

# **"Social Democracy, Globalization and Governance: Why is there no European Left Program in the EU?"**

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## **Abstract** \*

This paper addresses globalization and governance in the EU by attempting to generate some plausible hypotheses that might explain the policy choices of the 12 out of 15 European democratic left governments. With all of the discussion in recent years of a democratic deficit, and then need to maintain a "social Europe," why have these governments not produced more explicit left-wing policies?

It suggests three possible hypotheses to account for this apparently mysterious outcome.

Hypothesis #1: They want to but they can't.

Hypothesis #2: They don't want to because they aren't really left anymore.

Hypothesis #3: They could, but they all are suffering from a fundamental failure of imagination.

The paper explores each of these hypotheses in two ways. First it examines the initial years of the Schröder government in Germany apparently, pursuing each of these three hypotheses and different times during this period. Then it looks more systematically and comparatively and each of the three hypotheses by including analysis both of Germany and several other EU member states.

The larger goal of this work is to provoke discussion and research on what role left political movements can actually play. Is it even reasonable to expect such a group of nation states to develop innovative forms of cross-national governance? Or are new and/or revised forms of representation and governance beyond traditional nation-state models.

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## Introduction

This paper addresses the issues of governance and globalization through the prism of 13 of the 15 EU governments aligning on a center-left axis at the end of the 1990s. Following the election of the Gerhard Schröder-led Red-Green government in September 1998, all of the 4 major EU countries had left of center heads of government. This apparent shift to the left took place in the context of continued globalization, (Berger and Dore, 1996; Keohane and Milner, 1996) increased power gravitating toward Brussels and away from European national capitals, and the introduction of the Euro. At the very least, these events have meant decreased national control over fiscal and monetary policy. Thus, this movement of voters toward left of center governments in Europe seems a likely response to the broader "democratic deficit" discussion that has resonated among these countries since the true magnitude of Europeanization was first perceived over a decade ago. (Bulmer, 1994)

In the early 1990s, a period of upswing on the perennial "Euro-optimism vs Euro-pessimism" axis, many analysts thought that European left wing governments had been rendered irrelevant by market hegemony and the assumption that a rising European tide would lift all boats. (Hall, 1998; Anderson, 1995) However, such factors as: the costs of Europeanization, the failure of market-based solutions to produce universal and widespread benefits to all sectors and regions of Europe, (Hooghe and Marks, 1996) and the exhaustion of several right and center-right governments; all caused an apparent shift to the left in most of Europe in the late 1990s.

Was this apparent shift accompanied by a change in governance structures among the leading European democracies? Did the apparent shift to the left by these countries' governments suggest a more direct challenge to the perceived loss of sovereignty that globalization represented? While these governments call themselves left, what does the "left" and Social

Democracy mean at the turn of the century? What are these movements actually proposing? (Huber and Stephens, 1998) If issues such as political accountability, the democratic deficit, (Bulmer, 1994) and a response to globalization that retains some semblance of national capacities to influence, if not control, internationalizing markets, then we may have to seriously reassess what "left" means in the European context. (Weiss, 1997)

But why **should** we expect that thirteen countries with some Social Democratic element in their governments be in a position to coordinate policy? First of all, the interest constellations in the 13 Member States may just be too various for effective coordination, clearly a possible outcome. But another point is the degree to which common frameworks **create** the possibilities for interest alignment. That is to say, is the coordination problem a matter of policy preferences or the coordination of the common machinery of governance? The answer may be: "some of each."

This paper is part of an ongoing research project on globalization and governance in the EU. It is very much work in progress. Therefore critical comments are most welcome at this stage of the project.

It is the rare presence of so many democratic left governments within the European Union that drew attention to this question in the first place. With all of the discussion in recent years of a democratic deficit, and then need to maintain a "social Europe," why have we not seen more explicit left-wing policies? Phrased differently, the specific research question is why has the Schröder government and democratic left governments elsewhere in Europe not produced a more explicit set of democratic left policies and programs?

This paper suggests three possible hypotheses to account for this apparently mysterious outcome.

