gas emissions and the use of limited natural resources. This will restrict the scope for social-democratic reforms even more. Returning to expansive state policies would require a return to curbing the rentier interest and maintaining high investment levels, which would eventually reproduce the same crisis tendency that followed the post-war boom.

Furthermore, welfare services cannot be rationalised in the same way as in industry, which implies that a growing share of total labour must perform them. But in order to conduct welfare policies this implies that the tax-financed public sector’s share of the economy must increase as well, making such policies ever more conflict-ridden and increases the need for political support (see Figure 1). However, such support cannot be won through election propaganda or even agitation but through practical politics.

7 The future of social-democracy

In order to strengthen the support for the public sector among its workers and the citizens in gen-
eral it must be organised in a way that is superior to the capitalist sector. The primary way of doing so among state enterprises would be to raise workers’ control to a level that is impossible to achieve in the capitalist sector. That would furthermore contribute to a practical training in self-management and possibilities to explore new innovations in organization, technology and coordination of common resources. At the same time the Athenian insights about the representative institutions of the state cannot be ignored; if social-democratic parties want to win in this arena, the institutions should be populated by people from its social basis. That requires their reorganization according to classical democratic principles. To prevent the non-representative state apparatuses from undermining the policies of the workers’ movement when in power, the movement must activate and educate members within these parts of the state, preferably through independent trade-unions.

None of this will by itself, however, reduce the dependence on the incomes in the capitalist sectors which becomes increasingly problematic for the reformist strategy, especially since the public sector primarily produces tax-financed welfare services and hence cannot be a decisive source for economic scope for action. What possibilities remain then for the original social-democratic goals of a thorough social transformation through the parliamentary road?

It should be clear that the structure of the political economy can no longer be ignored, but must be in practice, and not mere theory, a central issue. One can only speculate how European development would have turned out if social-democracy had succeeded in implementing reforms analogous to wage-earner funds as early as the 1950s, but in any case it would have given the workers’ movement a completely different position at the onset of an economic crisis. The relevance of this issue resurges, however, irrespective of the workers’ movement since the growing ecological constraints on economic expansion demands some form of macroeconomic coordination and planning.

The French example illustrates the potential obstacles for changing the structure of the political economy through the parliamentary road and the possibilities to circumvent them depend on the capacity of the workers’ movement to organise itself outside the national parliaments: If social-democracy had continued implementing its programme it would have required abandoning the rules of the European Monetary System or changing them through political pressure from an internationally coordinated movement. Even if that would have succeeded, the problems of inflation and balance of trade would have required price and import controls, which would have accelerated the crisis of business confidence of the capitalists and their capital flight. At that point it would have been crucial to sustain the activity of the productive sectors of the economy by its workers and to maintain cross-national trade relations which in the long-term would have depended on an international political context that favoured the workers’ movement.

This, however, is a scenario for which the nation-centric reformist strategy has remained entirely unprepared. Therefore every parliamentary advance must be used to strengthen the extra-parliamentary capacity of workers’ movement—to organise people, articulate coherent political programmes from its vantage point and control parts of the economy—which history shows takes decades to build. But it is imperative if successful, progressive reforms should not be destroyed by a simple change of government.

The crisis of social-democracy is a long-term result of its goal of winning parliamentary elections while lacking a coherent strategy to circumvent the obstacles on the parliamentary road to social transformation. Instead it has responded by abdicating on the so-called ‘Third Way’—towards the abyss.

If the primary goal of social-democracy no longer is to conduct social transformation but to be a ruling party then nothing remains but its role as an administrator of the state and it will be locked in a structural necessity to reproduce capitalist relations of production and hence preserve a class-divided society. Then it has exhausted its historically progressive role.

References


