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# Social Democracy in the 20<sup>th</sup> Century And its Future

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## ***Social Democracy in the 20<sup>th</sup> Century and its Future***

### *1. 20<sup>th</sup> Century experiences*

Social Democracy was in the first three quarters of the 20<sup>th</sup> century characterized by high degrees of diversity in diverse countries (Sassoon 1996). Whereas most of the continental social democratic parties till long after the end of the second world war continued to stick to traditional concepts of orthodox socialism in its nineteenth' century shape with framework planning and the socialization of the means of production at its core, northern social democrats and some like the Netherlands, Austria or Germany on the continent had adopted a much more pragmatic approach that aimed at combining market capitalism with a welfare state that was able to decommodify the basic social goods. This was the famous Godesberg approach ( SPD's Godesberg Program of 1959). The main difference lay in the continental parties' assumption that the objectives of social democracy required a break with the logic of capitalism whereas the Nordic parties as early as in the nineteen hundred twenties began to see the logic of capitalism as an appropriate device to produce the economic foundations for a universalistic welfare state.

Notwithstanding such heavy differences at the level of concepts and programmatic rhetoric there was, however, a remarkable degree of convergence in terms of practical policy preferences across all social democratic parties. They all supported the building up of comprehensive welfare states that combined a more or less regulated and tamed capitalist economy with social rights and systems of social security. And although the welfare systems that were created in the post war period, some of them with roots back in the nineteenth century, varied substantially between what *Esping- Andersen* has coined the *Anglo-Saxon*, the *Continental* and the *Scandinavian* model, all these types had, nonetheless, some basic features in common ( Esping-Andersen 1990):

*first*, they accepted the capitalist mode of wealth creation at the production side of the economy but only under the condition of substantial degrees of wealth redistribution at the welfare state side;

*second*, the welfare state was seen as both a device for ensuring social justice and an appropriate means for the correction of the economic

defects of market capitalism, particularly the business cycle and mass unemployment;

*third* Keynesian macro-economic regulation seemed to provide an instrument for the political taming of the ugly side of the economic logic of capitalism;

*forth*, the constitutionalisation of social and economic rights and the decommodification of all those social goods that catered to them; and,

*fifth*, last not least, such a pragmatic combination of the three pillars of *liberal democracy*, the *welfare state* and an *embedded capitalist market economy* that was able to make good on the promises of all the individual's universalistic basic rights: liberal, political, social, economic and cultural.

In the golden age of modern social democracy in all countries that had been ruled by social democratic parties for a sufficient space of time (and even in some others where parties with similar persuasions had been in power) a more or less social democratic model of welfare capitalism had been installed successfully and till the nineteen hundred seventies was performing with considerable success (Merkel 1993, Scharpf/Schmidt 2000). Notwithstanding its highly divergent traditions social democracy as a family of political parties had arrived at a considerable degree of convergence in practical terms. i.e. in the basic features of the social model the various parties endorsed, whereas theoretical differences regarding the ultimate goals of social democracy and political semantics went on to prevail.

Arguably in the golden age between the end of the Second World War and the mid- seventies when full employment a reality all the different models of welfare capitalisms including the British Beveridge model met most of the criteria of a social democratic welfare state to an acceptable degree. With *full employment* being provided, *social citizens' rights* being installed that guaranteed *social security*, free access to *education* and *training* and, thereby, a minimum level of *basic equality* in the access to *basic social goods*. Some of the fundamental norms of social democracy were fulfilled more or less. Though the Scandinavian welfare state may claim to be the most genuine version of social democracy, the other European welfare states, like Austria, the Netherlands or Germany, however, were and are to varying degrees compatible with social democratic norms, too.

In this context it needs to be mentioned, however, that social democracy consists of much more than an appropriate welfare state. It relates to **conditions of equal liberal, social, political, cultural and political**

**rights in a broad variety of political and societal sub- systems:** the *political system*, the *constitutional systems of basic rights*, the *public sphere*, *civil society*, the *degree of democratization of the various societal sub-systems*, the *educational system*, the *industrial relations system*, the *type of economic governance*, participation in *trans- national co-ordination* and *political culture*. Due to the lack of space here but even more to the lack of empirical research in the respective fields the following analysis is restricted to the welfare state and in part to a few related issues (Meyer 2004).

## *2. The Challenge of Globalisation*

With the onslaught of the oil price crises in the mid seventies and the beginning of the process of global market integration in subsequent years the social democratic model in all its different forms started to be increasingly seriously challenged. These new challenges accompanied by some other novel problems shared by all modern service societies (such as the *aging of the society*, the new *individualism*, the transformation of *family values* and connected with them the *reproductive behavior*) step by step brought not only their practice of pursued policies much closer to each other than ever before but also their conceptual thinking. Since the nineteen hundred seventies some European Social Democratic Parties (Dutch, Danish) had started to revise their policy concepts and by the middle of the nineties, when the thrust of economic globalization made itself fully felt, they all had changed some of their core policy guidelines and also their overall political approach considerably (Merkel 1993, Scharpf/Schmidt 2000). A new approach to social democracy was, thus, emerging.