**Hypothesis #1: They want to but they can't.**

**Hypothesis #2: They don't want to because they aren't really left anymore.**

**Hypothesis #3: They could, but they all are suffering from a fundamental failure of imagination.**

The remainder of the paper explores each of these hypotheses in two ways. First we will look at the strange 18 months journey of the Schröder government in Germany apparently pursuing each of these three hypotheses and different times during this period. Then we will look more systematically and comparatively and each of the three hypotheses by including analysis both of Germany and several other EU member states.

In the first section, the paper suggests that the rocky beginnings of the Gerhard Schröder Red-Green German government have had as much to do with a lack of focus and vision toward globalization and governance issues than mere "teething pain" of a newly installed coalition. The second portion of the article questions the policy goals of the Schröder government – and by implication, left-wing governments throughout the EU. It suggests that this rare "planetary alignment" of fraternal political movements had a unique – if extremely fleeting – opportunity to address the larger issues of globalization and democratic governance. It has failed to do so and may represent a golden opportunity missed to rethink the capacities of national governments to develop more politically accountable democratic representation.

The larger goal of the article is to provoke discussion and research on what role left political movements can actually play. Is it even reasonable to expect such a group of nation states to develop innovative forms of cross-national governance? Or are new and/or revised forms of representation and governance beyond traditional nation-state models needed as some

scholars suggest? (Lankowski, 2000) Given the history of post World War II social democracy, one might expect to see a unified group of European left-wing governing parties stress a common set of goals. For example, among such issues could be: developing European-wide policies to deal with structural unemployment; overcoming regional disparities; preventing the erosion of the provision of a wide range of collective and public goods associated with post-WWII European political life, (Esping-Andersen, 1990) and mobilizing democratic and progressive forces to modify and/or create democratic and accountable European institutions. Instead we see Labour and Social Democratic leaders such as Tony Blair and Gerhard Schröder stressing “third way” programs that emphasize responding to global market outcomes rather than trying to shape them via new forms of governance. Are these the only options that these social democratic leaders see? Is it feasible to expect them to do anything different?

## **The Strange Journey of the German Red-Green Government**

The first 18 months of the Schroeder government, first elected in the Fall of 1998, were an example in microcosm of each of these three hypotheses.

### ***The Failure of Imagination:***

Hypothesis #3 manifested itself during the first six months of the Red Green coalition government. The election of these two left-of-center parties took many Germans by surprise, not least of whom were the Social Democrats and Greens themselves. Much of the discussion and the months leading up to the election in September 1998 involved speculation about whether there would be a grand coalition government between the Social Democrats and the Christian Democrats. But when the latter did more poorly than expected, and the Greens easily passed the

5% electoral hurdle, there seemed to be a greater political mandate for left-of-center government than a more centrist one involving the two largest parties in Germany.

For those who thought the SPD and Greens might coalesce, conventional wisdom prior to the September 1998 German elections suggested that the SPD/Green policy prescriptions would follow one of two directions. One path would see the SPD follow its pre-election search for *die neue Mitte* and continue on a Blair-like path of moderation and a reining in of left wing SPD elements. (Braunthal, 1996) The other path would see the Greens, the junior coalition partners make an "extremist" push for immediate closing of nuclear power plants and huge increase in fuel taxes. Were these predictions to prove correct, the political implications assumed an inability to find common ground, and an ineffective, unstable coalition that didn't seem to promise a long tenure.

Some of these predictions have proved rather prescient and proved a good example of a government searching for a clear focus. The new Schröder government faced strenuous opposition regarding its electoral platform of liberalizing immigration and, partially as a consequence, suffered the loss of Hesse to the CDU-FDP in a Landtag election in February 1999, the first of many local and regional elections lost by the Red/Green coalition throughout 1999. Schröder also backpedaled on the nuclear power issue to the consternation of the Greens by stretching out the timetable for the phasing out of this power source. In some ways, the loss of the Länder elections made it easier for Schröder and the SPD to moderate their positions on these issues, since the Greens lost electoral support and were not in as a strong political position to press their considerable objections. As a result the new government was perceived – correctly or incorrectly – as lacking decisiveness. With the Kosovo crisis a further wedge was driven between SPD and Greens – and between Realo and Fundi factions within the Greens. Chancellor

Schröder wanted to see a Germany with more European responsibility, while Joschka Fischer, the foreign minister and leader of the Greens, faced withering criticism from Fundi forces at the party's conference in May 1999.

