



# Reflections on the Social Democratic Tradition



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## TABLE OF CONTENTS

1.0 Executive Summary .....	3
2.0 What is Social Democracy? .....	6
3.0 Social Democracy from the Gilded Age to the Golden Age .....	13
4.0 Social Democracy from the Golden Age to the Great Recession .....	21
5.0 Conclusion: Contemporary Prospects for Social Democracy .....	36
6.0 Acknowledgements .....	41
7.0 Further Reading .....	42

## 1.0 EXECUTIVE SUMMARY:

The purpose of this paper is to provide a political history, overview and critical evaluation of the social democratic tradition in Western politics with some reference to the Canadian experience. It serves as a starting point for the Broadbent Institute's new initiative exploring social democratic renewal in Canada, a project that will feature essays from a wide range of left perspectives on the future of social democracy in this critical moment of upheaval, inequality and erosion in democracies around the globe.

The term social democracy designates both a social and political movement and a distinctive political theory that developed in opposition to liberal capitalism in the second half of the nineteenth century. As used here, the term social democracy means the full extension of democratic principles to both the social and economic sphere and overlaps closely with the concept of democratic socialism, which denotes building a different kind of economy. Social democracy is about more than capitalism plus a welfare state, and very much remains a goal rather than a reality.

The historical roots of social democracy lie in the movements of the industrial working class and the ideas of socialist opponents of liberal capitalism. Social democracy thus has a more tangential and more recent relationship to feminism, anti-racism, the environmental movement and struggles for the recognition of disability rights and indigenous rights. Social democratic renewal is very much about building deeper linkages to other social movements promoting equality and recognition of differences other than those based upon social class.

Part 1 of this paper explores the relationship between social democracy and the rise of social citizenship and the recognition of economic and social rights. While social democrats can take a great deal of credit for the (temporary and contested) transformation of liberal capitalism into the Keynesian welfare state, this was not exclusively a social democratic achievement. Moreover, social democrats advanced a distinctive view of the welfare state with rights to education, health and welfare based upon citizenship as opposed to much more narrowly targeted and residual social programs. Social democrats also supported strong labour movements as a key foundation for equality and economic democracy.

The social democratic tradition has recognized that inequality of both condition and opportunity is rooted in the concentrated ownership of private capital and in the fact that the logic of capital accumulation limits the workings of political democracy. Until well into the post-war period, economic democracy in the sense of social ownership and regulation of private capital was very much on the social democratic agenda.

Part 2 of the paper looks at the historical development of the social democratic political movement from the Gilded Age of the late nineteenth century until the Golden Age of the immediate post-war years. Prior to the First World War, the expansion of labour and democratic rights led to increased political representation and socialists had to come to terms with the fact that capitalism was capable of both advancing working-class living standards and implementing social reforms, contrary to the tenets of orthodox Marxism. Socialism came to be seen by some reformists as a goal to be achieved gradually through the political institutions of liberal democracy, as opposed to a moment of transition. The division between democratic and revolutionary socialists became explicit after the Bolshevik Revolution, but democratic socialists retained a vision of a post-capitalist economy. The Great Depression and a divided left kept democratic socialism mainly on the sidelines in the 1930s, with the exception of Swedish social democracy, which promoted Keynesian policies and the expansion of the welfare state.

Part 3 of the paper examines social democracy from the heyday of the Keynesian welfare state to the Great Recession. The post-war period saw the implementation of many social democratic policies and a significant decrease in economic and social inequality alongside full employment and strong economic growth. This seemingly confirmed that capitalism could coexist with the recognition of labour and economic and social rights, leading many to reject socialism in the sense of social ownership as an ultimate goal. This shift also took place against the backdrop of the rise of a skilled middle class, the decline of the traditional industrial working class, the mass entry of women into the workforce and, perhaps, a more individualist political culture. The heyday of social democracy was also marked by the rise of the new social movements and a new left calling for fundamental change, including the pursuit of less material goals than traditional social democracy. The emergence of stagflation (high inflation combined with rising unemployment) in the 1970s set the stage for the return of more market orthodoxy (free-market liberalism, or neoliberalism), including

the attack on full employment, government regulation, the labour movement and the welfare state by the political Right. Democratic socialists saw greater socialization of private investment and a major role for public investment as the means to maintain economic growth and full employment, but many social democrats increasingly embraced neo-liberal ideas, albeit with an emphasis on maintaining past advances and maintaining equality of opportunity.

The final section of the paper very briefly summarizes current prospects for social democracy at a time when neoliberalism has clearly failed to deliver shared economic and social progress. The key elements of an alternative economic and social agenda exist, including an emphasis on new forms of social ownership, the importance of public investment, and the central importance of environmental transition. A renewed social democracy will also mean building a broad social movement for change in close alliance with other movements including feminist and anti-racist.



## 2.0 WHAT IS SOCIAL DEMOCRACY?

Social democracy can be understood as both a social and political movement, and as a set of animating political principles and ideas. Both have historical antecedents in struggles for democracy, social and economic justice, greater equality and human rights for the poor and oppressed dating back at least to classical times. Most great religious traditions have espoused fundamental moral values of individual human dignity and equality, which have been embraced, developed and made more politically urgent by the social democratic tradition. However, one has to start somewhere and social democracy is perhaps best understood as a reaction and proposed alternative to the liberal capitalist order that had become ascendant in the major industrialized countries of Europe and North America by the mid to late nineteenth century. To add to the complexity, social democracy, like all political movements and traditions, has been shaped in a major way by very different national contexts. Here we confine ourselves to Western Europe and North America, the heartland of nineteenth and twentieth century social democracy

As argued by Karl Polanyi in his major book, *The Great Transformation* (1976), the rise of liberal capitalism involved a fundamental rupture with the past by destroying social rights to well-being based on custom and tradition such as existed in feudal times. Capitalism aimed not just to create a market economy but also a market society and it transformed labour into a commodity bought and sold on the market. For the working class, those who did not own the means of production, be it land or industrial capital, survival came to depend upon being employed for a wage. But Polanyi stressed that labour (like nature) is a “fictitious commodity” in that labour is an inherently human activity carried out by individuals who resist exploitation and control of their capacities by others. He argued that turning labour (and nature) into commodities would lead to social destruction and this necessarily prompted a counter-movement to place a social, human and environmental framework around the liberal capitalist economy. This was first seen in the rise of the labour movement that sought to raise wages above mere subsistence levels, to promote security of employment and to improve conditions at work, thus de-commodifying labour to a degree. The social counter-movement also sought to reduce or abolish exclusive reliance on the labour market and a wage for well-being by establishing rights to welfare outside the market, such as the right to unemployment relief and

income support in old age, as well as rights to services such as education and health care.

In a similar vein, T.H. Marshall (1950) **famously described** the shift in the concept of citizenship in the liberal capitalist era. The birth of a liberal economic order was associated with the rise and protection of individual property rights and the rule of law, which were basic institutional prerequisites for a capitalist economy. The liberal era was also, gradually and contingently, characterized by the rise and protection of claims for civil rights such as liberty of the person, freedom of speech, freedom of assembly, and equality under the law. Gradually and contingently, the movement for civil rights both enabled and pressed the case for democratic political rights, including the accountability of governments to elected legislatures, the right to vote and free elections. Capitalism was liberal but not democratic in its origins, and indeed in much of Europe capitalism was not even especially liberal but coexisted with remnants of feudal and aristocratic dominance until well into the twentieth century. For example, before the First World War, German ministers were still appointed by the Kaiser and the power of the elected Reichstag was confined to approval of budgets.

Lastly, Marshall noted the shift from democratic political citizenship to social citizenship as the workings of political democracy led to increasingly successful claims for collective social and economic rights. He described social citizenship, as “the right to share in full the social heritage and to live the life of a civilized being according to the standards prevailing in the society.” Like Polanyi’s socially embedded economy, social citizenship meant the recognition of labour rights, rights to social welfare and the right to services such as education and health care outside of the market as laid out in seminal international human rights documents such as the **1948 Universal Declaration of Human Rights**. A key political driver of such demands was the labour and social democratic movement for whom formal liberal freedoms to accumulate private property and to equality under the law were not very meaningful given stark inequalities of opportunity and condition based upon social class. The democratic franchise inevitably brought forward demands for positive social and economic rights to ameliorate deep inequalities of wealth, income and opportunity.