The *Golden Phase* of European Social Democracy came to a definite closure in the course of the nineties of the 20th century (Scharpf 1987/ Merkel 1993, Scharpf/Schmidt 2000)). In the subsequent two decades of its *depressive phase* – or the period of its *identity crises* - it turned out quite clearly what the new constraints and limitations were, but for long it seemed to be rather obscure which new resources could be tapped (Cuperus/Kandel 1998, Meyer 1998). Social Democracy at the turning of the century took a new shape –not with complete simultaneity among all connected parties, not with the same degree of coherence, and not with convergence of all the instruments at the policy level- yet with a remarkable degree of overlapping in some of the most basic outlines of their political approach. This process is pampered by a new emphasis on contextual benchmarking, i.e. the readiness of all the parties to learn from best practice models in other countries and reconsider long standing traditions in the light of the epoch making challenge of globalization.

Amongst the new constraints social democratic reform strategies have to cope with some of the most crucial ones are:

- The partial **devaluation** of even gradual destruction or the regulatory and social frameworks through the global integration of markets that had **embedded** national capitalist economies throughout the most part of the twentieth century.
- The devaluation of the Keynesian macro – economic coordination- which erstwhile had been the favourite tool of social democratic economic policies- due to **economic globalisation**.
- The increasing **stress on the welfare budgets** due to high rates of long term unemployment and new social developments such as the aging of society and related health costs;
- **Intensified global competition** in a broadening variety of economic sectors and also of entire welfare state and regulatory regimes including taxing;
- The **service sector dilemma**, i.e. the problem that new jobs under the stress of globalisation cannot be created in great numbers in those economic sectors that are exposed to global competition but mainly in the “sheltered” sectors of personal services, whereas different types of restrictions in different welfare systems are blocking job creation just here ( budget problems prevent the creation of jobs in the public vice sector in the Scandinavian countries, high wage costs and inflexible labour markets in the continental countries).
- **New social and ecological risks** emerging from the latest stages of modernization (e.g. in the social sector particularly child poverty in single parent families, single mother unemployment and poverty, the permanence of unequal life chances due to insufficient cognitive training und education of poor children in their early childhood).
- The growing **diversification** of the different parts of the old and new **working classes** in terms of the attitudes, political aspirations and electoral behaviour;
- In some countries the emergence of **new rivals on the left** in the electoral arena, especially Green Parties or the revival of radical left parties.

Since the middle of the nineties of the twentieth century Europe has witnessed the come back of Social Democracy in the majority of its countries (Cuperus/ Kandel 2001). In the year 2002 Social Democratic Parties were in government in twelve of the sixteen countries of the European Union. Was this increased public support due to an underlying renaissance of social democratic political concepts, policies and politics, that were able to meet the new challenges?

This is yet an open question. Theoretically the new challenges are of a particularly intriguing nature. They provoke answers pointing in contradictory directions that are not easily to be harmonized. The reason is obvious, as the dis-embedding of national economic systems can either be responded by way of strategies of global re-embedding according to the new global scope of capitalist markets or by way of adjustment of the national societies to the new conditions of globalisations or by a whole variety of combinations between both ways. *The basic strategic dilemma of the New Social Democracy in the short and medium term perspective is **coping with** or **shaping** globalisation or how to **combine** the two options realistically with each other* (Meyer 2004).

The discussion in the various quarters of social democracy is characterized by the relative emphasis that is put on each of these three alternatives. Roughly spoken, whereas *traditionalists* tend to maintain that global re-embedding of integrated markets is possible in the near future and thus the basic approach at the national level can stay unchanged, the hard core *third- wayers* pre-suppose that global conditions can hardly be influenced so that the thrust for social democratic renewal must come from radical changes in domestic politics, and a third group of *moderate modernizers* and staunch internationalists aim at combining medium term strategies of positive globalisation with a short term radical renewal of the domestic approach of social democracy. How to reconcile these contradictions so that the objectives of social democracy are still met under radically changed conditions?

### 3. A New Strategic Dilemma of Social Democracy

From a theoretical point of view there are six key elements that mark the difference between social democracy and libertarian democracy beyond the framework of liberal democracy that both approaches share. Social democracy no less in the era of globalisation is characterised by a set of norms, basic requirements institutions, instruments and policies that follow from the universalistic citizens' rights that no government or other legitimate political institution has a right to deny (which cannot be justified here in detail. Meyer 2003, 2004 forthcoming) :

1. The constitutionalisation not only of liberal, political, and cultural **basic rights** but of social and economic rights as well for each and every citizen;
2. The persuasion that the realization/ actual effectiveness of all five categories of basic human rights for all citizens in everyday life is a **political obligation** that legitimate democratic governance has to fulfil.