On economic issues, there was initially less divisiveness between the two coalition partners than was originally feared, but this policy area also eventually proved difficult for Schröder. Throughout the better part of the first six months of the new coalition government, both parties supported a common economic program that that produced little apparent fundamental opposition among the two parties. (SPD Parteivorstand, 1998) The persistence of high structural unemployment focused both parties on pushing forward several programs expected of left governments.

Early critics of the SPD-Green government believed that the Achilles heel of the coalition was be incompatible economic goals. Yet until the Spring of 1999, it was on economic issues – if not in other policy areas – that the SPD-Green government apparently was grounded in progressive economic policies that could address the challenges of globalization and the democratic deficit. Until that point, SPD-Green proposals represented a modest, moderately left-wing position in the context of the politics of the late 1990s. But this apparently smooth course proved illusory since hard decisions within the coalition, and especially within the SPD had been sidestepped.

These first six months, until the late winter of 1999, were characterized by uncertainty regarding which policies to pursue and what kind of orientation to take. Much of the Social Democrats' electoral rhetoric concerned an emphasis on the Neue Mitte, or a new center that would position the Social Democrats in an ideological orbit but not far from Bill Clinton or Tony Blair. But Schröder was vague and imprecise about exactly what the Neue Mitte meant for the

core constituency of the SPD. Clearly there were forces inside the Social Democrats, particularly among the party's rank and file, who wished to see more traditional social democratic programs such as those that would overcome the country's structural unemployment that have persisted throughout the 1990's. The primary advocate who trumpeted these positions was the charismatic Oscar Lafontaine who used his position as the Minister President of the economically disadvantaged Saarland to try to pull the Schroeder government a bit more to the left of the "New Middle."

Likewise, the Greens had internal divisions that prevented them from achieving a clear focus internally, or in their coalition discussions with the majority Social Democrats. The overall picture that the new Red Green government began to paint for the German electorate, was that of a floundering group of political amateurs who were desperately searching for focus. In one respect, this uncertainty in moving from an electoral campaign to governing Europe's largest country was completely understandable. Not only were the Social Democrats get out of power for 16 years, the Greens had never been part of a governing coalition at the national level and only briefly had shared power in coalition with the Social Democrats in Land governments. In retrospect, the tortured and pained negotiations between the Social Democrats and the Greens in the first month after the election were completely understandable. Not only was the coming together of these two parties somewhat of a surprise to both of them, they each had to confront divisions inside their respective parties that only became manifest when the Social Democrats and the Greens have the responsibility of governing.

It has long been axiomatic in the literature of electoral politics that any elected government is at its strongest point in the first month or two after first being elected. Two of the most obvious examples of this phenomenon were the first hundred days of the first FDR

administration in 1933 and the first month or two of Margaret Thatcher's Conservative Revolution in Britain in 1979. Margaret Thatcher may have had a much clearer programmatic sense of where she wanted to take Britain in 1979 than did Roosevelt in the United States in 1933. However, both of these leaders used their respective electoral honeymoons to forge public policies that reflected that the wishes of their electoral constituencies. The first six months of the Schroeder government fell far short of these more lofty patterns.

### ***No Longer Left?:***

The second phase of Schroeder's government was a much more compressed period of time, and it seemed to suggest that hypothesis #2 was at work. The largest shock to the Red-Green coalition within the first six months of the government came with the resignation (or purging?) of SPD party leader and finance minister, Oskar Lafontaine. In the short run, the removal of the left-leaning Lafontaine assuaged the financial community and seemed to remove a growing point of contention between the two party rivals. Schröder wanted to take more moderate positions while Lafontaine wanted to seize the opportunity that a left wing coalition promised and develop progressive, expansionary economic policies. The latter's removal from both his cabinet and party positions seemed to finally crystallize 'die neue Mitte' and a Clinton/Blair economic moderation that pre-election pundits had forecast. This was followed by a major retrenchment in the generous provisions of the German welfare state that provoked widespread protest among usually supportive SPD constituencies, and (as mentioned below) accompanied by continued regional and local election losses for the coalition, amidst seriously declining electoral turnout among core Red/Green constituencies.