It is worth adding that while social democrats have argued for expanding social and economic rights, they have also recognized the critical importance of civil and political rights and have been among their strongest defenders. Socialists and social democrats led the struggle for the expansion of the democratic

franchise to non-property owners and were among the strongest supporters of modern human rights laws outlawing discrimination based upon gender, race and sexual orientation. To cite one key example, in 1947 the CCF government in Saskatchewan passed Canada's first Human Rights Act guaranteeing basic political and civil rights and prohibiting discrimination on the basis of race and religion. New Democrats in Canada have often taken unpopular positions on basic human rights issues, as for example in opposing the War Measures Act in 1970.

Drawing on thinkers such as Polanyi and Marshall, one can view social democracy as a key intellectual and political driver of the gradual transformation of liberal capitalism into what might be termed democratic capitalism wherein the market economy is partly de-commodified, where wage labour coexists with and is tempered by full employment, regulation of business in the public interest and effective recognition of a wide range of social and economic rights, including labour rights. Socialists of all stripes played a key role in this transition. This was not, however, an exclusively social democratic political project, and the gradual rise of social citizenship was associated with other political traditions. In Britain, for example, progressive liberals from John Stuart Mill to Keynes along with kindred spirits such as Franklin Delano Roosevelt (FDR) and New Deal liberals in the United States saw recognition of social rights as key to advancing individual liberties by establishing a basic floor of rights for all, as opposed to both radical liberal individualism and radical egalitarianism. In his **1944 State of the Union Message to Congress**, FDR called for a second bill of economic and social rights, arguing that “political rights alone are inadequate to assure us equality in the search for happiness” and that “true individual freedom cannot exist without economic security and independence.”

Progressive or social liberals also saw social protection and access to public services (plus greater regulation of capital in the public interest) as a means of legitimizing and preserving capitalist institutions, the market and private ownership, rather than as a stepping stone to socialism. Political liberals have at various times supported social democratic reform, whether it be through expanding parts of the welfare state such as public pensions and Medicare, or supporting progressive taxation in order to pay for public services and other social goods. However, as historian Tony Judt has remarked, “whereas many liberals might see such taxation or public provision as a necessary evil, a social democratic vision of the good society entails from the outset a greater role for the state and the public sector.”



In modern times, some business leaders have seen social reforms as quite functional for capitalism. Traditional conservatives, especially confessional parties in Europe, also advanced labour rights and rights to welfare while maintaining a belief in the traditional family and social hierarchy. Indeed, Count Otto von Bismarck, a fiercely anti-socialist reactionary, introduced social insurance to provide pensions and health care as chancellor of Germany in the 1880s.

That said, as emphasized by Gosta Esping-Andersen in his book *The Three Worlds of Welfare Capitalism* (1990), the social democratic welfare state differs from the liberal and social conservative welfare state in explicitly seeking widespread de-commodification. As constructed over the twentieth century, and as enacted in Scandinavia to the greatest extent, it stressed broad or universal social entitlements such as pensions based on citizenship as opposed to means-tested, relatively bare-bones programs for the non-affluent. It also called for provision of a wide range of public services, such as child care, education at all levels, social housing and elder care, delivered largely outside of the market. These measures marked a distinct divergence from market and for-profit provision of social services combined with subsidies to support access to inferior public services for the non-affluent. The aim of the social democratic welfare state has been economic and social security, a civilized life for all, and a radical equalization of conditions and life-chances, not just a reduction in poverty as in the much more residual liberal welfare state. The socialization of many caring services led to the emergence of a large non-market sector of the economy and job market in the more social democratic countries, which also allowed women to participate more equally in the labour market.

Social democrats have been prepared to spend much more of society's resources than even progressive liberals on income support programs and public services, financed from a steeply progressive income tax system, and have consciously sought to redistribute income and resources from the more to the less affluent much more significantly than liberal and conservative supporters of basic welfare rights. Social democrats have also much more consciously sought to carve out a non-market sphere that frees citizens from dependence upon the labour market and thus enhances the bargaining power of labour compared to employers.

Social democrats have a close historical link to the labour movement and have seen strong unions representing the great majority of workers as a major force for wage equality and for workplace and economic democracy that complements

the progressive welfare state. While accepting the continued existence of a labour market, social democrats (above all in Scandinavia) have stressed the importance of full employment and collective bargaining rights combined with active labour market and training policies to effectively guarantee labour market opportunities for all and secure employment in a changing economy.

The idea of social democracy as a socially embedded market economy is relatively recent and can be partly contrasted to socialist traditions dating back at least as far back as Marx that have insisted that capitalism must be replaced by a different form of economy, based predominantly on social ownership of the means of production. It was only gradually that many social democrats rejected socialism in this sense of moving beyond capitalism as a mode of production and as a social order. For Marxists (or at least those in the classical tradition synthesized by Engels), there are fundamental tensions or contradictions between a capitalist economy and social citizenship (as Marshall himself acknowledged). Marx can be, and has been, read in many ways. One strand, set out in *Capital*, tended to the view that capitalism was not only inherently exploitative and a source of economic and social inequality due to highly concentrated ownership of wealth, but also doomed to fail as an economic system. *The Communist Manifesto* lauded the massive economic progress that capitalism had set in motion, but argued that such progress was inherently limited by capitalist relations of production. Marxists have seen a tendency to economic crisis due to wide swings in levels of business investment, financial speculation and inadequate effective demand rooted in the tendency for real wages and working-class consumption to lag behind productivity and the growth of productive capacity.

Since the birth of Marxism in the mid-nineteenth century, capitalism has been marked by periods of growth and periods of acute crisis, and by advances and retreats of labour and progressive political forces. Few contemporary socialists or social democrats would deny that capitalism in the sense of predominantly private ownership and control of the means of production can and has existed in quite different political and social institutional forms: from the minimalist night watchman state of the Victorian age studied by Marx and favoured by extreme liberals such as Ludwig von Mises and Friedrich Hayek, to Fascism, to the Keynesian welfare state of the post-war era, to the advanced social democracy of Sweden.

Many democratic socialists have argued and would still argue today that the continued concentrated ownership of the means of production is at the root of fundamental economic and social inequalities, and that social advances are tenuous so long as class power based upon private ownership of the commanding heights of the economy continues to exist. They note that the norm in a capitalist economy, notwithstanding government regulation, is for key economic decisions – how and where to invest – to be based on the logic of capital accumulation and competitive markets as opposed to production geared to meet human needs. While Marshall sees an extension of citizenship to the social sphere, **Ellen Meiksins Wood** argues that there has been a contraction of the political sphere under liberal capitalism insofar as the economy is largely left to its own devices to govern production and distribution, and is profoundly shaped by the logic of capital accumulation and market competition. Capitalists are necessarily driven to produce for profit rather than to produce to meet collective needs. For example, the private market economy drives production of luxury homes for the rich rather than high-standard, affordable housing for those in need. And employers who are prepared or compelled to pay decent wages and offer good working conditions may find that they are unable to compete in the market with companies that are ruthlessly exploitative.

Countries with strong unions and highly developed welfare states may find it hard to attract mobile capital in a global economy where other countries offer low wages in relation to productivity and low taxes. Left to its own devices, capitalism will generate high levels of inequality of wealth since profits are mainly appropriated by a small minority who own large amounts of capital. The destructive logic of capitalism can be countered through the redistributive welfare state, but redistribution and social regulation of the market may end up squeezing profits and thus undermining economic growth. A key dilemma facing social democrats in power has been that acceptance of the mixed economy necessarily entails maintaining “business confidence” in order to obtain the private investment that is needed to secure economic growth and thus the revenues needed to sustain social expenditures and public services. This problem receded from view in the Golden Age of post-war capitalism marked by both strong growth and falling inequality, but resurfaced in the stagflation crisis of the 1970s and has become more acute in the current era of fiercely competitive global capitalism.

In a long tradition that owes as much to the social teaching of the Catholic and other religious traditions as to Marxism, capitalism can also be criticized for its cultivation of commercial and acquisitive values and rampant materialism, what has been termed **possessive individualism**, as opposed to fostering the full and free development of each individual. Capitalism also underpins alienation at work, inherent in the drive for profit as opposed to the development of human capacities. Marxists such as **C.B. Macpherson** (1977) have argued that the liberal democratic welfare state is still a system of class rule that is inimical not just to sustained shared prosperity, but also to the full and equal development of human capacities. The continued power of capital in the economy and in the workplace necessarily also conveys political power, which stands in conflict with the goal of a more fully democratic society.