3. This requires the **decommodification** of such social goods that are conditional for the realization of human rights in all their five dimensions, i.e. their supply as public goods, above all social security.
4. The conviction that in order to achieve this objective **markets need to get regulated**, complemented by public services and **embedded** in a network of ecological, political and social regulations.
5. The guarantee of **equal life chances** for all citizens through equal **access to education**, training and the **labour markets**.
6. The guarantee that people have an **appropriate say** in all political, economic and societal decisions concerning their living conditions.

It is evident that both social change and globalisation are conducive to changes in the instruments that are required for any given society to meet the criteria of social democracy and also the level at which they possibly can be fulfilled. It is, however, likewise evident that the criteria as such would continue to be valid whichever changes in the circumstances of their fulfilment may occur.

Yet -as briefly mentioned before- the historically **new strategic dilemma** that emerges under the conditions of economic globalisation poses a puzzle to social democratic politicians and strategists. It consists in the contradictions between the domestic and the trans-national options to act. As of today it appears uncertain to what degree a policy of re-embedding the global economy in a way functionally equivalent to what was implemented in most countries shaped by social democracy will be feasible in the foreseeable future, though arguably such a strategy is not altogether unrealistic or an empty utopia. It is, however, completely open to what degree and in what space of time progress will be made on this agenda. From this point of view, it might appear that the traditional approach of social democracy needs no change in substance but rather a transfer to the trans-national arena. This is the stance of the actual *traditional left*.

Seen, however, from a national angle and from what needs to be done here and now to cope with the new challenge of globalisation a strategy of immediate adaptation seems without realistic alternative. This is the stance of most of those traditionally coined *modernisers*. It was in a unique fashion the initial position of Tony Blair's understanding of what is new in the Third Way. It meant the departure from much of social democracy as we knew it.

The main stream of contributors to the social democratic debate in Europe, the elites of most of the social democratic parties in particular are, however, inclined to combine both strategies in some or the other way. It is here, where the strategic dilemma makes itself fully felt.

Theoretically the norms of social democracy could, as it appears, be met through all the three different strategies, though obviously in different ways and probably to different degrees, in different time horizons and at differing levels of material goods supply. The dilemma, though, consists in the empirical fact that the concentration on one of the given alternatives excludes not totally but to a considerable degree investment of resources in one of the alternative strategies. Some of the policies necessary for the implementation of one of the three strategies would exclude certain policies that are part of other strategies or even deprive them of their legitimacy in relation to the norms of social democracy. The key examples for this dilemma are **taxation** and **economic regulation**. Under the compulsions of the globalised economy national governments even when run by social democratic parties feel the necessity to lower tax rates even beyond the welfare states' requirements, and sometimes (Denmark, Sweden) even legislate split tax rates that favour mobile tax sources like capital, which they never could legitimise if there was a global tax regulation. The same holds true for many other regulations of capital and corporate behaviour desirable from a social democratic point of view but unfeasible as long as there is not global regulatory frameworks in the respective areas.

For those who rely fully in the feasibility of re-embedding global markets most of the components of Third Way reforms in the UK, the Netherlands or since 2003 in Germany would appear to be illegitimate concessions to libertarianism, whereas those who believe that short term adaptation to the new conditions enforced by globally integrated markets would tend to opine that strategies focussed on global strategies are undermining the very foundations of social democracy at the national level here and now.

#### *4. Welfare state transformation*

Though all welfare states as of today are affected by the twin challenges of aging societies and integrated markets some of them are in terms of their very structure and their mode of operation far better prepared to cope with the new environment than others. Generally it can be said that the *Scandinavian type* welfare states suit the conditions of globalised markets much better than the continental type, whereas the *Anglo-Saxon type* always was sub-optimal in meeting the standards of social democracy and tends in the changed environment to be more so. A closer look into the changes in actually implemented policies and the new policy programs of the European social democratic parties reveals, despite considerable variance in policy instruments, a historically unprecedented measure of convergence in the overall approach (Sassoon 1999, Meyer 2001a). This is not only because they share a basic consensus concerning social moral values and political objectives



but mainly because they all have given priority to short term adaptation to the new global conditions.

A fair general assessment of the transformation of the national welfare states that is ongoing everywhere in the OECD realm may be to term it as a **structural transformation on a lowered level** that is not yet completed and also not fully determined in its final shape. It would clearly be unfounded in light of empirical data to term it, as some observers do, a demise of the welfare state. What are the foundations, the features and the objectives of present day welfare state's transformation?