Cynics within the SPD, particularly within the party's left wing saw the departure of Lafontaine as confirmation that the Schroeder government's drift to the middle was complete. As finance minister in the initial stages of the Red Green government, Lafontaine took positions to the left of both Schroeder and of the European central bank. Rather than advocating the kind of fiscal prudence long associated with the Bundesbank--and now the European central bank--Lafontaine advocated the kind of left-Keynesianism long associated with social democracy.

Lafontaine had achieved this influential cabinet position by virtue of his representing a significant constituency within the Social Democratic Party. Yet once in government, the ideological and institutional tensions within both party and government proved too difficult to maintain. Rather than seeing Lafontaine's departure as a heavy handed purge by Schröder and his more centrist allies, a less cynical interpretation grounded in the institutional realities of German domestic politics would suggest that Lafontaine realized that he would not win any further tests of will with Schröder. His exit option was to simply resign and hope to fight the battle on another day.

Yet, this view of Schröder gently easing out a leftist rival in order to find moderate positions and thereby make the new German government less threatening to international financial interests misses the forest for the trees. Just as the larger issues of globalization and the democratic deficit continued to fester both in Germany and throughout Europe, segments of the left – in the German case embodied by Lafontaine – were being marginalized. (Kitschelt, 1999) More seriously, the squandering of Red-Green political capital on making immigration and nuclear power the first two major issues taken on by the new government, has taken attention away from the more fundamental issues of democratization and globalization. This observation should not suggest that reforming immigration policy and addressing nuclear power, a

fundamental concern of the junior coalition partner, are unimportant or misguided. Rather it suggests the explicit rejection by the Schröder government of a larger strategic vision that could establish an progressive economic foundation and an institutional structure of democratic governance in a world of globalization. Without such a solid economic foundation, issues such as reforming immigration policy and eliminating nuclear power become even more unattainable.

### ***The Loss of Political Capacity***

By the spring of 1999, however, the cumulative effects of both in decision in the first phase and internal party and cabinet bickering in the second phase produce adverse electoral consequences in the third phase. In a series of land elections the Red Green government saw its mandate constrained and drastically eroded by the poor electoral performance of the two parties at the regional level and seemed to conform to the parameters of Hypothesis #1.

From the spring to the early fall of 1999, the Schroeder government suffered one electoral loss after another. Not only did this raise questions about whether or not this government would live long enough to fulfill its four year mandate, it also had more institutional and constitutional implications. The losses in the regional elections meant that the Social Democrats no longer had a majority of Land governments. This, in turn, meant that the opposition Christian Democrats and free Democrats were now in a position to block in the Bundesrat some of the laws passed buy the Schroeder government in the Bundestag. This set of circumstances seem to suggest that hypothesis #1, namely that they would like to act more like a left-wing coalition but were now prevented from doing so by the loss of the regional elections.

Having cycled through all three of these hypotheses in little more than one year, the Red Green government truly seemed to be floundering. But coming to their rescue was a most

unlikely individual: a very large man carrying a black bag full of money. The disclosure of Helmut Kohl's illegal fund-raising activities on behalf of the Christian Democrats for most of the 1990's completely discredited Kohl and his immediate successor. In so setting back the electoral prospects of the Christian Democrats for the foreseeable future, it gave to Gerhard Schroeder and his Red Green coalition some breathing space.

However, while Schroeder seemed to have settled on hypothesis #2--the push for a Neue Mitte that distanced itself from the party's rank-and-file--things weren't really as clear as they seemed. The intellectual and theoretical foundations for this new middle way seemed grounded much more in a sense of narrow pragmatism than any deeply held conviction. Has the Red Green coalition truly departed from its left wing roots? Or was it still searching for a focus, unclear on its most effective course of action? Was hypothesis #3 really off the table, even given the reprieve that Kohl gave the Schröder government?

### ***Schröder's Second Chance?***

For the first time ever, there is a left majority in Bundestag. All previous experiences with left government in Germany – including the Weimar Republic – saw the Social Democrats constrained by various centrist and right wing forces. Even in the Brandt and Schmidt coalitions of the 1970s, the role of the FDP curbed more aggressive SPD economic policies such as extension of Mitbestimmung. Moreover, when the electoral support of the SPD and the Greens is combined with the PDS vote, there is a popular vote majority – and not just a majority of Bundestag seats – for left of center parties. The Schröder government is willing to work informally with the PDS at the Land level in eastern Germany, because there are no other options other than working with the CDU. However, taking the larger step of establishing a "programme

commune" with the PDS at a national level is still considered nicht salonfähig in Germany. Is such a model of left governance completely off the table for Germany?