As will be argued below, social democracy was, until the rise of neo-liberalism in the 1970s and 1980s, not only about the welfare state and public services and expanding social rights, but also about regulated capitalism and economic democracy, or even about the ultimate transcendence of capitalism as an economic system. It was only during and after a long period of economic growth and stability, the so-called Golden Age of the 1950s and 1960s, that social democrats in the majority fully embraced the liberal so-called free market. But it turned out that the neoliberals who came to politically dominate in most of the advanced economies from the 1980s rejected full employment, regulated labour markets and much of the welfare state, and failed to deliver a successful alternative model for high employment, greater equality and economic stability. Social democrats defended past social gains for the most part, but have largely failed to develop a fully convincing contemporary alternative to the social and economic policies of the right.

### 3.0 SOCIAL DEMOCRACY FROM THE GILDED AGE TO THE GOLDEN AGE

Returning to the history of social democracy as a political and social movement, one can note a complex and changing relationship to some of the core tenets of socialism as noted above. From the 1870s until the First World War, socialist parties from the major European countries were united to a degree through the Second Socialist International, which was heavily influenced by avowedly Marxist parties. A leading ideological role was played by the German Social Democratic Party (SPD) led by Karl Kautsky and strongly influenced by Engels. The SPD was strongly rooted in the industrial working class and became a mass party in pre-First World War Germany. There were avowedly Marxist socialists in Britain such as William Morris and Eleanor Marx, though the dominant political influence in the labour movement and the British Labour Party came from the Fabians such as George Bernard Shaw and Sidney and Beatrice Webb. The labour movement embraced political action, first through the Independent Labour Party, primarily to win recognition of unions and to push for social reforms through parliamentary politics. British socialism also drew on radical religious and democratic traditions dating back to the Levellers of the English Civil War who promoted not just political and civil rights but also substantive equality and government for the people. French socialism was very much influenced not just by Marxist socialism but by radical republican and insurrectionary traditions dating back at least to the French Revolution. Anarchists and syndicalists were influential opponents of trade union political action, emphasizing winning power within the workplace as a prelude to socialism.

Second International socialism was heavily influenced by the mechanistic view that capitalism rendered social and economic progress for workers impossible. The expectation, set out in summary terms in *The Communist Manifesto* and at length in *Capital*, was that the economic system would collapse as a result of its own internal contradictions (concentration of wealth and over-accumulation of capital on the one hand and mass immiseration and thus lack of effective economic demand on the other hand). The expectation was that capitalism would be replaced by a new social order based upon the self-conscious political ascendancy of the mass industrial working class. The task of socialists was to build a class-conscious mass movement rooted in the workplace and in communities, and this was to be accomplished by building not just mass unions

but also a whole umbrella of working-class organizations, from reading clubs to co-operatives and mutual aid societies to recreational associations that made up a society within a society. The fact that unions and socialist parties were often illegal until late in the century underlined the notion that moving beyond capitalism would involve a fundamental political rupture, though Marx himself recognized that a longer term transition through democratic institutions might be possible in a country like Britain. For their part, the traditional governing classes and capitalists often resisted political democracy out of fear that it would unleash and empower social forces that would destroy private property.

However, even *The Communist Manifesto* set out a number of immediate economic and social demands, and the reality on the ground in Britain, Germany, the United States and elsewhere was that working-class living standards, especially those of the “labour aristocracy” of skilled workers, gradually advanced in the late Victorian era, not least due to the growth and recognition of labour movements and the growing political influence of labour-based political parties that grew in scale and importance as the franchise was extended. As the struggle for democratic political rights progressed and as socialists and reformers gained some degree of political leverage, especially in divided legislatures, social reforms were gradually advanced and implemented. Moreover, to have such influence, socialists were obliged to co-operate with other political forces and to reach out to social groupings other than the industrial proletariat, which was in a minority even within the most advanced industrial economies such as Britain and Germany. From France to Sweden and especially in Canada socialist parties gained support from small farmers and traditional small producers as well as from intellectuals and some elements of an emerging technical and professional middle class.

Within the Second International, Marxist purists argued for an exclusively proletarian party committed to the socialist revolution that would arise from the collapse of capitalism. But key thinkers such as Edward Bernstein in Germany and the Fabians in Britain argued that the industrial working class could and was winning gains and shaping the economic and political order, and that even greater progress could be made by making the idea of socialism more explicitly reformist and by supporting electoral co-operation with non-socialist forces. Socialism in the sense of common ownership of the means of production remained the goal, but came for some to be a distant, vague and long-term goal. In short, evolutionary socialism emerged in counterpoint to revolutionary



socialism as working-class parties gained a foothold in democratic institutions. Nonetheless, social democrats were still committed, at least formally, to common ownership and economic democracy. For example, the guiding set of principles of the British Labour Party set out in Clause 4 **adopted in 1918 and repealed only in 1995** said the party's aim was:

“To secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service.”

The division between evolutionary and revolutionary socialists became entrenched and institutionalized when most mass socialist parties divided in the great schism between social democracy and communism after the First World War and the Russian Revolution. The break began when the majority in socialist parties voted war credits to their national governments rather than heeding the injunction of the International to put working-class unity before national capitalist interests. After the Bolshevik revolution in Russia, socialism divided into two firmly opposed camps, social democrats or democratic socialists on the one hand and communists on the other, with the latter calling for a global revolution and the dictatorship of the proletariat as opposed to promoting change through the institutions of “bourgeois democracy.” Communists could point to the Soviet Union as actually existing socialism, a concrete example as opposed to a blueprint. The Leninist espousal of a vanguard party discounted the importance not just of liberal democratic political institutions and rights, but also, under Stalin, of genuine intra-party democracy. Setting aside the **Popular Front** period of the late 1930s, it was only after 1945, and then slowly and hesitantly, that most mass Communist parties in Europe also embraced the electoral road to socialism and the need for co-operation with non-socialist political forces.

In Canada, the small socialist movement before the First World War was heavily influenced by both the British Labour Party and by continental Marxist socialists. (On social democracy in Canada, see Walter D. Young, 1969 and Ivan Avakumovic, 1978.) The institutional expressions of the former were small labour parties linked to unions in the major industrial centres such as Toronto, Montreal, Vancouver and Winnipeg and in resource-based communities such as Cape Breton. These co-operated to a degree with strong progressive farmers’

organizations and with middle-class movements for social reform, especially those linked to the social gospel tradition in the Protestant churches. Though they were decidedly minority currents, there were also small Marxist socialist parties such as the Socialist Party of Canada, often finding support among miners and the resource sector working class of diverse ethnic origins in Western Canada, notably British Columbia. Part of the latter grouping would go on to become, in 1933, one important part of the central electoral force for social democracy — the Co-operative Commonwealth Federation (CCF).

While it had some labour support, the CCF was not a labour party on the British model, and a formal relationship with the labour movement as a whole was not established until the founding of the New Democratic Party (NDP) in 1961. In electoral terms, the CCF was quite marginal in the inter-war years, though it established a parliamentary voice and presence under the leadership of J.S. Woodsworth that had some influence on wider political debates in the 1930s and led to some representation in provincial parliaments. For example, Woodsworth was able to use labour influence in a minority government situation to establish a rudimentary old-age pension in 1927. CCF influence increased in response to the Great Depression of the 1930s, but it was only during and immediately after the Second World War that the CCF won broad popular support and pulled the Liberal Party sharply to the left.

As in Europe, the early labour and socialist parties in Canada viewed themselves as leaders and activists in a movement for social change and the key goal was to win others to the cause of democratic socialism through education, agitation and political campaigns rather than just to elect members to legislatures. The movement/party distinction advanced by Walter Young (1969) in his history of the CCF can be overdone but the primary motivation of activists was certainly to advance social and economic justice through political mobilization and not just to secure votes.

By the start of the inter-war period, social democracy had emerged in Canada as a more or less coherent ideological and political force committed to drastic social and economic reform through a strong labour movement and labour-based political action within the context of democratic political institutions. Social democrats advocated fundamental change, but that commitment to change through democratic institutions and in co-operation with other social movements necessarily implied some degree of gradualism and incrementalism. The immediate goals emphasized in elections and in day-to-day organizing to

build the movement were to win basic labour rights (not won in Canada until 1944), and to advance the case for social rights in the form of public pensions, unemployment benefits, public health insurance and access to education at all levels. But the ultimate goal of socialism in the sense of common ownership of at least the “commanding heights” of the economy in place of private ownership remained.