For the *Scandinavian* welfare states the ongoing structural changes so far are characterised mainly by slightly lowering the level of benefits and increasing and differentiating the individual contributions to its funding. As the problem of underemployment is not yet satisfactorily solved due the **service sector dilemma**, it appears that more structural change is yet outstanding here.

For the *Anglo-Saxon* welfare states the problem of financial sustainability seems to be solved whereas the challenges of poverty and unacceptable degrees of inequality are without convincing cure so far. It is not yet obvious how these problems will be tackled in the framework in which they operate.

The *continental* welfare states, notwithstanding the divergence in the special policy instruments they prefer, converge in a couple of tendencies in their efforts to make their welfare states competitive and sustainable: 1. modestly lowering the levels of benefits, 2. making benefits conditional on individual efforts to work, 3. putting some parts of the social risks back on the shoulders of the individual, 4. whilst giving it new support to cope.

The *Knowledge Economy is transforming* capitalism in many respects: more speedy changes in all dimensions; accelerated obsolescence of goods, services, knowledge and professional skills; a more important role for small and medium size enterprises; the requirement for higher levels of job qualification.

New social risks occur and traditional risks worsen: the fast devaluation of job skills; unemployment; poverty; and thus social exclusion. Beyond all differences in detail and accent the new approach of European Social Democracy is characterized by a package of interrelated policies all of which represent pragmatic strategy-mixes:

- Economic progress, growth and full employment remain matters of political responsibility;
- Socialization of the means of production and state planning remain out ruled as entirely inadequate in an globalised economy;

- The priority of anti-inflation policies; and subsequently the recognition of the autonomy of the Federal Reserve Banks and a policy of strict budget discipline;
- A new approach of cooperation between government and business to achieve the welfare objectives;
- A new mix of supply- and demand - side economic policies implying: favourable (lower) taxes; priority of research and development to pamper technological innovation; public investment in human capital (job qualification and re-qualification) ;
- Ecologically sustainable growth ( in Germany: ecological tax reform);
- Limited increase in the flexibilization of labour markets;
- Public job programs for special target groups (young people, long term unemployed);
- In some countries( like France): reduction of working hours and (Netherlands) increased flexibility in negotiations on working time and wages tripartite systems of cooperation for job creation and growth

In sum, in its economic policies the New Social Democracy is pursuing a multi- pronged pragmatic approach. Country wise there are differences in stressing the single parts of the mix, there is, however, also a broad consensus concerning the overall composition of the mix.

There are a variety of causes for these welfare state dilemmas that differ from area to area.

In the *pension system* the main cause is the reversal of the demographic pyramid of the society with more and more non-working retired people and less and less working younger people. The contributions of the working part of the society, thus, are substantially increasing and/or the benefits of the pensioners respectively decreasing .

In the *health insurance* systems the main cause lies in the speedily rising overall costs due to heightened standards in medicine and medical technology in connection with the aging of the society that make treatment both more and more necessary and more and more costly.

In the *unemployment insurance and welfare* (income support) systems the key cause lies in the emergence of a double lock of smaller budgets on one hand and higher costs for benefits on the other, both due to the lasting high rates of unemployment.

The overall balance is marked by unchanged high expectations in the society regarding the performance of the welfare state, without and appropriate readiness to pay for it's increasingly high costs. In some sectors there is also a lack of self - responsibility and self-directed

problem – solving activities on the part of the citizens; and there is an urgent need for structural change in order to keep the welfare state financially sustainable.

There is yet no dividing dispute about the most basic issues: *first*, that there is a need for structural change, and *secondly*, that social security, the guarantee of a decent life and social inclusion for all individuals must be protected.

The reforms that are already implemented or envisaged are all aiming at a new type of welfare state which is more *activating*; more stern vis-à-vis fraud; more co-productive in delivering security and more subsidiary.

The new approach implies amongst other measures:

- Individuals and families must be aware that they are responsible for themselves in the first recourse;
- The state is clamping down more effectively on benefit fraud;
- The welfare state in the first instance is a social investment state that provides the needy with new opportunities to help themselves (job training, new qualifications, support for self-help groups)
- In return for all subsidies that are given to it the individuals are strictly obliged to look for and accept available job offers (welfare to work), otherwise they will have to suffer benefit cuts or the loss of subsidies;
- An education system that offers life long opportunities for re-qualification is considered to be the most appropriate social policy in the new knowledge economy.
- Strengthening self-help activities, civil and social responsibility by way of organizing a *welfare society*;
- *Public social insurance* systems are slightly, sometimes even considerably reduced in their benefit levels and individuals forced share part of the financial burden of services; and at the same time supplemented by enterprise- and private insurance systems. The minimum for a decent life will be guaranteed, but the individual living standard must be protected through additional private initiatives.
- Concerning pensions, unemployment support and sickness benefit there is a tendency toward flat rates; the protection of the individual *living standard* is in decreasing measure the aim of most of the reformed welfare states, it left up to the individual to contribute on its own –sometimes with additional state support- to such a guarantee for himself.
- Social self-help organizations are encouraged and supported.

