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Social Democratic and Socialist Policies

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Definitions

Socialism is best defined very broadly, as the doctrine that capitalism has very serious problems, and that a substantial degree of public ownership is needed to solve them. On this definition, 'socialism' would include Marxists, Fabians, Utopians, Anarcho-Communists and even conservative (Bismarckian) State Socialists. Social democracy is an even more slippery term. In the late nineteenth century it was used by socialists of many persuasions, often but not always Marxist or Marxist-influenced, to express the conviction that society and the economy, as well as the polity, must be democratised. This was not seen as inconsistent either with the achievement of socialism through revolution, or even with a period of dictatorship after the revolution: in Russia, for example, the full name of the Bolshevik party was the RSDLP(B), or Russian Social Democratic Labour Party (Bolshevik).

After 1917, however, 'social democracy' was increasingly used to distinguish non-revolutionary or 'reformist' socialists from their bitter rivals in the international Communist movement. From 1945, it also came to connote a major revision of traditional socialist orthodoxy, involving a new commitment to a 'mixed' economy in which a large private sector would remain as a permanent feature. In the early 1980s the term 'social democratic' was appropriated by a right-wing breakaway from the (already very conservative) Labour Party in Britain, but by the end of the century it had fallen into disuse. It is best thought of today as characterising the economic policies that had been endorsed by non-Communist socialists in and out of 'Labour', 'Socialist' and (in some countries) 'Social Democratic' parties, especially in Western Europe and Australasia, down to about 1980. On this definition, few if any centre-left parties are now socialist or social democratic, and, arguably, the Democratic Party in the US never has been. However, socialist and social democratic ideas are not dead. They continue to inspire Green parties around the world, though neoliberal thinking is increasingly in the ascendant there, too. They certainly resonate strongly in the global justice movement that erupted in the late 1990s, albeit radically altered to incorporate the so-called 'new social movements' (especially feminism), questions of environmental sustainability, and the global nature of the capitalist market.

In the remainder of this entry, the term 'socialist' will be used in a very broad sense to denote both social democratic and socialist ideas. For a general historical discussion, see King (2003b), Lichtheim (1983) and Sassoon (1996).

In The Beginning

The most famous statement of socialist principles was written in 1847 by Friedrich Engels and Karl Marx. The *Communist Manifesto* emphasises the revolutionary and universal character of the capitalist system, which is inherently cosmopolitan and cannot avoid dissolving the national basis of production and exchange: 'It compels

all nations, on pain of extinction, to adopt the bourgeois mode of production' (Marx and Engels 1998:244). It sets out a transitional programme for the working-class movement. The details would differ in different countries, Marx and Engels suggested, but the broad outlines were 'pretty generally applicable' throughout the world. Their demands included the abolition of private property in land; a heavy progressive income tax; abolition of the right of inheritance; centralisation of credit, and of the means of communication and transport, in the hands of the state; an extension of factories and instruments of production owned by the state; a universal obligation to work; and free education for all children in public schools (pp. 257-8). In the *Communist Manifesto* it is taken for granted that the interests of working people are everywhere the same, and the concluding lines are intended as much more than mere rhetoric: 'The proletarians have nothing to lose but their chains. They have a world to win. Workingmen of all countries, unite!' (p. 268).

Half a century later, the Erfurt Programme of the Social Democratic Party in imperial Germany repeated these claims (Russell 1965:137-41). The global dimension was explicitly recognised. The proletariat faced the same problems, and had the same interests, in all capitalist countries. 'The liberation of the working class, accordingly, is a work in which the workmen of all civilised countries are equally involved', and the party therefore declared itself to be '*one* with the class-conscious workmen of all other countries' (p.139; original emphasis). The detailed programme that followed included a demand for 'national and international legislation' to establish a maximum eight-hour day, to prohibit night work and child labour, and to guarantee at least 36 hours of unbroken rest for all workers each week (p. 141). Bertrand Russell commented at the time on the 'perfectly orthodox Marxianism' of the Erfurt Programme, 'and its boundless democracy' (p. 141). He might also have noted its moderation, and its global reach.