The **Regina Manifesto** of the CCF concluded, as outlined below, with the stirring statement that the party would not rest content until it had “eradicated capitalism.” The call for fundamental economic as well as social change was certainly sharpened by the searing experience of the Great Depression. The CCF was very explicit about building a socialist economy in place of the capitalist economic order and called for socialization of finance and most major industries as the indispensable base for national economic planning.

“WE AIM TO REPLACE the present capitalist system, with its inherent injustice and inhumanity, by a social order from which the domination and exploitation of one class by another will be eliminated, in which economic planning will supersede unregulated private enterprise and competition, and in which genuine democratic self-government, based upon economic equality will be possible. The present order is marked by glaring inequalities of wealth and opportunity, by chaotic waste and instability; and in an age of plenty it condemns the great mass of the people to poverty and insecurity. Power has become more and more concentrated into the hands of a small irresponsible minority of financiers and industrialists and to their predatory interests the majority are habitually sacrificed. When private profit is the main stimulus to economic effort, our society oscillates between periods of feverish prosperity in which the main benefits go to speculators and profiteers, and of catastrophic depression, in which the common man’s normal state of insecurity and hardship is accentuated. We believe that these evils can be removed only in a planned and socialized economy in which our natural resources and principal means of production and distribution are owned, controlled and operated by the people.”

Social democracy was a political force from the late nineteenth century, but its influence on the wider society came mainly from the political pressure exerted on more reformist forces and occasional participation in centre-left coalitions. This was also true of the inter-war period. In Britain, the Labour Party was able

to push for social reforms from the Liberal Party before the First World War, after which time it became the major political opposition to the Conservatives but distant from power. The Labour Party briefly formed singularly ineffectual minority governments in 1924 and 1929-31, which split the party. The British Labour Party leadership essentially embraced the economic orthodoxy of the gold standard and austerity until well into the 1930s.

In much of continental Europe, the left was deeply divided between social democrats and communists, and this and the lack of an effective policy response to economic collapse helped set the stage for the rise of Fascism in Germany and Italy. The German SPD was a weak minority coalition partner through much of the brief and tragic history of the democratic Weimar Republic, which suffered from the burden of reparations and hyperinflation followed by mass unemployment. Social democrats in France and Germany were far from power when the Great Depression came, and unsure how to respond. The rise of Hitler to power in 1933 set the stage for the profoundly divided French left to briefly unite against Fascism, and the Popular Front of centre and left parties supported by the Communist Party took power in 1936 but failed to agree on economic policy. The Popular Front did make some significant social progress under the leadership of Socialist Prime Minister Leon Blum, including enacting legislation which legalized collective bargaining, establishing the 40-hour work week, and guaranteeing two-week paid vacations, among other benefits.

Social democrats cannot be said to have risen well to the enormous challenge of the Great Depression, which plunged the industrialized world into mass unemployment and seemingly vindicated the socialist view that capitalism stood in the way of further social and economic progress. While rejecting Communism, many social democrats thought lessons were to be learned from the Soviet Union, which was rapidly industrializing through central planning and state ownership.

The leading British Fabians, Sidney and Beatrice Webb, published a 1,000-page tome, *Soviet Communism: A New Civilization?* in 1935, and dropped the question mark in the 1941 edition. Leading Labour Party intellectuals such as John Strachey and Harold Laski argued that capitalism had to be replaced by a planned economy based upon widespread public (mainly state but also co-operative) ownership. Like many other social democratic parties, the CCF in the 1930s strongly advocated for economic planning and much higher levels of public ownership and regulation of private capital. However, social democrats slowly drew other lessons from the Stalinist experience, such as the case for

markets even in a socialist economy, and the case for diversified forms of social ownership as opposed to highly centralized state planning (to say nothing of concern with Stalinist violence and terror). In the 1930s, G.D.H. Cole and the Guild Socialists in Britain promoted worker control of industry and not just state ownership and bureaucratic administration and this was a minority current within the union movement.

Positive lessons for the post-war years were to be learned from FDR and the New Deal in the United States, which strongly supported the rise of the U.S. labour movement, advanced collective welfare through work relief programs and the enactment of social security, and forcibly, if ultimately inadequately, intervened to revive the economy through public investment. There was, however, no sustained recovery or end to mass unemployment until mobilization for the Second World War. The democratic left could also look to the experience of Swedish social democracy in the 1930s. The Swedish social democrats led coalition governments from 1921. They won significant social reforms and were looked to by others as a model. In Sweden, the labour movement and employers essentially agreed to a class compromise through which the commanding heights of the economy were to be left in business hands in return for a commitment to full employment, the welfare state, and near universal unionism. The commitment to full employment was more than symbolic. As John Kenneth Galbraith (1994) noted in *A Journey Through Economic Time*: “In a just world, reference would be made not to the Keynesian but to the Swedish revolution.” The Swedish social democratic government successfully reflatated the economy and created jobs through major investments in infrastructure and housing (albeit helped by exports to Germany after the Nazis took power).

Social democratic parties slowly came to embrace, promote and even implement (in Sweden) the idea of Keynesian economists that governments should stabilize the capitalist economy through public investment, control of interest rates and the volume of credit by central banks and financial regulation, collective bargaining to link wages and productivity, regulation of prices in some sectors, and other key levers of economic management. But Keynesianism was not widely understood until the post-Second World War period, when it was embraced by a much larger range of political forces than social democracy. Certainly the 1930s destroyed the credibility of orthodox economics and vindicated the socialist view that unregulated and highly unequal liberal capitalism could lead to economic and social disaster. Progressive economists

and policy-makers and most social democrats drew the lesson that the state had to play a key role as a regulator of private capital, not least of the financial sector and monopolies, that strong unions and the welfare state are needed to sustain high levels of purchasing power and effective demand in the economy, and that public investment can help counter downturns due to low levels of business investment.



## 4.0 SOCIAL DEMOCRACY FROM THE GOLDEN AGE TO THE GREAT RECESSION

As Sheri Berman has argued in *The Primacy of Politics* (2006), the post-war years through the 1970s were the Golden Age of social democracy. The general context was one in which the traditional political right and the advocates of free market liberalism had been greatly discredited by the experience of Fascism and the Great Depression, which had also generated a broad popular belief in collectivism and social solidarity. To some degree, the communist alternative weakened dominant class opposition to social democracy, which came to be seen by some as a “third way” between communism and liberal capitalism. (It is important to distinguish this from the “third way” construed by Tony Blair, with the support of U.S. President Bill Clinton and German Chancellor Gerhard Schroeder of the German SPD, as a compromise between traditional social democracy and neoliberalism.)

At the economic level, the Golden Age was marked by very strong economic growth and by close to full employment, resulting in steadily rising real wages and the expansion of the fiscal base needed to finance the growing welfare state. The advanced industrial base built up in the United States during the war was rapidly converted to peacetime purposes, and war-torn Europe was rebuilt through American aid and assistance.

Perhaps the most emblematic political victory was that of Labour in Britain in 1945, which won a large parliamentary majority and ushered in under **Clement Attlee** the “New Jerusalem” through widespread nationalization of key industries such as coal, steel, electricity, gas, the railways and long-distance trucking and transport (but not finance, except for the Bank of England) and the birth of the cradle to grave welfare state. The blueprint was set out in the Beveridge report, which emphasized economic and social security for all as well as a concerted fight against poverty. Labour introduced significant social programs such as universal child allowances, much more generous and non-stigmatizing unemployment and welfare benefits, decent old age pensions, huge investments in public education and public housing and, above all, the

creation of the National Health Service, which provided publicly financed and publicly delivered healthcare. The great majority of at least manual and semi-skilled workers enjoyed workplace rights through strong unions and the benefits of collective wage bargaining. Nationalization was seen as a way to redistribute wealth and as a tool for industrial modernization, but British Labour did not introduce centralized economic planning on the French model or experiment with workplace democracy in the public sector or private industry.

The Attlee government can be seen in retrospect as probably the peak moment of social democratic advance, overseeing not just the emergence of the welfare state but also a major increase in the economic role of the state as a guarantor of full employment, widespread collective bargaining and high levels of public investment. But Labour lost its majority in 1951 and the Conservatives ruled until 1964. French and Italian democratic socialists were weaker in electoral terms than their communist counterparts throughout the Golden Age, and, rejecting a broad alliance of the left, were influential only as minority partners in centrist coalitions. Christian Democrats in Germany dominated governments in the 1950s and 1960s and embraced some aspects of the welfare and interventionist state, though placing the emphasis on social insurance benefits for (male) workers rather than all citizens and strongly supporting the traditional family in place of the expansion of public services needed for women to participate in the labour market. A closer look at these countries is warranted.