These are some general tendencies that mark the difference of present day's welfare states in transition to the welfare state of the golden age. Degrees and instruments of change differ, however, from country to

country and can be analysed and evaluated only on a country basis (see the country reports in: Scharpf/Schmidt 2000).

### *5. The next welfare state*

Most recent comparative research has demonstrated that the different types of welfare states have a highly different capability to cope with the new conditions of globalisation( Scharpf/ Schmidt 2000, Esping-Andersen 2002). In the framework of the new political culture of contextual benchmarking that is practised in all social democratic parties and the related academic communities there are clear indications that the traditional path dependency of welfare reform is about to be substantially relieved. In most continental countries there is a strong tendency to resist pressures toward a demise of the welfare state by transforming it into some variant of an Anglo-Saxon type of welfare residualism without guaranteed social and economic citizens' s rights. Instead of this they tend to adopt many features of the Scandinavian type and enrich it with fresh ideas that cater to newly emerging risks and opportunities.

The direction of this new wave of welfare state transformation that is underway or under discussion to variant degrees in different countries can be sketched by the following characteristics (Esping-Andersen 2002). It is:

- I. **Family- centred:** measures to increase the employment rate of women (e.g. tax, social insurance ); full day care for children of all ages; affordable public or private services to cater to the needs of families with two working adults. That would most probably increase the fertility rates and thus easing the twin burdens of the aging society and the funding of the long term funding of the welfare state.
- II. **Education –and training- centred:** Public education beginning with early childhood; an offer of full day educational care from the first year on throughout the entire childhood and compulsory education from the fourth or fifth year on; flexible and open systems of education, further education and occupational training; a policy of guaranteed second chances for occupational retraining. This would most probably reduce inherited social inequalities and make many more people willing and capable to participate in programs of live long learning, It would in addition also cater to the demands of the knowledge economy for high skilled labour forces and this combining the politics of equality with an economic politics of supply side support.

- III. **Subsidizing the welfare state** in ways that are better sustainable in globalised markets: substantial reduction of labour-related contributions and respective increases of tax funding, especially taxes on immobile tax resources( Income, real estate a.s.o. ). This can help to create new jobs at the low paid end of the service sector, and makes the financial sources of the welfare state more independent of trans-national cost competition.
- IV. **De-segmentation of Labour Markets:** amelioration of the protection of the so far under protected precarious jobs combined with appropriate modest deregulation of so far “over”-protected jobs. This can help to open up the labour markets, distribute the chances to have a job much fairer and fasten the process of hiring new labour force.

There are indications that these policies mark the trend of welfare state reform in the first decades of the 21<sup>st</sup> century. Such a New Welfare State would not just provide less welfare. It would be in many respects much fairer, much more productivity- oriented than the golden age welfare states were. It would, however, reduce all benefits that consist in simple cash transfers and re-transfer part of the burden to insure individual living standards beyond the level of a decent life and social inclusion on the individual's shoulders. But it would be sustainable in an era of globalisation. In many respects even such a welfare state reform follows largely the strategy of coping with globalisation requires a certain degree of political and social re-embedding of global markets.

## 6. *Re-Embedding the Global Markets*

The issue of globalising social democracy has two dimensions: *first*, building a social and democratic framework for globalisation and, *second*, the realization of a social democracy in different world regions.

When it comes to a remake of the old standing question whether the concepts of modern social democracy are outright euro centrist or universalizable in their substance one has first to make four clear distinctions concerning both the **dimensions** and the **policy areas** of the concept:

- *The Philosophical dimension:* modern social democracy as a **political philosophy** and as a **political culture** shaped by the above- mentioned features. As such it is arguably fully applicable in **all parts of the world**.
- *Domestic policy dimension:* modern social democracy as a **package of domestic policies** in key areas such as the economy,

budget policy, education, the organization of the welfare state and the like. At this level it is, of course, tailored to the specific situation and needs of the various countries from which the particular variants of the concept originate. At this level modern social democratic responses to new challenges will most certainly vary with varying countries and societies. Nonetheless **most countries will be in a position to learn at least something from some others**, following the best practice model with its particular virtues and restrictions

- *The global polity dimension* : modern social democracy as a **concept for re-embedding global markets** in social, ecological, political, and regulatory frameworks. At this level the concept is **designed for worldwide political cooperation** between equal partners from all parts of the world. The contribution each country can make to the required cooperation will, however, be different in quantity and quality.
- *The regional politics dimension*: Modern social democracy as a concept advocating political regionalization. At this level the concept itself arguably is of **global relevance**, the particular ways of regional cooperation, however, being specific for specific regions( different for the EU, SAARC, Nafta, Mercosur, ASEAN and others).