In the late 1890s, the 'revisionist' opponents of orthodox German Marxism argued that a proletarian revolution was both undesirable and unlikely to occur. Socialists ought therefore to be satisfied with the progressive, but peaceful, piecemeal and gradual, achievement of economic and social reform. In Britain the Fabian socialists took a very similar position. In both cases, however, the cumulative effect of reforms was expected to be a fundamentally different social order (Webb and Webb 1920). The combined effect of the Great Depression and the (apparent) success of Stalin's industrialization of the Soviet Union radicalised Western socialists in the 1930s, temporarily increasing the appeal of a centrally planned economy under full public ownership. After 1945, however, a new revisionist current emerged, arguing that the socialist project must be adapted to take account of major changes that had occurred in the nature of capitalism. Some revisionists, like Anthony Crosland, even claimed that postwar Britain could no longer be described as capitalist. In *The Future of Socialism* (1956) he argued that ownership of the means of production was irrelevant, since large companies were now controlled by managers, not by shareholders, and the distribution of income depended more on politics (including taxation and government spending policies) than on market forces.

For Crosland socialism was all about equality, not nationalisation. It is striking just how few references there are, in Crosland's 529-page book, to either finance or the world economy. He worries a little about the balance of payments (Crosland 1956:380-1), and expresses the hope that banks will lend more to industry (p.437-8), but that is about all: there are no references in the index to colonies, development, finance, international (anything), trade, world poverty or the World Bank. For Crosland, socialism was essentially a local matter, without significant global implications.

The Neoliberal Age

This made sense only on the assumptions, firstly that the capitalist tiger had been tamed, so that the system had moved very much closer to socialism, and secondly that these changes were irreversible. Both proved to be false. In fairness to Crosland and his ilk, it should be stressed that the neoliberal revolution that swept the globe after 1975 took everyone by surprise (Howard & King 2008). The neoliberals asserted that all social problems had a market solution, with deregulation and privatisation as corollaries. Financial markets, in particular, were to resume their pre-1929 importance, not actually to provide finance to companies (which still relied very largely on retained profits) but rather to ensure the maximisation of 'shareholder value' and to provide a market for corporate control.

All this was set in the context of a renewed capitalist globalisation, which should be seen not as an unavoidable Act of God but rather as a *project* (Quiggin 2001), reflected in the so-called Washington Consensus propagated by the IMF, the World Bank, the GATT (and its successor, the WTO) and by the US Treasury. Poor countries, especially, should rely upon free trade, unrestricted mobility of capital, free markets, sound finance, low taxes and a small public sector to achieve rapid economic development; and the rich countries would benefit from 'the magic of the market', too. The upshot was the steady dismantling of the post-1945 settlement by means of privatisation, cuts in welfare spending, big reductions in taxes on corporations and rich individuals, the lifting of restrictions on financial markets, and far-reaching attacks on labour market regulation and the power of trade unions. All this means that socialist and social democratic policy now has an unavoidably *reactionary* flavour, since its principal aim is to reverse the damage done by the neoliberals.

But it is not purely nostalgic. Indeed, it has been given added impetus by the global financial crisis of 2008. To cite one recent example, the crisis has prompted a statement by twenty prominent heterodox economists that includes demands for macroeconomic stabilisation, social justice, environmental sustainability and international coordination of national recovery programmes. All would be recognizable to, and endorsed by, socialists and social democrats of earlier generations (Ash *et al.* 2009).

Public Ownership

At least seven socialist arguments for public ownership can be distinguished. First, it is a necessary first step in the total transformation of society. Second, much more modestly, it enables particular industries to be run more efficiently. Third, monopolies should be in public ownership to prevent exploitation of consumers. Fourth, public ownership is needed to produce a more equal distribution of wealth (and this, in turn, is a pre-condition for real political democracy; the alternative is rule by the rich). Fifth, it is essential for macroeconomic stabilization, as only then can investment expenditure be varied to offset cyclical fluctuations in economic activity. Sixth, in industries producing *demerit goods* like tobacco and gambling, public ownership is the only way to give managers an incentive to restrict consumer demand. Seventh, large numbers of public sector jobs are needed if full employment is to be maintained.