As mentioned, the French Socialists were electorally much weaker than the Communist Party until the late 1970s and came to executive power only in 1981 as part of a popular front coalition with the Communist Party (though the Socialists had an independent parliamentary majority until 1984). President Francois Mitterand was in office from 1981 to 1995, but only the first three years of his term were ones of major left advance. In retrospect this experience, coming at the start of the neoliberal era, can be seen as the last major attempt in non-Nordic Europe to move decisively towards democratic socialism. The common program of the left, which was more or less fully implemented, included a sweeping nationalization program, extending to major banks and insurance companies and some industrial giants, intended to maintain traditional national control of the commanding heights of the French economy in an age of multinational corporations. There were major social and political reforms, including attempts to decentralize the highly centralized French state to the local level, and labour reforms, including reduction of working time

and a significant expansion of trade union rights that required employers to bargain collectively and, in a gesture to workplace democracy or “autogestion,” extended the role of workers councils at the enterprise level. The minimum wage, pensions and social benefits were hiked in a major attempt to deal with rising unemployment through a redistributive Keynesian stimulus. The change of course to fiscal austerity in the mid-1980s has been widely seen as proof of the limits of Keynesianism in an emerging globalized economy, though other progressive economists note that the program would have been more successful if the Franc had been devalued and if France had not been obliged to reflate alone. In any case, France did not move in a pronounced neoliberal direction until well into the 1990s, and grew at a fairly healthy rate.

In Italy, the democratic left was also much weaker than the Communist Party until the latter itself became, essentially, social democratic in the 1990s, and was generally a junior partner in centrist coalitions. In Germany, the SPD led the government under Willy Brandt and then Helmut Schmidt from 1969 to 1982, but the major differences with its frequent coalition partner, the Christian Democrats, were over foreign policy issues rather than the basic lines of what was dubbed the “social market economy.” This included generous social insurance programs, statutory works councils to represent employees in the workplace and widespread collective bargaining to determine wages. Again, this model was not fundamentally challenged until well into the 1990s.

To summarize, the experience of sustained strong social democratic government even in the Golden Age was mainly confined to smaller European countries such as Sweden, Norway and the Netherlands, and social democrats were far from politically hegemonic in the post-war years.

A muted form of social democracy emerged in Canada at the end of the war as the Liberals, under strong political pressure from the ascendant CCF, supported labour rights, resulting in a major expansion of the union movement to include some 40 per cent of the labour force, and expanded public pensions and unemployment insurance. However, much of the modern welfare state did not become a reality in Canada until the 1960s when the Liberals, led by Lester Pearson, once again faced a strong electoral threat from the NDP, formed from a merger of the CCF, labour and other progressives in 1961. Liberal minority governments from 1963 to 1968 brought in a major expansion of federal funding for higher education and provincial welfare benefits and social services, greatly expanded unemployment insurance benefits and higher education and training

programs, enacted the contributory Canada Pension Plan to complement a minimalist Old Age Security program, and, building on the model of the NDP government of Saskatchewan, pushed the provinces through 50/50 cost-sharing into providing universal, publicly funded medical and hospital insurance.

While the NDP was dubbed “Liberals in a hurry,” it would be truer to say that the Liberals were extremely reluctant to respond to political demands for social democratic programs in the absence of a strong electoral threat. Nevertheless, there were some elements of the Liberal party, and certain politicians (such as Walter Gordon and Monique Begin, to name a few) who were committed to expanding parts of the progressive state and securing other social democratic reforms. In Canada, as elsewhere, there was *occasional* consensus on social democratic goals shared across political parties. The case of Canada’s most celebrated social program, Medicare, is instructive here. As former Saskatchewan NDP Premier Roy Romanow has argued, it was Progressive Conservative Emmet Hall’s landmark Royal Commission of 1964, reflecting Canadians’ thirst for universal Medicare, that put an agenda for health care reform squarely on the national scene. Romanow also credits the principled national leadership of then Liberal Prime Minister Lester B. Pearson for convincing a divided cabinet and First Ministers of the provinces, and ultimately transforming Medicare into a truly national program.

The NDP played a major role in pushing the Liberals to embrace policies of economic nationalism in the 1970s, especially when the Trudeau government was in a minority from 1972 to 1974. After striking **a task force on foreign ownership**, chaired by leading left nationalist Mel Watkins, the Liberals regulated foreign ownership in the 1970s with a view to reducing high levels of U.S. corporate control in the manufacturing and resource sectors. They regulated the development of the oil and gas sector in the national interest through the National Energy Policy, modestly expanded public ownership, including through the establishment of Petro Canada in the oil industry, and established the Canada Development Corporation with a mandate to diversify the Canadian economy and bring about greater domestic control of national economic development in place of multinational corporate ownership and control. Federal Crown corporations played a major role in transportation (for example, CN Rail and Air Canada), power generation (AECL), and communications, and these and other sectors were also closely regulated by government boards and commissions. In short, post-war Canadian social democracy through the 1970s and into the

1980s was concerned with exerting levers of government economic control and not just building an advanced welfare state.

NDP provincial governments in the 1970s and 1980s (in Saskatchewan under Allan Blakeney, in British Columbia under Dave Barrett, and in Manitoba under Ed Schreyer and Howard Pawley) energetically expanded social programs and public services, especially homecare and pharmacare, building on the strong record in this area of the Tommy Douglas CCF governments of Saskatchewan. They also played a major role in economic development. The Blakeney government in Saskatchewan took potash under public ownership, and the **Barrett government in B.C.** also acted to divert buoyant private sector resource revenues into government coffers to fund public services and social programs, and saved jobs by taking several companies under public ownership. For his determined efforts to capture excess resource sector profits for the public, Dave Barrett was dubbed the Allende of the North by Barron's magazine and widely vilified as a radical socialist. He certainly worried little about retaining "business confidence."

Provincial Crown corporations played a major role in economic development promoted by NDP governments, as with SaskTel, BC Hydro and Manitoba Hydro. NDP provincial governments established public auto insurance in Saskatchewan, Manitoba and British Columbia and greatly expanded public services in place of social provision through the market. NDP governments of the period also played a major role in advancing human rights (dating back to the 1947 Saskatchewan Bill of Rights, the first in Canada) and advanced the rights of women significantly, not without substantial pressure from feminists within and outside the NDP.

Since the Quiet Revolution of the 1960s, Quebec, under the strong influence of social democratic ideas aligned to nationalism, developed a **distinctive social and economic model in Canada** that has persisted despite some retrenchment since the 1990s. This model has, more recently, been under sustained attack by Liberal governments and its long-term viability is in question. Historically, Quebec developed the strongest labour movement in Canada (outside Newfoundland and Labrador), an active developmental state and an extensive system of public social services. As detailed by political scientist Alain Noel in

*Quebec's New Politics of Redistribution*, the model was built on broad social consensus, often cutting across provincial political party lines.

Due to policies that date back many years, Quebec still has a unionization rate of 37 per cent compared to 30 per cent for all of Canada, and unions play a role in the development and implementation of employment and social policies broadly along the lines of Western European corporatist institutions. Quebec has long had higher taxes to support more generous social programs and public services than in the rest of Canada, including heavily subsidized, high-quality child care and early learning, significant cash benefits for children in low-income families, higher maternity and parental leave benefits, a provincial drug plan, and much more affordable tuition fees for post-secondary education than in other provinces. The Quebec government has also long played a significant role in provincial economic development through Crown corporations such as Hydro-Quebec and investment funds such as the Caisse de depot and the Fonds de solidarité, a labour-sponsored venture capital fund, and has supported the growth of a significant not-for-profit **social economy** including worker co-operatives and social enterprises.

The Golden Age period from the war through to the stagflation crisis of the mid to late 1970s was, with obvious exceptions, one of more broadly shared prosperity. Economic growth was rapid and unemployment was low in all of the industrial countries with only a few brief downturns, and wages and family living standards rose rapidly. Households were generally prepared to pay more in taxes to secure better social programs and public services so long as after-tax wages were still rising. It turned out that regulated capitalism could indeed support broadly shared prosperity and increasing equality of both condition and opportunity, at least for an extended period of time. There was a virtuous economic circle in which high levels of business investment in new plant and equipment and in innovation generated strong productivity gains, which strong unions translated into rising real wages. These in turn sustained high levels of effective demand and new rounds of business investment. That said, full employment was based upon the problematic male breadwinner model until well into the 1970s. In the case of Canada, poverty, dispossession and discrimination were serious issues throughout the Golden Age, particularly for Indigenous peoples and communities as well as for other racialized groups.