A surprisingly seldom-asked inquiry is under what conditions might a PDS be included in a coalition of other parties of the left. (Betz and Welsh, 1995) Mainstream SPD members recoil in horror when even asked the question, yet many of the same SPD Kanal-arbeiter had a similar response when asked fifteen years ago about a potential coalition with the Greens. What made the Greens unacceptable a decade and a half ago, and what made them acceptable in 1998? There are a couple of short answers and a single larger one that apply both to the Greens and the PDS. First, the newness of the Greens in 1983 and the PDS in the 1990s was (and is) a threat to the SPD's self-perceived hegemony of the democratic left. (Markovits and Gorski, 1993) To the extent that both the Greens and PDS have played by the democratic rules of the game in contesting elections and functioning like "normal" political parties, the SPD can not demonize either party as being fundamentally unsuitable as a potential coalition partner. Second, the novelty of both parties having seats in the Bundestag has worn off. With it, over time, has disappeared the uncertainty about dangerous radicalism to be replaced with a track record of constituency service and active purposeful debate over public policy. Whether this is due more to the moderation of the leaders of both parties and the marginalizing of the more outspoken party members, or to the civilizing force of continued participation within democratic structures is not important. (Allen, 1999) Of greater significance for this article is that there now exist coalitional possibilities for the SPD that have never existed before. The party's problem, however, is that it seems unwilling to use all of the ones at its disposal. Why? Has the Schröder government made this choice because it believes the "die neue Mitte" of an ever more moderate Social Democracy

is a more effective set of policies? Or has it tempered its options because it would prefer at all costs not to be pulled by these small parties to their left?

The history of German Social Democracy clearly has not been one of heeding calls to the barricades. (Schorske, 1983) From its moderation before, during and after World War I through Weimar, to its renunciation of Marxism at Bad Godesberg in 1959, the SPD has preferred its role as an Ordnungsfaktor rather than a Gegenmacht. (Braunthal, 1996) To be sure, the German SPD accomplished much during the Brandt and Schmidt years. Yet, the present era is different because both the political opportunities for fundamental change – a majority left government – and the exogenous global challenges to traditional SPD policy priorities are much greater than during the 1970s. The SPD's real problem is that were die neue Mitte to fail, it would have squandered a perhaps once in a generation opportunity to use its left majority and address European-wide issues such as political accountability and the democratic deficit. How exactly to centrist policies as proposed by ostensibly left parties led by Gerhard Schröder and Tony Blair address the democratic deficit, structural unemployment, erosion of welfare state benefits? There are remarkably few answers to these questions from moderate democratic left leaders.

## **Social Democracy in Comparative Perspective**

Perhaps the best way to get this set of questions is to step beyond the Federal Republic of Germany and look more broadly at other European left wing governments in the context of their relationship with the European union. In doing so, the paper will reexamine each of the three hypotheses and a broader and more theoretical context.

### **Hypothesis #1**

The primary rationale for hypothesis #1 (these governments would like to act like more traditional social democratic governments but they don't feel that they can) is that their leaders seem to have internalized a perception that the forces of globalization are simply too strong. Lying behind this assumption is the fear that any set of left Keynesian economic policies pursued at the level of the individual European nation state would meet the fate of the French left-wing government of the early 1980's. For those Democratic Left wing government leaders who remembered the French experience during the socialist Communist coalition, swimming against a global economic tide did not seem particularly appealing.

This inability of the left to coalesce and seize opportunities is also evident among all left and center-left European governments. In one sense this is quite puzzling since all 4 major EU countries (Britain, France, Germany, and Italy) are governed by left of center coalitions. Combined with all EU governments other than Spain and Ireland, there was at the turn of the century an historically unique – if brief -- political configuration that was unlikely to occur again anytime soon. Despite this alignment, there have been very few systematic attempts – either at the national level among fraternal governments – or at the EU to conceptualize and stake out positions that challenge the hegemony of globalizing market tendencies. Despite the bleating of a few conservative commentators about the threat this move to the left poses to European capitalism, there was remarkably little that seemed radical among these raft of left governments. Once this left-leaning political configuration changes, recreating the political conditions to support progressive and democratic responses to globalization will dissipate.