The first argument is rejected by revisionist social democrats, and many other socialists now accept continuing private ownership of small business and actively encourage the growth of self-managed worker cooperatives (Nove 1983). Anti-socialists have always maintained that the other six objectives can be attained in other ways, by a combination of competition, regulation and taxation. These objections have some merit, but they completely fail to meet the macroeconomic case for public ownership (arguments five and seven) and ignore the political issues raised by regulatory capture and tax avoidance (which are related to arguments three and six).

The most interesting questions are those arising from the fourth argument. If highly progressive income, wealth and inheritance taxes can be imposed, and do generate a drastic reduction in the degree of inequality of wealth without old-fashioned ‘nationalization’ of the means of production, distribution and exchange, what sort of economy—and society—would this create? An egalitarian capitalism, along the lines of the ‘property-owning democracy’ that progressive conservatives have always claimed to support? Or a decentralized collectivism, with the great bulk of shares held by pension funds (Blackburn 2002) or union-controlled mutual funds (Arestis 1986)? Would there still be financial markets in such a system? How would they be regulated in the social interest? And how would such a pattern of ownership, and the corresponding system of regulation, be made consistent with the (often conflicting) demands of narrow economic efficiency and the broader concerns of social justice and environmental sustainability? Socialists still have a lot of thinking to do on all these questions.

One further socialist argument for public ownership deserves a mention. If there are binding political constraints on the amount that can be raised through taxation of corporate profits, public share ownership may be the only way in which society can obtain an acceptable proportion of total output (Quiggin 2001). On this argument, the privatization of highly profitable telecom enterprises (for example) was a mistake, whatever the merits of the efficiency, monopoly and macroeconomic arguments for their retention in public hands.

A final issue is especially relevant to socialism in the Third World, and this is land reform. Where the majority—or a very large minority—of the working population are peasant farmers, the distribution of landed wealth is a critically important question. Socialists in Asia and Latin America therefore insist on the need to break up large estates and provide land to landless farmers, with an urgency unparalleled in Europe since the late nineteenth century.

Macroeconomic Stability

For socialists, full employment should be the over-riding goal of macroeconomic policy. This entails what Abba Lerner referred to in the 1940s as ‘functional finance’, that is, tax and expenditure policy geared to achieving the full employment level of output, whatever the implications for public finances. If deficits (even large deficits) are required, so be it (Nevile 2003). But government deficits should be seen as at least in part, as an endogenous response to a collection of private sector decisions which in aggregate imply a private sector surplus. This points to the need to encourage private sector spending (Reynolds 2004), in particular by keeping interest rates low. Democratic control over monetary policy must therefore be re-established, with central banks coming back under parliamentary supervision and full employment replacing inflation as their chief priority. Central banks should target employment growth, subject to an inflation constraint. This is particularly important in developing countries like South Africa, where unemployment, open and concealed, is chronically at levels experienced in the rich countries only during the Great Depression. Here job creation is, literally, a matter of life and death (Pollin *et al.* 2007).

This has two implications. In the long run, output must grow at the (Harrod) *natural rate*, which is the rate that gives a constant unemployment percentage. In the short run a higher rate of growth will be needed to reduce unemployment to the maximum acceptable, or *full employment*, level, which in the rich countries might be as low as 2%. This initial period of very rapid output growth raises the very real prospect of a conflict with environmental objectives, which require restrictions on the rate of growth of consumption. Environmental concerns aside, there will be an *inflation constraint* on the achievement of full employment, and in all likelihood a *balance of payments constraint* too. To overcome the inflation constraint, many socialists accept the need for an incomes policy, with an explicit commitment to maintaining (or perhaps increasing) the wage and salary share of GDP. Price and wage controls would be required, with a presumption that both wage-push and profit-push inflation are potentially important problems.