In both academic and political discussions of recent years it has become obvious that the present world order, or in many respects rather disorder, in increasing measures suffers a risky lack of legitimacy. This legitimacy crises is, however, by no means restricted to the realm of global politics. It affects likewise the internal condition of the national democracies irresistibly and increasingly because the global democracy deficit implies also their own incapability to keep major developments that affect the well-being of their citizens substantially under the control of their own jurisdiction.

Both the lack of global democracy and the lack of effectiveness and reach of national democratic jurisdiction are just reverse sides of the same coin. One expressions of this being the growing protest movement particularly of younger people against the present mode of globalisation and its consequences for large parts of the world's population both in the South and in the North of the globe.

In sum: societal, economic or political actions that either cause unavoidable social facts or affect the basic rights of people need to be tackled through legitimate political procedures. In that sense it can be argued, as many authors deed, that in an era of globalisation democracy needs to be reinvented. The often neglected point here, however, is that missing the mark of global democratisation implies a substantial measure of devaluating

nation state and even regional state democracy was well, because in that case they will lose invariably their power of political jurisdiction.

The recently issued Global Policy Report of the SEP( Rasmussen Report) describes the political challenges posed by the present state of negative globalisation in terms of 5 major divides that need to be bridged. It also describes the role the European Union has to play in this process.

The 5 divides that need to be bridged through global political actorship are:

- \* A **security divide** has emerged since the end of the Cold War. The world is fragmented, with severe political tensions, military conflict and terrorism on the rise.

- \* A **sustainability divide** puts our very future at risk. Economic growth to meet the needs of the present generation is at the expense of natural resources and the capacity of future generations to meet their own needs in a preserved environment.

- \* A **North-South divide** continues to separate rich and poor, keeping more than half the world's population in poverty and exclusion.

- \* A **labour, social and human rights divide** splits the population into those who have such rights, mainly in rich countries, and those who are deprived of them in the poorer parts of the world.

- \* A **governance divide** prevents existing global political action and institutions from bridging these global divides in a proportionate and effective way.

At the core of social democratic strategies to bridge these divides by way of building global governance and a policy of re-embedding global markets are six strategic pillars, their internal democratisation and their function-based interaction:

1. The concept of a rights and duty based cosmopolitan citizenship that entitles the individual citizen everywhere in the world to appropriate political action at the relevant political level – local, national, regional or global- and participation in the respective processes of deliberation and decision making.
2. The democratisation, complementation, enhancement and increased effectiveness of existing trans-national and supranational political institutions and organizations, especially the UN and its sub-organizations. Particularly the establishment of a People's Chamber and an Economic World Security Council with

powers of surveillance, framework setting and intervention are necessary.

The Social Democratic European Party has fleshed out these objectives in its Rasmussen Report in August 2003 as follows:

#### **Regenerating development policy**

All rich countries must see development policy as a key policy instrument in the years ahead. We must ensure that it achieves its potential by designing it effectively and funding it adequately. We must learn from the many errors of the past. The UN Millennium Goals must guide international efforts. These goals must not be missed but the challenge is immense. We recommend a better balanced, innovative development policy, with closer coordination between donors, coherence at EU level, more debt relief and debt cancellation, a focus on human rights and democracy, new policies to use the knowledge factor in development strategies and – last but not least – more development aid. To achieve the latter, we must rapidly obtain more reliable estimates of actual needs to achieve the Millennium Goals, for they will be a key argument in raising funds. We must also move towards innovative sources of finance, including a global tax.

#### **Achieving fair trade**

The coming months will be crucial in meeting hopes raised by the 'Doha Development Agenda'. A fair trade agreement could help enormously to bridge the divide between rich and poor. But this will require far-sighted and generous trade concessions by developed countries. This is most needed on the biggest issue of all – agriculture. Radical reform of the EU's common agricultural policy should accompany fairer rules on trade in farm produce. Similar demands must be made on the US. The WTO must be made an open and democratically accountable organisation and process. It must be prevented from ruling on non-trade issues. We need to lay down conditions for turning the Doha Round into an Anti-Poverty Round – and we must put sustainability at the heart of the WTO agreements.