Why should these left governments be so timid in pushing conditions or constraints on the tendencies of globalization, deregulation, and continued privatization? To be sure, these forces remain powerful constraints on the limits of left governments. (Esping-Andersen, 1985)

But beyond the more general challenge of globalization was the more specific one of the relationship between individual nation states and the EU. The primary appeal of the EU for most Europeans is that it promised--and still promises--a vision of a much more united, if not sovereign, Europe. However the cost of pursuing this particular path for democratically elected left wing governments within Europe, has meant the effective ceding of aspects of sovereignty beyond the nation state level to that of the EU. More specifically for those wishing to pursue an explicit domestic social democratic agenda, the European project has forced nation states to cede aspects of their control over monetary and fiscal policy to Brussels, to the European central bank or to both.

Once democratic left governments in Europe accepted the limitations of this logic, they found themselves fighting a defensive, rearguard struggle to maintain existing levels of welfare state spending and to deal with the "democratic deficit" that the transfer of the economic and political power to Brussels implied. And once these governments accepted the logic that they were medium-sized nation states fighting much larger European and global economic forces, the task of trying to pursue a democratic left set of policies seemed all the more daunting. From this perspective, even though there were 13 of the 15 EU governments controlled by forces of the Democratic Left, in these governments quite likely thought that the costs of coordinating economic policies among similarly inclined ideological brethren was a much more formidable task than making their peace with the forces of Europeanization and globalization.

## Hypothesis #2

Moving to the next possible explanation (these countries don't want to pursue left-wing policies because they aren't really left anymore) takes us in a different direction with a different set of assumptions. The evidence needed to confirm this hypothesis would need to show that the

leaders of these democratic left governments have truly moved away from the Social Democratic project not only in words but in deeds.

A plausible conclusion supporting this hypothesis is that to be on the "left" in developed capitalist countries in the midst of globalization is simply not what it used to be. The long two-decade attack on the provision of collective and public goods to democratic nations has taken a powerful toll on parties and movements that call themselves left wing. (Ackerman, 1998) The image of left governments in Britain, France, Italy and Germany either leading the way or acceding to the selling off of nationalized industries, and the trimming of welfare state benefits does not suggest a particularly left or progressive set of policies. (Camerra-Rowe, 1999) Viewed cynically, some might suggest that these "left" governments are not left at all. Furthermore, this argument continues, the only reason they were elected in the first place was that they had been sufficiently "tamed" of their radical rhetoric to be now acceptable to capitalist social forces and interest groups in developed countries.

One clear rhetorical indicator was a joint paper published by a Gerhard Schroeder and Tony Blair in the early summer of 1999. In that document--a somewhat vague and clearly undertheorized statement--the two leaders implied that the more traditional Social Democratic programs will no longer applicable given the context of the new Europe and the new world economy. By reorienting their parties in a more centrist direction, these leaders as well as other leaders of European democratic left political parties, accepted the logic that the traditional working-class base of their political parties had dissipated. And by refocusing their attention toward new types of workers with an explicitly class conscious orientation, they seem to embrace major aspects of the post materialist school of thought.

Moving beyond rhetoric to explicit political action, the resignation of Lafontaine in Germany and Tony Blair's gutting and rewriting the Labor Party's manifesto gave concrete evidence the both leaders actually did wish to move in a different direction. Other concrete indicators of social democracy's march to the middle were cutbacks in social welfare spending as well as tax cuts for privileged sectors within the domestic economy. Evidence of this can be found throughout the 13 democratic left governments within the EU. Steps such as these, rather than being a fatalistic acceptance of larger forces, or evidence of a more clearheaded purposeful movement toward political moderation were something else. Rather than being taken defensively to stave off larger forces as hypothesis #1 would suggest, these concrete steps were taken in the belief that the movement toward a new economy in a new Europe required the transformation--if not serious restructuring--of the major institutions of the post-World War II welfare state. In Germany this has meant pressures on such venerable institutions as codetermination while in other states it has meant the selling off of formally nationalized industries and the embrace of privatization as an appropriate policy tool for social democratic governments.