Whether social democratic parties were more or less distant from the levers of political power, the 30 years or so after the war were marked by close to



full employment, strong labour movements, rising wages and rising levels of expenditure on social programs and public services as a share of the economy. As shown by Thomas Piketty (2014) and others, incomes at the bottom and the middle of the wage and family income ladder rose strongly relative to those at the top, ushering in what Paul Krugman (2007) has termed “the Great Compression.” The income and wealth share of the top 1 per cent fell greatly compared to the Gilded Age of the late Victorian era and compared to the 1920s, and income mobility over the generations greatly increased. Equality of opportunity was significantly enhanced in the sense that the relationship between the fortunes of individuals and their class backgrounds greatly loosened, above all in the most advanced welfare states. Social Democratic Sweden, the most advanced welfare state, became the least unequal society in the world. While Canada and the United States fell well short of the Nordic model in terms of the reduction of social class differences, and while there were marked differences between the advanced industrial countries in terms of levels of inequality, taxes and public expenditures, the trend was in the same general direction until the mid 1970s.

This extended period of near full employment, rising wages and expanding economic and social security understandably sapped some urgency from traditional socialist demands for greater economic democracy in the sense of widespread public and social ownership. Indeed, as noted, the post-war boom tended to favour non-socialist parties, notably the Conservatives in Britain, the Gaullists in France and the Christian Democrats in Germany and Italy. In response, many social democratic parties explicitly abandoned socialism as an ultimate goal, as in the 1959 Godesberg Program of the German SPD. A similar course was urged upon the U.K. Labour Party by Tony Crosland in his influential book, *The Future of Socialism*, published in 1956. In Canada, the NDP, born in 1961, embraced the principles of the **Winnipeg Declaration**. The declaration, originally adopted by the CCF in 1956, watered down the stirring words of the Regina Manifesto, which had called for the eradication of capitalism. Instead (with the support of labour but not the old CCF left), the NDP essentially called for a mixed economy, albeit including a major role for Crown corporations and co-operatives, and a comprehensive welfare state.

At the sociological level, social democratic parties and movements were increasingly challenged by the gradual and ongoing shift to a post-industrial economy and society. The working class did not disappear but as jobs in

manufacturing and the resource industries and male blue-collar occupations generally fell as a share of the labour force, so did the historical core constituency of social democracy. To some degree this was offset by the rapid growth of employment in public and social services, especially of women. Unlike the United States, the Canadian labour movement grew rapidly in the 1960s and 1970s due to the rapid rise of public services employment and public sector unions, and reached its peak strength in the early 1980s. In some European countries, unions also represented a significant proportion of workers in the fast-growing white-collar and professional occupations in the private sector. Still, social democrats had to appeal to a changing workforce in terms of gender, education and skills, and falling unionization from peak levels and the rise of more precarious forms of work from at least the 1980s added to the challenge of maintaining close political ties to the broadly defined working class. By the end of the century, social democratic parties generally lacked close institutional links to the growing ranks of insecure and poorly paid workers in the expanding private service sector of the economy, including many recent immigrant and racialized workers. The rise of right-wing populism has often been interpreted as partly a consequence of weakened links between the working class and the labour and social democratic movement.

At a cultural level, the shift to middle-class occupations in the Golden Age and rising working-class affluence has been linked to “embourgeoisement” and the decline of socialist and working-class consciousness. Analysts such as **Daniel Bell** spoke of “the end of ideology” in a “post-industrial” era. Tony Judt (2010) has stressed the slow loss of public memory of the Depression and the political crises of the 1930s as well as the sense of collective solidarity that characterized the immediate post-war years and created very broad public consensus behind the welfare state. Affluence arguably increased the sway of possessive individualism, and the majority of the electorate came to have limited real experience of major social reforms and movements for change. Activism in the labour movement and social democratic parties also declined. This left some political space for the rise of the free-market right that favoured individual consumption and gratification over collective goals. These impulses were strengthened when wages began to stagnate and taxes came to be seen, and were constructed by the right, as a “burden” rather than as the necessary means to pay for collective programs and services.

That said, the 1960s and 1970s were also marked by the rise of progressive and left political forces that were at least somewhat at odds with social democratic parties, creating challenges both from within and without. The post-materialist new social movements asserted claims, for example, to equality of gender and sexual orientation that conflicted to some degree with the traditional priorities of social democratic politics based upon class. At a minimum, social democratic parties were forced to change internally to recognize the rights of women and to develop their policy platforms to address the issues raised by feminists, notably claims for equality in the job market and for quality social services such as child care and elder care to substitute for care in the home. While many social democrats were strongly influenced by or embraced feminism, as in the Scandinavian countries and in Canada, it was by no means a given that such parties would embrace issues such as abortion rights or would give priority to public child care and elder care as key demands to liberate women from domestic labour and to promote greater equality at work. Feminism played a prominent role in the struggles for pay and employment equity. Feminist socialists such as **Rosemary Brown** in Canada pushed these issues to the fore by challenging male dominance and gender blindness within the social democratic tradition. Brown, the first Black woman to be elected to any parliament in Canada, was also a vocal proponent of racial justice.

Starting in Germany, environmentalists challenged the traditional social democratic reliance on unconstrained economic growth to fuel social progress, and pressed the case for a broader definition of progress that would include not just a sustainable environment but also new forms of work, shorter working time and greater democratic participation in the workplace and the community. For their part, social democrats pointed to the need for significant government intervention in the economy through regulation, public investment and the shaping of private investment to support environmental transition, together with the need for just transition mechanisms to assist affected workers.

Some aspects of the welfare state came to be seen as overly centralized, bureaucratic and paternalistic and many on the left pushed for much greater decentralization of the power to design and deliver social services to the community level and delivery of these services through not-for-profit and community enterprises. These currents had some significant influence on the programs and policies of social democratic parties and governments in the 1970s and 1980s. In Europe, the mass Communist parties of Italy and, to a lesser

degree, France moved away from Stalinist orthodoxy well before the collapse of the Berlin Wall and became self-consciously part of a popular democratic left sometimes including social democrats. Within the unions, a generation of young workers pressed for much greater worker control and not just higher wages, and labour activists joined with radical youth in the peace and disarmament movements. Most dramatically in France in 1968 and in Italy, the student and labour-left led mass protests and strikes that centrally challenged not just the political right but also the existing left, both in its social democratic and communist forms. The New Left was much more anti-imperialist and anti-racist than the mainstream social democratic parties in the Cold War period, and the issue of the Vietnam War and U.S. foreign policy generally divided many parties, though to a lesser degree in Canada than elsewhere.

At an intellectual level, the 1960s saw the emergence of a vibrant New Left that was often Marxist but predominantly non-Leninist and tried to push social democratic and Communist parties in a much more radical direction. In Canada, the early 1970s saw the emergence of a strong challenge to the NDP and labour leadership from the **Waffle**, a movement that built on growing Canadian nationalism and called for a movement to build an independent socialist Canada. In short, there was quite a pronounced shift to the democratic left at the end of the “Golden Age” that was very far from having created a generalized culture of contentment.

By the mid to late 1970s, economic and political developments led to what can be seen as a fundamental crisis of the embedded liberal economy and of its principal political advocate, social democracy. As historian Eric Hobsbawm argued, the “forward march” of the twin labour and social democratic movement was halted and then reversed. The turn was marked by the increased intellectual sway of the radical free market right, led by Milton Friedman and a host of think-tanks influenced by arch liberal Friedrich von Hayek, the major intellectual foe of the Keynesian welfare state in the post-war years. Their radical free market ideas, today known as neo-liberalism, strongly influenced the governments of Ronald Reagan and Margaret Thatcher and were increasingly embraced by key international institutions such as the IMF and the OECD, slowly percolating out to the non-Anglo-Saxon world.

The stage was set for this turn by the stagflation crisis of the mid to late 1970s, marked by slow growth and rising unemployment combined with high inflation, and also by a related major deterioration in the fiscal circumstances of most

governments. The neo-liberals argued that the Keynesian welfare state had advanced much too far and had ultimately worked to undermine growth and the dynamism of capitalism by subverting free markets. They called for the abandonment of Keynesian demand management and a single low inflation objective for central banks as opposed to low unemployment. Full employment was rejected as a goal of economic policy except to the extent that it could coexist with low and stable inflation, an outcome that was held to be dependent upon creating “flexible” labour markets with weak union and labour rights and low minimum wages. In Canada, very high interest rates imposed to lower inflation, even at the cost of high unemployment, brought about major recessions in both the early and late 1980s.