#### **Promoting sustainable development**

A global strategy for sustainable development must gradually be built into the policies of both developed and poorer countries. Development and economic growth should be less and less at the expense of natural resources and the environment. Poverty and environmental degradation are two sides of the same coin in developing countries. The Johannesburg summit made significant progress in defining a new sustainability agenda. But consensus has not been possible on all fronts. Due to weakness of global governance and lack of political will, implementation may be disappointing. Developed countries must help the developing world to meet the sustainability challenge by incorporating this dimension into adequately funded development strategies. They must also stimulate eco-friendly technology transfers. Having said that, we stress that developed countries must meet the highest demands of sustainability.

#### **Building a global legal order**

Globalisation must gradually be built into a world legal order, founded on a Global Charter of Fundamental Rights. In the long run, a notion of global citizenship must emerge, based on rights shared by all human beings. These rights exist on paper – the UN Declaration of Human Rights and the civil-political and economic-social pacts. In the end, these rights should be drawn together and become reality for all.

The world needs regulation in many areas as a result of globalisation. They include: human rights; social and labour rights; taxation; finance; migration; environment; crime; trade; investment; intellectual property; competition; bio-technologies; and e-commerce. Progress is greater in some areas than in others and should be speeded up.

#### **Reforming the international financial system**

Despite a promising start after the Asian financial crisis, the reform process has been relegated to a few official circles. Ambitious reform proposals have been brushed aside. Far-reaching reform remains as crucial as ever.

Our reform proposals seek to:



- address IMF mission-creep;
- strengthen surveillance and international standards;
- rebalance and improve IMF governance;
- open the way for regional arrangements and a variety of sources of advice;
- allow temporary restrictions on capital liberalisation in some circumstances;
- separate IMF tasks from those of the World Bank;
- ensure proper private sector involvement; and
- improve the role of the Financial Stability Forum.

In the long run, we support the case for a World Financial Authority.

3. The extension, intensification and internal democratisation of Regional systems of political co-operation such as the EU, ASEAN, SAARC, Mercosur, Nafta and the like and their networking as crucial building blocs (Willy Brandt) of world democracy.
4. Stressing sector-wise functional global governance in relevant sub-systems such as Trade, Labour, Ecology, Health, Security etc. through building trans-national regimes of sector-wise political regulation such as the Kyoto-Protocol, the World Labour Organization or the World Trade Organization and making them much more accountable, inclusive and democratic.
5. Giving the trans-national civil society support and additional political weight with its more than 25 000 initiatives of today that cover all relevant policy fields from human rights and labour condition monitoring through environmental protection to gender equality etc.
6. Building a global public sphere both to foster the emergence of and give expression to cosmopolitan citizenship as the original source of global democracy: its legitimacy and its forms and functions.

### *5. New Coalitions for a New Multi-lateralism*

The prospects for global democratisation thus depend upon the performance of the European Union and other relevant political actors in the global arena including new trans-national political movements and their impacts on the US public. From a realistic point of view there is a limited range of actors in the global political arena of today and tomorrow who can form a political coalition to promote the project of global democracy with sufficient measures of political support and power mobilization. Basically there are five candidates for such an alliance who have demonstrated in recent years that they will and can act - based on different but well-understood interests - to varying degrees in that direction:

1. Large parts of the international civil society including the responsible currents in the so called "anti-globalisation"- movement.

2. The globalist majority among the world wide social democratic movement and the related family of political parties (as organized in the Socialist International) including relevant currents among the US democrats.
3. The emerging players in the systems of regional political co-operation.
4. Some of the Third World countries and emerging new democracies.
5. The political mainstream and the large majority of national governments in the European Union.

It must be added, however, that the parties of international Social Democracy have not yet reached at a consensus on their response to the new challenge of US-unilateralism and neo-liberal globalisation. There is some probability that they never will in the foreseeable future. The large majority of the related parties, however, are – at least at the level of their programmatic liabilities- strongly in favour of global democratisation, global economic regulation, containing US-unilateralism and enhancing regional political co-operation. Yet, the parties of Social Democracy in Europe are at present time to a certain degree trapped in a strategic dilemma. Whereas In their programmatic discussions and commitments most of them endorse the idea that the extension, intensification and democratisation of democratic global governance is necessary in order to re-embedded global markets under social and ecological standards they are much more hesitant when it comes to drawing practical consequences. At the level of action they usually meet with two major road blocs on their way. The first is the electoral situation that pushes social democratic parties to pursue the most immediate social and economic interests of their national electorate in the first instance. The other, once they are in office, consist in the necessity to come the workable arrangements with the dominance of the US- administration. From within their party organizations there is, nonetheless, constant pressure toward a in favour of global democracy and a fairer world order.