Do leaders of these social democratic governments truly believe that left-wing actions are no longer feasible in the context of 21st century capitalism and 21st century democracy? Both their words in their deeds would seem to indicate so. Thus, hypothesis #2 would seem to have the upper hand over hypothesis #1 as an explanation for the lack of a more explicit set of Social Democratic policies in the countries of the European Union.

**Hypothesis #3**

We might actually rename the next possible explanation as the road not taken. This hypothesis suggests that the rather unique configuration of 13 of 15 governments with a similarly democratic left wing political orientation could unite behind a different set of economic policies in the context of the European union.

What indicators would support such a position? Before even answering that question we need to point out that the uniqueness of this political configuration is actually quite ephemeral. In other words, these governments will not last forever and the persistence of conditions outlined in the first two hypotheses may make the pursuit of this path increasingly difficult if not impossible.

The durability of these Labour, socialist, and social democratic parties within Europe for over a century has created a set of expectations among their respective party members and voters. The evolution and growth of these parties, their successes and setbacks, have produced a political culture that has reinforced the belief in the concept of a collective, public good. If the names of these political parties as well as the words of their manifestos and founding documents--despite being modified in a more catch all direction at midcentury--actually mean anything, they suggest a residue of untapped support for the universal and public provision of goods and services that the market is on likely to successfully supply to those at the lower end of the social economic spectrum.

To the extent that the leaders of these parties pursue either the more defeatist hypothesis #1, or the more callous and pragmatic hypothesis #2, they move themselves farther away from even potentially considering hypothesis #3.

What are some of the assumptions that might lead to the belief that hypothesis #3 might actually be feasible? First of all, Europe is unlike other advanced or industrialized capitalist

regions of the world. There has been a 50 year tradition of--and a century long belief in--the virtues of a mixed economy, the public provision of social welfare, and the rights of organized labor to have an active participatory role in both the economy and in the polity. This political culture has been responsible for the raising of such red flags, so to speak, as the need for a social Europe and the alleviation of the democratic deficit that transfer of economic and perhaps political power to Brussels suggests. Hypothesis #3 would hold that those political leaders pursuing the first two hypotheses essentially overlook the durability of this democratic left wing political culture.

Moving from the cultural realm to more concrete manifestations, those who would avoid pursuing the path of hypothesis #3 also fail to appreciate the material reality of what Europe represents as a market. Western Europe is not like other regions of the world facing the power of market forces. Notwithstanding these elections of left wing governments and coalitions, Europe remains an island of economic stability even with the rocky introduction of the Euro in 1999. European-based businesses complained bitterly regarding such issues as: burdensome regulations; vestiges of nationalized firms and industries that remain in many European countries; and generous welfare programs in all EU countries. Yet no large transnational firms seriously contemplated getting out of a market of 350 million people with one currency, high degrees of literacy, personal consumption, and advanced infrastructure.

Western Europe is comprised of the population base roughly equivalent in size to that of the United States. And when the more advanced Eastern European countries are included the population base swells considerably beyond the level of that of the American economy. Those firms doing business within Europe do face such constraints as high taxation, high social welfare

spending, a relatively immobile population, high levels of unionization, and still considerable amounts of government regulation that the European, national, regional, and local levels.

Those political leaders who subscribe to hypothesis #2 would suggest that all of these constraints and sticky institutions would need to give way in order to enable Europe to more effectively compete with the North American and East Asian economies. However, hypothesis #3 would suggest that it would be foolhardy for international firms to leave Europe. Despite the above mentioned constraints Europe possesses high levels of disposable income, highly educated population with advanced skills for both old economy and new economy sectors, stable political systems, and a very livable political culture. Do the current leaders of Europe's democratic left wing governments truly believe that international capital would flee en masse if the essential foundation of the post-World War two Social Democratic environment were not fundamentally changed? For these political leaders to take such a position implies that they believe multinational industry is much less flexible than it actually is.

Furthermore, all the assumptions of the hegemonic presence of the new economy of services and information technology displacing the old economy of traditional manufacturing need to be examined closely. The institutions and organizations that have proved successful in adapting under the old economy should not be ruled out a priori as actors in the new economy. Here it is useful to keep in mind the varieties of capitalism and the particular patterns onto which each involve through different stages of industrial development. [CITE SOSKICE & KITSCHOLT] Hypothesis #3 is suggesting that the demarcation of countries as early industrializers or late industrializers is not just a characterization that applies only to the past.