The neoliberals called for a much greater role for market competition as opposed to regulation and public ownership, leading to the privatization of many Crown corporations and deregulation of transport, energy, communications and other key sectors. National economies were opened up to much greater global competitive pressures, first through the multilateral reduction of tariffs in the 1960s and 1970s, and then through more comprehensive trade and investment agreements like the Canada- U.S. Free Trade Agreement of 1988 and the later North American Free Trade Agreement, that explicitly stopped governments from intervening in the economy to favour domestic economic interests over those of transnational corporations and heightened competition in global markets between the advanced industrial countries and some emerging economies. From the mid to late 1990s, there was a major shift of manufacturing employment from all of the advanced industrial countries to China and other low-wage developing countries. Global competition promoted technological and organizational changes that polarized the work force and generally degraded middle-class jobs.

Neoliberals also called, more or less explicitly, for governments to promote greater labour market “flexibility.” They did this by reducing labour rights, including union rights to organize workers, the right to free collective bargaining and the right to strike, minimum wages, and by undermining income supports for workers such as unemployment insurance that raised worker bargaining power in the job market. Neoliberals also called for much lower taxes on corporations and individuals, necessarily financed by cuts to social spending and public services, and a less progressive income tax system with easier treatment of income from capital and lower top tax rates. They argued for a much more

residual welfare state and a shrinkage of so-called entitlement programs that promoted economic security for citizens as well as more competition from the private sector in the provision of public services. In short, neoliberals construed the solution to the economic crisis to be a return to the classical free market economy and society of the pre-social-democratic age.

Though it was exacerbated by much higher oil prices, the root cause of the stagflation problem according to the right and many economists on the left was a major reduction in business profitability compared to the Golden Age. This resulted in lower rates of business investment and lower productivity growth, which led employers to strongly resist higher wages, not least in the context of rising competition between the advanced industrial economies and then the shift of global manufacturing to Asia. The profitability and productivity crisis was understood by economists on both the left and the right to be rooted in close to full employment, a strong labour movement and the redistributive welfare state. As far back as the 1950s, left Keynesians such as **Michal Kalecki** had warned that full employment, strong unions and significant de-commodification could result in a profit squeeze. Seen in this light, the Golden Age was a temporary exception to the tension between capitalism as a profit-driven system and social democratic goals. For left Keynesians and some social democrats, however, the solution lay not in a return to the liberal market economy and high unemployment, but rather in greater socialization of the investment process and thus less reliance upon fickle business confidence.

Many social democratic governments in or close to power, most notably the British Labour Party under James Callaghan from 1976 to 1979, became embroiled in battles with the unions over wage gains not justified by slowing productivity growth. Previous Labour leader Harold Wilson sought to impose a new and more restrictive legal framework on fraught industrial relations, and Callaghan explicitly rejected full employment as a feasible goal of economic policy in a new global era. However, in Sweden and the Netherlands, and in the “social market economy” of Germany in a more informal way, there was some degree of co-operation between the labour movement and social democratic and other governments to boost profitability and investment. The essence of the deal was that unions would moderate wage growth in return for the maintenance of full employment, public services and social programs. Such deals greatly limited the political influence of neoliberalism in some European countries such as Germany and Sweden until the 2000s. However, they were based upon a strong and

relatively united labour movement with close links to governments, and were not possible in countries with very divided labour movements, not least Italy and France where the communist-led unions remained influential and reluctant to engage in a class compromise with non-left governments.

Further, corporatist arrangements were unstable in that labour movements tended to resist too much wage moderation and to push for greater social control of investment as an additional quid pro quo for wage restraint. There was no guarantee that higher profits would be reinvested in the economy to create jobs and to sustain the fiscal base for social spending. In Sweden, the unions and, briefly and less enthusiastically, the social democrats called for a major extension of social ownership in 1976 in place of private ownership of major companies through compulsory equity transfers to pension investment funds, an ostensibly gradualist approach that Swedish employers soon saw would ultimately lead to full-blown socialism. A key premise of the so-called **Meidner Plan**, drafted by the chief economist of the major union federation LO, was that workers could and should accept the discipline of wage restraint only if profits became functional, a source of investment funds rather than a source of private wealth. While incomes had been equalized in Sweden to a greater degree than anywhere else under social democracy, wealth remained highly concentrated. In the event, the funds were introduced only in a very piecemeal way, which left the traditional Swedish mixed economy intact.

In Britain, Labour MP Tony Benn, the left of the Labour Party and the unions called for an **Alternative Economic Strategy** based upon major government intervention in the private sector through public investment agreements, socialized finance and state-led planning. This was widely supported within the ranks of labour and the left, and even implemented to a degree at a local level by the Greater London Council, but the Labour leadership viewed any such program as politically suicidal. Suffice it to say that the economic crisis of stagflation brought about a much more strained relationship between the labour movement and social democratic parties (including in Canada) over the wage issue. It also eroded belief in the effectiveness of national Keynesian economic management tools alone to revive growth and restore full employment. The crisis put **economic democracy** briefly back on the agenda, but nowhere was there a major and sustained shift in this direction after France in the early 1980s.

The shift to the political right from the 1980s tended at a minimum to turn social democrats into defenders of past achievements rather than proponents



of major new welfare or economic reforms. In Canada as elsewhere, the right (including the Liberal Party) undermined union rights as well as minimum wage and employment standards, cut welfare and unemployment benefits and cut individual and corporate taxes in a bid to revive business investment. The right also lightened regulation of business, privatized public sector enterprises and promoted global trade and investment agreements that limited the power of national governments to regulate capital in the public interest. It would be an exaggeration to say that the post-war welfare state was dismantled, but it eroded under political and fiscal pressures, especially under the Liberal federal government in the 1990s, which imposed tough fiscal austerity policies in order to balance the budget and subsequently cut corporate and personal taxes. The neo-liberal right became a major political force in some provinces under Mike Harris in Ontario, Ralph Klein in Alberta and Bill Bennett and Gordon Campbell in B.C., and took power federally under Stephen Harper.

In this hostile context, the posture of the labour movement and the NDP became defensive. Fiscal challenges at the provincial level in the wake of the deep recession of the early 1990s and cuts in federal transfers to the provinces in the mid 1990s limited the scope for major expansions of social programs and public services. The Roy Romanow and Lorne Calvert NDP governments in Saskatchewan (1991 to 2007), the Mike Harcourt and Glen Clark governments in British Columbia (1991 to 1999), and the Gary Doer and Greg Selinger governments of Manitoba (1999 to 2016) all sought to maintain programs and services and even to expand them modestly in areas such as education, child care, elder care and pharmacare, but were committed to balancing provincial budgets. They were reluctant to raise taxes and indeed implemented some tax cuts. It is hard to identify major advances in social rights by the more progressive provinces in the 1990s, though austerity policies were much harsher elsewhere. NDP provincial governments generally defended existing private sector labour rights but had to manage the inherently conflictual, but manageable, relationship with public sector unions. The Bob Rae government in Ontario (1990 to 1995) fought a major battle with the labour movement when it rolled back public sector wages through the legislatively imposed “social contract” to deal with a large deficit.

By the 1990s, some social democratic parties more or less shifted into the neoliberal ideological camp, inspired in part by Bill Clinton in the United States. The paradigmatic case was New Labour in Britain under Tony Blair,

which distanced itself greatly from the trade union movement, sought to reduce supposed dependency upon the welfare state, especially by cutting benefits for the long-term unemployed, increasingly favoured market delivery of public services, including health care, and had no interest in interventionist economic policy. Blair and his followers showed little concern over rising income inequality and the rapid financialization of the U.K. economy following deregulation of the City of London. While New Labour did introduce a national minimum wage and expanded means-tested welfare benefits for low-income families with children, its goal was very much a narrow equality of opportunity through education, training and active labour market policies of the kind pioneered in the Scandinavian countries, as opposed to promoting greater equality of condition through redistribution or by expanding public services into new areas. The same could be said of the German SPD under Gerhard Schroeder that deregulated the labour market in the hope of creating more low-paid private service jobs under “flexible” contracts, and the Lionel Jospin and Francois Hollande governments of France that embraced cuts to public pensions and fiscal austerity and reduced labour rights. In all of these cases, social democratic incumbency has been marked by serious and demoralizing internal party divisions. (By contrast, it should be briefly noted that the democratic left played a major role in Latin America in the 1990s and 2000s and advanced greater equality in extremely unequal societies by introducing higher welfare standards, broader access to public services and supporting a strong labour movement. The most emblematic case being President Luiz Inacio Lula Da Silva in Brazil.)