### *7. The Role of Europe*

Historically a result of the creation of a European internal market, industrial restructuring, notably through mergers and acquisitions, increasingly becomes the result of changing business strategies to respond to the corporate challenges generated by expanding economic globalisation. In Europe, such industrial change often results in large redundancies, thus adding to a generalising feeling of economic and social insecurity and instability among the working class. Thus, restructuring has become a prominent feature of today's tougher form of globalised capitalism discussed in Part I of the report.

Until now it has been that the traditional paradigm of social policy sought to repair the damage created by restructuring. However, the challenge for a new paradigm must be to manage restructuring and change so as to anticipate developments and avoid deterioration. It would also seem that after years of experience there is a need for more binding quality of information, consultation and negotiation. This needs to be accompanying with an improvement of the European competition law and workers' involvement in competition procedures.

The European Union is the most promising actor capable of counterbalancing US-unilateralism effectively. Most of the member states are ready to move the Union's foreign policy in that direction. Contrary to a widespread opinion the underdeveloped military strength of the Union is no serious obstacle of such a strategy because under consideration is not transatlantic confrontation but a more balanced transatlantic partnership in leadership that could lead to a more participative world order (Czempiel 2002). The US-administration would hardly dare major military intervention anywhere on the globe if the EU does not comply in practical terms by sharing the financial burden, making its infrastructure available for the US forces and providing a minimum of legitimacy to it. This appears to be an experience, that has been renewed in the course of the Iraq war.

It is in the vested economic, cultural and political interest of the EU to counterbalance US-unilateralism and work for the democratisation of the global order. The political model of the EU's own way from the erstwhile politics of confrontation of its member states toward an ever denser cooperation between them may as such serve as a paradigm of successful trans-national governance – a model in which sovereign nation states retain their sovereignty and cooperate inter-governmentally where it makes sense but pool it and act supra-nationally where it proves necessary. The only condition that needs to be met is more unanimity in the EU's foreign policy combined with an organizational reform that makes it easier for the EU to speak with one voice when it comes to its relations with the US. This is no unrealistic hope.

Any answer to this question needs to start with the frank statement that the EU itself is still lacking the capacity of political actorship due to the fact that in itself it suffers from a unbalance between negative and positive integration.

The **new security challenges** need to be answered in a combined way, at national, European and at global levels. Social democracy should prove to be the political movement which best links domestic democratic policy and international politics, particularly thanks to common action and policies at EU level.

On the one hand, it would be wrong to overestimate the changing US global role: European countries, Japan, Canada, Brazil or China are showing that both at global (UN Security Council, Johannesburg conference) and regional level (Korean crisis), a room for manoeuvre exists for peace and co-operation policies, and that it is possible to balance uni-lateralism through multilateral approaches and organizations.

The EU needs a coherent foreign and security policy to give expression to its increasing economic and political weight, to strengthen its capacity for autonomous decision-making and action and, above all, to improve its contribution to peace and security at all levels. The development of the CFSP should be considered in the context of the wider security concept developed below. The EU needs to be able to act when military crisis management or humanitarian intervention is called for, including autonomous actions by the EU to enhance collective security in Europe as NATO involvement is not always necessary. But we should be careful to develop accountable and transparent procedures for co-operation.

The EU needs a **global strategic concept**, making the link between a more democratic and effective global governance architecture and a peaceful world order and connecting the crisis policies (for example with regard to the Middle East, North Korea, terrorism, or the new security agenda) to a long term vision of the necessary reforms to the global institutional polity, including medium term structural reforms of global governance. The EU must re-think its capacity to act strategically in geopolitical terms.

For such a strategic concept and capacity to be meaningful in terms of political action, the EU first needs to strengthen its institutional capacities as an **international political actor**.

#### *8. Coping with the strategic dilemma*

Though the objectives of progressive globalisation are arguably all well founded and in principal also feasible there is no guarantee to what degree in what space of time how many of them will be implemented. Given the US administrations resolved uni-lateralism it might well happen that notwithstanding strong efforts of the EU and its allies some of these goals may turn out to be very long term.

Hence, the strategies of national adaptation and regional political co-operation will have to play a crucial role in the foreseeable future. They necessitate a variety of measures in economic and welfare policies that would not be preferable from a social democratic point of view if faster progressive globalisation was feasible. This holds in particular true with respect to tax policies one of the primary pillars of the welfare state, but also for many other policies favored by the social democratic approach.

What is left, though, for social democracy in the beginning of the 21<sup>st</sup> century is a three- pronged strategy: *first*, coping with globalisation in the short run; second, applying a combines strategy of coping and shaping globalisation through a politics of regional co-operation in the short and medium term run; and, third, invest all efforts to shape globalisation in the short, medium term and long run. This is and remains, inevitably, an open process with outcomes in every stage that are, seen from today, contingent. To the degree the strategy of global re-embedding is successful it might well be that regional and national strategies of welfare state reform and moreover social democracy in general have to be re-designed.

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