Balance of payments constraints can be dealt with in the long run through reform of the international financial system (Davidson 2008), and in the short run by re-regulation of financial markets and (where necessary) temporary increases in tariffs. An internationally-coordinated demand expansion would overcome the balance of payments constraint on individual national economies. It would almost certainly make the inflation constraint more serious, however, since the inelastic supply of

primary products renders commodity prices sensitive to any significant increase in world demand, as became apparent in 2007 and the early months of 2008. Ussher (2009) draws on the work of Nicholas Kaldor to advocate a return to the commodity price stabilization schemes that operated with some success in the 1950s and 1960s, relying on internationally-administered buffer stocks (see also King 2009). This would benefit producers as well as consumers by preventing catastrophic price collapses like those suffered by cocoa and coffee producers in the late 1990s, and oil producers in the final months of 2008.

Sensible macroeconomic policies must be supplemented by compatible microeconomic action, including detailed intervention in financial markets to regulate the allocation of credit. One relevant proposal is for the introduction of differential reserve requirements, favouring employment-generating investment at the expense of speculation. Asset-based reserve requirements would also allow some control of asset price bubbles (Palley 2004).

Social Justice

A return to full employment would be the single most important contribution to social justice that economic policy could make. This almost certainly involves substantial public employment programmes, with the government acting as employer of last resort, offering jobs to all who are willing to work and unable to find private sector employment. Socialists would expect those employed in this way to receive union-negotiated wage rates appropriate to their skills. More conservative proponents of the 'job guarantee' would offer only minimum wages (Wray 1998).

Improvements to social welfare also involve continued public provision of pensions and other income maintenance payments, and the supply of much greater quantities of public goods like health care, education and child care by not-for-profit institutions that are subject to democratic supervision and control. There must also be a firm commitment to gender/ethnicity equality and the reversal of environmental decay (which affects the poor more than the rich). Productive public investment in these and similar fields would stimulate private investment in related activities, leading to 'crowding in' rather than to the conservative bugbear of 'crowding out'.

Socialists also support re-regulation of the labour market to reduce inequality in employment incomes, restrict hours of work and encourage industrial democracy. They are natural allies of trade unions and supporters of collective bargaining, but recognise that there are increasingly severe limits to what can be achieved through bargaining by weak unions, and a corresponding need for political intervention to enforce the payment of a living wage (Pollin *et al.* 2008) and employer acceptance of reasonable constraints on working hours. This could be widened to include a much broader demand for industrial democracy. Co-determination has proved sufficiently unpopular with German business to suggest that there might well be something in it for labour, especially if it is combined with an interventionist industry policy giving employees some control over corporate investment decisions. The 1980s Swedish proposal for wage-earner funds—a form of collective profit-sharing with substantial

union involvement—also deserves reconsideration as a means of reducing inequalities in income and wealth without exposing working people to excessive levels of financial risk (Arestis 1986). An alternative is employee ownership of the individual enterprise, which would greatly reduce the need for supervision and monitoring of the workforce and therefore significantly increase labour productivity (Bowles and Gintis 1998). This, however, is open to the powerful objection that working people cannot afford to have all their limited financial eggs in one fragile basket.

Statutory limitations on excessive working hours have already been imposed in the European Union, and they have been effective, up to a point. They should be supplemented by measures to reverse the pressures of workplace culture that contribute to the acceptance of overwork by those who suffer most from it, including family-friendly policies that encourage parents to spend more time with their young children. The restoration of full employment will make this easier, as it will substantially increase the bargaining power of labour (unionised or not) at the expense of capital.

One longstanding proposal with impeccable socialist credentials (Russell 1918; Meade 1989) is the payment of an unconditional Basic or Citizens' Income, financed by progressive taxation. Since it offers an alternative source of income to paid employment, Basic Income has a number of important advantages. It would value the work of carers (who are mostly women), and encourage leisure and voluntary work at the expense of consumption. It would, however, be extremely expensive, especially if set at a level significantly above the bare requirements for subsistence, in which case it would probably have a significant impact on work incentives (and corresponding environmental benefits in reducing the full employment or natural rate of growth of output). A more conservative version of Basic Income would pay it only to those actively engaged in socially desirable non-market activities, including the care of young children or elderly relatives.