If we have moved into a new economy, the old "timing of industrialization thesis" would suggest that the skills and attributes associated with a hegemonic position during earlier phases

of capitalist development might also be useful at the present time. To the extent that the new economy is characterized by individual entrepreneurship, the rapid creation of new products, and innovative new financing mechanisms, is not surprising that the U.S., and to a lesser extent the U. K, may appear to have an advantage. But if capitalism is still capitalism, new industries and new products evolve and mature. How well they evolve and mature often depends very much on the institutional and organizational capacities of public and private sector actors in advanced industrialized economies. Invention is not innovation, the latter requires the systematic commercialization of new products and services. The skills required for new product and service creation are often not the same skills required for more mature stages of the product cycle. If the history of post World War II capitalism in Europe is a useful guide, the public and private sector resources employed by the French, Italian, and German economies--and to a lesser extent the British--have proven particularly capable in overcoming initially disadvantageous positions vis-a-vis more free-market oriented economies such as the United States. The kinds of deeply imbedded organizational networks in both the private and public sectors in many European countries might actually prove to be an advantage rather than a liability as these new industries mature. To toss out the institutional memory of long entrenched public and private sector organizations in a perhaps futile attempt to mimic a start up culture more appropriate in United States than in Western Europe might prove to be a fool's errand of considerable magnitude.

Those political leaders who might choose to follow the path of hypothesis #3 might choose to address issues only lamented by adherents of hypothesis #1 and ignored by adherents of hypothesis #2. Those democratic left political leaders who might choose to reinvigorate the Social Democratic project in the context of the new economy would likely emphasize the social dimension and the democratic deficit. A European wide set of social standards requires a vision

and imagination to recognize that international capital would simply have to accept the social costs as the price of doing business in a market of 400 million people. As for the Democratic deficit, one might expect a visionary new social democracy to mobilize political support for a much more democratically accountable and politically powerful European Parliament. Taking such a step would require domestic, national Social Democratic leaders to fundamentally accept and politically articulate to their respective populations that some essential elements of sovereignty have already been transferred to the European level. And the only way to regain the lost political accountability is to empower European wide democratic political institutions. And with respect to manifestations of the new economy, such imaginative and visionary new Social Democrats might emphasize such issues as privatization, Data Protection, and the safeguarding of pharmaceuticals, agriculture, and the environment on a democratically accountable European wide basis.

Hypothesis #3 suggests that this unique configuration of left-led governments could seize the opportunity to address such serious problems as unemployment, regional economic disparities, and the need for qualitative, ecologically-sound economic growth by using their strength to address the "democratic deficit" in the EU. All of these problems have been exacerbated by such phenomena as privatization, deregulation, cross-border mergers of large European and North American firms. Yet these apparently left governments have shown a remarkably tame set of policy prescriptions.

In essence, hypothesis #3 holds that these left governments are suffering from something more fundamental than weak and tame policy prescriptions. They are also suffering from a failure of imagination both in terms of ideological vision as well as newer possibilities of governance both sectoral and sub-national at one level and supra-national at another. In the wake

of the Asian economic collapse, even such capitalists as George Soros stress the need for capital controls, and the creation of a "new institutional architecture" hitherto supposedly only raised by leftists. (Soros, 1997) Why couldn't these left governments in Europe use this quite radical suggestion from redoubtable pillars of the private sector to begin a new debate? What should be the relationship between state and market – between private and public sectors – in the context of new or renewed institutional governance structures at the outset of the 21st century?

Precisely at a time when European citizens show their concern and unease about globalization and erosion of the power of national governments is the time to begin a serious debate about the relationship between the EU and national governments. (Moravcsik, 1998) As the shift of fiscal and monetary to the European level takes place, it is increasingly hard to maintain the fiction that national governments retain sovereignty – let alone democratic political accountability – in a globalized EU.

Why is the present moment not an opportunity for the Schröder government and left allies in other European countries to initiate a discussion of a fundamentally different set of issues. Among these might be: a new institutional architecture that includes a European parliament that is more than an expensive, mobile debating society; and the creation of increased forms of participation and democratic engagement in public and private life, particularly in the workplace? These governments have had a unique and brief opportunity to lay out a blueprint for change that includes democratic governance in a globalizing world economy. It seems that they be letting this moment pass.

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