## 5.0 CONCLUSION: CONTEMPORARY PROSPECTS FOR SOCIAL DEMOCRACY

The underlying dilemma of social democracy in the twenty-first century is that neoliberalism has failed while a coherent alternative has yet to be fully developed and embraced by most social democratic parties.

As underlined by Piketty (2014) and others, neoliberalism has seen a return of income and wealth inequality to the level of the 1920s in the United States and Britain, and a clear trend towards greater inequality in Canada as well as the advanced industrial countries that have been the historic home of social democracy. Unemployment and underemployment in part-time and contract jobs is generally very high, and work has become much more low-paid, insecure and precarious for at least the bottom third of the labour force. Deindustrialization, technological change and the decline of unions in the private sector have led to stagnant wages and the erosion of workplace rights. Inequality has been exacerbated by the undermining of the redistributive welfare state and of high-quality public services. Most countries have seen the middle class shrink as income growth has been concentrated at the very top, while the ranks of the working poor have grown. Economic security has been greatly diminished by structural changes in the job market combined with cuts to social programs.

Despite limited spurts of productivity growth driven by new technology, rates of economic growth and overall productivity growth since 2000 have been modest and well below the levels of the Golden Age. Profitability was largely restored by neoliberalism, but private investment has been weak in almost all the advanced economies, and there has been a low rate of reinvestment of robust corporate earnings. The deflationary effects of low wage growth and weak investment were partly countered from the 1990s until the Great Recession by rising levels of debt, especially household debt. A buoyant housing market inflated by speculative finance and cheap credit sustained growth in the U.S., the U.K. and elsewhere (notably including Canada since 2000), but this is clearly unsustainable. The collapse of debt-fueled asset bubbles led to the global financial crisis of 2008, which has still not been resolved.

Economic stagnation since the crisis is due to the obstacles of slow wage growth due to intense global competition, high household debt, low business confidence in the existence of profitable new investment opportunities, and the high levels of public debt accumulated in some countries as a result of the crisis that precipitated a premature return to fiscal austerity. Ultra-low interest rates have been unable to spark a meaningful recovery and leading economists fear an extended period of “secular stagnation.” In the Euro area, social democratic parties are hamstrung by self-imposed rules that mandate low deficits, forcing policies of austerity despite the return of mass unemployment in several major countries. EU rules also constrain major government intervention to support domestic companies. Voices on the European left have called for recovery through a concerted public investment program and higher wages to increase purchasing power, but they are not in the majority.

Reversing the national and global trend towards extreme inequality will require, at the most abstract level, a new re-embedding of capitalism within society and a rebalancing of capitalism and democracy within new circumstances. We cannot easily restore the post-war welfare state that presupposed a strong labour movement rooted in the industrial working class, a very strong cultural ethos of solidarity, and a system of nationally rooted capitalisms in which governments could effectively regulate national economies. Today’s context is one of much greater individualism, a weakened labour movement, a much more diverse workforce and society, and a hyper mobile, globalized and financialized capitalism where corporations create and recreate cross-border value chains to maximize profits and can usually bend governments to their will. Contemporary social democracy must also confront major new challenges such as the imperative to reverse catastrophic global climate change and other pressing ecological challenges, to counter the rise of precarious and low-wage employment, and to address the close overlapping of class and racial inequalities.

How then can we return to an era of shared prosperity? Global stagnation must be countered by a major global shift away from austerity and a major revival of public investment, especially to deal with climate change and a transition away from fossil fuels. Record low interest rates mean that a major increase in public spending to boost short and longer term economic growth is essentially self-financing. Breaking with austerity in the longer term will require global coordination of macro-economic policies, and consideration of capital controls to avoid the most harmful effects of fierce national competition for

global market share. An alternative agenda will involve rebuilding the labour movement at home and internationally to win additional bargaining power for workers and to ensure that wages rise in line with productivity. Extending protections to precarious workers will require major changes to national labour laws, such as sectoral certification and bargaining in low-wage sectors of the economy and much more rigorous enforcement of labour standards. Globally, we need to put much tighter rules on mobile capital, including setting high labour and environmental standards in all trade and investment agreements. All workers in the global economy should have access to basic democratic and social and economic rights, including labour rights.

We also need to restore some of the levers of control of national economies that were surrendered through neoliberal trade and investment agreements such as NAFTA and CETA. Here in Canada, we face the major problem that economic restructuring has left us highly dependent upon a vulnerable and environmentally unsustainable resource economy that provides relatively few direct good jobs, and shrunken productive capacity in more sophisticated, innovative and high value-added industries, be they manufacturing or services. Canada needs a new economic development strategy to build an innovative, high value-added economy that is owned and controlled domestically while still participating in global markets.

Part of the answer to low private investment and rising inequality is to expand social ownership of capital and to extend economic democracy. This is not a call for state socialism, but rather for a significant expansion of socialized capital in highly diversified forms, including through the assets of public pension plans, through government support for co-operatives and community-run investment funds, through the expansion of public investment banks like BDC and EDC, and through new Crown corporations at different levels of government. As argued by Mariana Mazzucato (2013), major technological leaps require more than private sector entrepreneurship. If we are to deal with major new challenges such as the needed de-carbonization of energy production, **the state must lead the way** through planning and support for major new investments, and returns from these investments should flow to all citizens and not just the owners of corporate assets. The financial system must be closely regulated to support **real business investment in capital and in innovation** as opposed to short-term debt-fueled speculation.

The **debate over basic income** challenges us to think of how to reform our income support programs and tax systems to promote greater security and less

inequality. The rise of precarious and low-wage work means that many working families have low incomes that must be addressed by some combination of higher wages and income supports, be they earned income tax credits or a basic citizens' allowance. The goal of decent work for all should not be abandoned, taking into account the fact that work is not just about wages but also the development of individual capacities and making a productive contribution to society. Elimination of poverty through targeted income supports such as child benefits, public pensions and unemployment insurance is a practical short-term goal. Significant additional tax revenues to fund social programs can be raised by taxing wealth, shutting down offshore tax havens and other tax loopholes for the rich, and by making the income tax system more progressive.

The social democratic agenda of expanding public services for all citizens remains far from a reality. Free access to learning must include early childhood education and care, post-secondary education, labour market training and lifelong learning. We should ensure that high-quality child and elder care is available at minimal cost to serve fundamental social needs while expanding opportunities for women and creating decent jobs. Affordable housing must also be made available to all.

A strong democratic left exists within and sometimes apart from the social democratic parties, pushing for anti-austerity policies, expanded social and labour rights and greater economic democracy. Drawing on the historical experience of both social democracy and the new social movements, the political left has to become much more lively, open and internally democratic while still focused on winning power through the democratic political process. The recent election of Jeremy Corbyn as leader of the Labour Party in Britain, the Bernie Sanders campaign in the United States and the rise of Syriza in Greece and Podemos in Spain show that there is strong popular support for goals and policies that fundamentally challenge the neoliberal status quo, especially among youth. Many social democratic parties have embraced and built close links to the environmental movement and accepted the urgency of a transition to a new carbon-free economy, which will demand a major economic role on the part of governments. In Canada, Black Lives Matter, Idle No More and other groups are demonstrating that struggles against racial injustice and for decolonization and a progressive pluralism must be central to any left policy agenda.

Left think-tanks have developed progressive policy alternatives, helping develop a vision of a market economy with high levels of diversified social ownership and control, with high levels of economic and social equality, and a much more decentralized and responsive welfare state. There has been a revival of interest in economic democracy, including at the workplace. A new labour movement based on organizing the precariat is visible in major campaigns for higher minimum wages and effective protection of labour rights. To a significant degree, the left in the wake of the anti-globalization and environmental and peace movements has organized itself internationally to share experience and perspectives and to collectively push for a different form of globalization, even though politics remains firmly anchored in individual states.

The basis for a new mass social democratic or democratic socialist movement exists in the failure of neoliberalism to promote shared progress, non-material goals, the full advancement of equality human rights, and an environmentally sustainable economy. Social democracy is alive and well, and remains as necessary as ever. This is especially true at a time when the failures of neoliberalism are fueling the rise of right-wing populist political movements that emphatically reject democratic goals and values and threaten our collective future.



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