Tax Reform

Increased public expenditure will place pressure on government finances, so that tax reform is important. Uncontroversially, this must include better enforcement of the existing system (closing loopholes and attacking tax havens). It will also require the 'green taxes' detailed below and substantial taxation of wealth, especially (but not exclusively) inherited wealth. Taxes on land should be substantially increased, and a case can also be made for the replacement of taxes on income by a progressive expenditure tax along the lines suggested many years ago by Nicholas Kaldor (1955).

There is an urgent need to eliminate tax competition between nation-states, which generates a fiscal 'race to the bottom' and reduces the revenue-raising potential of them all. Thus tax policy has an inescapable global dimension. This is acknowledged by the many socialists who campaign for the introduction of a financial transactions tax, either restricted to foreign exchange dealings, the so-called Tobin tax (Patomäki 2001), or a more general tax on all financial transactions. Patomäki argues that the technical difficulties of implementing the Tobin tax are often exaggerated. In

particular, it does not require unanimous international endorsement, but could initially be introduced by a grouping of states, such as the European Union, with other national governments joining the proposed TTO (Tobin Tax Organisation) at a later date. Since the tax is unlikely to eliminate currency speculation altogether, this offers the prospect of very significant increases in government revenue (see Davidson 2002:ch 12, for some objections).

Environmental Sustainability

Socialists are less sharply divided from conservatives and liberals on environmental questions than on any of the other issues. The fundamental neoclassical principle of scarcity does after all apply to nature, whereas it is relevant to labour only in wartime and no-one has ever been able to make analytical sense of the notion of 'scarcity of capital'. Most non-socialist economists will agree that the internalisation of environmental externalities has not gone very far; that the Coase theorem is almost entirely useless as a solution to global warming; and that some elaborate combination of regulation, taxation and subsidies will be necessary to bring marginal private costs much closer to marginal social costs, and marginal private benefits much closer to marginal social benefits, than they are at present (Pearce 1993).

There is thus a very strong case for a redefinition of total output, replacing (or at least supplementing) GDP with measures reflecting environmental goods, leisure, non-market and voluntary work. Many socialists would go further, urging a reduction in the level of consumption in the rich countries of the world and a corresponding repudiation of the consumerist ethic that dominates them (Victor and Rosenbluth 2007). They would also endorse a fundamental reform of the taxation system to tax environmentally damaging activities: the carbon tax is the best-known proposal, with salination and water use taxes not far behind. But socialists place less emphasis on taxation, and more on direct regulation, given their well-founded objections to the neoclassical analysis of substitution in consumption and production. There are also sound reasons for rejecting market prices as indices of scarcity, again contributing to socialist scepticism concerning market-based solutions to environmental problems (Winnett 2003). Tinkering with the price mechanism is unlikely to be sufficient; a more fundamental change in human behaviour, values and styles of life may well be necessary to protect the environment in the longer term.

Socialists are, however, divided on the merits of a steady-state economy (zero growth) as a medium- or long-term goal. At least for poor countries, a substantial period of rapid growth seems essential in order to secure a decent life for the great majority of the population; redistribution from rich to poor is necessary, but not in any way sufficient. Assuming for the moment that eliminating growth is desirable, there are two potentially very serious problems. In the short- to medium-term, there is the previously-noted difficulty of reconciling zero growth with full employment. In the long run, if productivity growth is a function of output growth then accepting a steady-state economy might require us to renounce dynamic economies of scale, posing problems for international competitiveness and worsening the balance of

payments constraint on employment policy in any individual country. 'Environmental responsibility in one country' may therefore be impracticable for narrowly economic reasons alone, quite apart from the global nature of ecological systems.

International Responsibility

Socialists see an urgent need to reform international economic institutions to make them democratically accountable and remove their pro-corporation, deflationary, neoliberal biases. In the case of the IMF, World Bank and WTO this may well require their closure and replacement by entirely new institutions capable of making an entirely fresh start. At the very least, the lending advice and conditionality imposed by the IMF must be changed, and global counter-cyclical policy promoted (Ash *et al.* 2009). Opposition to any extension of the WTO's General Agreement on Trade in Services is also essential if social welfare provisions are to be protected. Socialists also call for re-regulation of international financial markets, and many would welcome a return to fixed exchange rates and (perhaps) the restriction of all foreign exchange transactions to central banks (as proposed by Davidson 2002). Short of this, Patomäki proposes a two-tiered Tobin tax, with the higher rate automatically applying in periods of increased currency volatility to dampen the incentive for further speculation.

A number of more contentious suggestions will require further discussion. Among the most divisive is the question of alternatives to free trade that could protect the interests of low-income groups in both the rich and the poor countries. Socialists in the Third World agree with liberal internationalists in the West that the subsidies paid to farmers in the US and the European Union have had devastating consequences for peasant agriculture in poor countries, and should be eliminated in the interests of global justice. Western socialists accept the underlying indictment, but might have worries about the implications for small farmers, and low-income rural communities, in the West.

Sharper divisions arise on the question of trade in manufactures and, increasingly, in services, where the interests of the working class in (for example) Western Europe and China are very difficult to reconcile. Thomas Palley distinguishes trade between countries with similar wage levels and socioeconomic systems ('developed-developed free trade') from trade between countries where both wage levels and socioeconomic systems are radically different ('developed-underdeveloped free trade'). The latter, he argues, does not necessarily benefit working people in the more developed country: 'In effect, free trade serves to unify the labor markets of developed and under-developed countries, and this puts strong downward pressure on wages in the developed country. ... In this fashion, free trade worsens income distribution' (Palley 1998:166). It also reduces workers' bargaining power, undermining the socioeconomic structure and encouraging a further 'race to the bottom' in employment standards. Palley suggests that a 'social tariff' might be imposed 'to compensate for low wages and lack of commitment to social goals

regarding the environment, worker health and safety, and social welfare'. The revenue might then be redistributed back to the developing countries (Palley 1998:171).

Palley's proposals for the avoidance of 'social dumping' reflect what Graham Dunkley has termed the 'Fair Trade' alternative to free trade. Significantly, Palley does not endorse the more radical, 'unit cost equalisation', variant of Fair Trade, 'based on the specification of minimum wages and conditions, though not actual wage rates, the aim being to minimise international "unit cost gaps" as calculated on the basis of relative productivity and real wage rates' (Dunkley 1997:252). The problem with this, of course, is the impact on employment opportunities in the poor countries. Huge issues arise here concerning the conflict of interest between workers in rich and poor countries: the latter would gain if free trade were in effect to create a single unified global labour market, while the latter would lose, and lose disastrously. A Rawlsian would therefore be inclined to favour free trade, but almost no-one in the rich countries is a Rawlsian at the global level. For very similar reasons, none but the very rich favour uncontrolled immigration, however strong the moral case for such a policy might be. Unfortunately Marx and Engels were wrong: the interests of workers in all countries are *not* the same.

Fair Trade is not the only alternative to free trade. Dunkley discusses several forms of 'Managed Trade', and also what he terms 'Self-Reliant Trade', which offers 'a chance to be one's self', and 'seeks only to eschew heavy trade dependence for key capital, consumer, food, energy, cultural or social requirements' (*ibid.*, p.255). Short of a comprehensive, binding international agreement on environmental sustainability, this may be the only way in which respect for nature can be reconciled with the brutal facts of learning-by-doing and dynamic economies of scale.

Conclusion

Socialists agree that the market, while potentially a good servant, has become a very poor master. The triumph of neoliberalism, they argue, has been accompanied by growing inequality (within and between nations), mass unemployment, macroeconomic instability and unsustainable environmental destruction. In political terms, it has also undermined democracy and generated a sinister tendency towards global plutocracy. Socialist policy therefore involves a substantial extension of public ownership; the restoration of full employment; a commitment to increased economic, social and political equality; fundamental tax reform; a strong focus on environmental sustainability; and, last but not least, acceptance of international responsibility for global justice. This represents a real intellectual alternative to neoliberalism, but it is too early to say whether it also poses a significant political threat to the status quo. Much will depend on the consequences for the real economy of the 2008 global financial crisis. A severe world recession would greatly increase the political appeal of socialist and social democratic policies like those proposed here.

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