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Social Democracy and Globalization: The Cases of France and the UK

THIS ARTICLE EXPLORES THE NATURE OF CONTEMPORARY SOCIAL democracy, questioning, with like-minded scholars, John Gray's interpretation of the relationship between social democracy and globalization, which asserts that social democracy is a historically exhausted project.¹ Garrett, for example, in rejecting such assertions, argues that social democracy remains a distinctive and viable 'project' within the global economy, specifically in cases where strong left-of-centre parties are linked to 'encompassing labour movements'. He has subsequently argued that social democracy in 'Euroland' (with or without encompassing labour movements) can pursue a less constrained fiscal policy, and expect a more accommodating monetary policy than some predict. Garrett thus insists that social democratic governments within the Eurozone are able to 'use macro-economic policy to lessen market dislocations and to redistribute wealth and risk in the ever more globalized economy'.²

More generally, Pierson argues that the globalization of finance does not 'rule out' social democracy, and highlights the *success* of social democratic governments in maintaining income, and protecting the most vulnerable in the context of globalization. Tax reforms in the 1980s have been largely revenue neutral, and welfare state institutions have been remarkably robust, remaining the principal mechanism for redistributing wealth and opportunities.

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¹ Gray is cited here not as an exemplar of Third-Way thinking, since his work is not part of the Third-Way mainstream. It is used to frame this article as representative of writings on the apocalyptic implications of globalization for social democracy. See J. Gray, *After Social Democracy*, London, Demos, 1996, and *False Dawn*, London, Granta, 1998.

² G. Garrett, 'Capital Mobility, Exchange Rates and Fiscal Policy in the Global Economy', *Review of International Political Economy*, 7:1 (2000), p. 169, and *Partisan Politics in a Global Economy*, Cambridge, Cambridge University Press 1998.

This more grounded account of globalization and social democracy recognizes the ambiguous nature of the impact of globalization. Without denying that tax regimes have become flatter and less progressive, and exit options for capital have increased, whilst costs have been reduced, Pierson nevertheless insists that globalization neither 'mandates' nor 'prohibits' policies, but changes the structure of costs and opportunities of particular strategies. The room to manoeuvre continues to exist, and globalization does not inflict irresistible neoliberal policy formulation on actors.³

Gray's dubious definition of social democracy is rejected here in favour of a more nuanced, agency-centred definition tied to the *ends* of social democracy. We explore the relationship between social democracy and globalization through comparative political economic analysis of the French Parti Socialiste (PS) and the British Labour Party. Consideration of the development and implementation of economic strategies of the Third Way and *Réalisme de Gauche* illustrates that each party conceives of globalization differently. In exploring how these different conceptions of the appropriate responses to globalization feed through into different policy programmes, the contours of the new political economy of social democracy emerge. In the field of macroeconomic policy we see (to different degrees) reduced emphasis on redistributive macroeconomic policies. This is compensated by increasing emphasis on an eclectic range of employment, labour market, and structural adjustment policies. Furthermore, in the French case, we see a calling into question of social democracy's methodological nationalism, with increasing efforts at the supranational level to expand social democratic room to manoeuvre through coordinated EU-level activism in response to the constraints placed on social democracy by globalization.

SOCIAL DEMOCRACY

Understanding the relationship between globalization and social democracy requires an accurate conception of the latter. Social democracy is a 'contingent historical phenomenon',⁴ and must be

³ C. Pierson, *Hard Choices: Social Democracy in the 21st Century*, Cambridge, Polity, 2001, pp. 64–89.

⁴ See A. Przeworski, *Capitalism and Social Democracy*, Cambridge, Cambridge University Press, 1985, p. 3.

related to its national institutional context. Factors such as the ideological traditions of the party, the nature of party competition within the national party system, the socio-economic structure of society, and the relative openness and competitiveness of the economy, heavily influence the nature of each national social democratic 'project'.

Gray nevertheless attempts to identify a set of common core features:

... the pursuit of greater equality of income and wealth through redistributive tax and welfare policies; the promotion of full employment through economic growth; a 'cradle-to-grave' welfare state defended as the social embodiment of citizen rights; and support for and co-operation with a strong labour movement as the principal protector of workers' interests.⁵

Gray's definition of post-war social democracy is useful, but his retention of such a definition in the contemporary period is problematic. Elsewhere Gray unhelpfully (mis)defines social democracy as 'the combination of *deficit-financed* full employment, a comprehensive welfare state and egalitarian tax policies that existed in Britain until the late-1970s and which survived in Sweden until the early 1990s'. This grossly over-states the importance of deficit financing to social democracy.⁶ More worryingly, such a static, ahistorical conception explains his confidence in assigning social democracy to the rubbish bin of history, but it misunderstands the nature of social democracy and prematurely discounts its capacity for renewal. The Keynesian welfare state project was but one 'strategic amalgam'⁷ through which to pursue the politics of social democracy. That this approach no longer retains the same relevance should not surprise us. Nor should it lead us to write-off social democracy as a spent force. Rather, the changed international economic and domestic political context requires us to look at how social democratic goals are pursued today, and seek to trace the outline of a new 'strategic amalgam' – or amalgams.

⁵ J. Gray, *After Social Democracy*, p. 25.

⁶ J. Gray, *False Dawn*, p. 88 (emphasis added). Notermans goes so far as to argue the 'irrelevance of Keynesianism' to 'golden age' social democracy, which was due to sustained growth and the ability to contain inflation, *not* deficit financing. 'Even in Keynes' native Britain, deficit spending was absent and fiscal policy mainly exerted a contractive influence on consumption.' T. Notermans, *Money, Markets and the State: Social Democratic Economic Policies Since 1918*, Cambridge, Cambridge University Press, 2000, p. 163.

⁷ See C. Pierson, *Socialism After Communism*, Cambridge, Polity, 1995, p. 34.

Kitschelt offers a definition of social democracy which is not tied to any specific policy paradigm or historical context, but is rooted in its core policy output, 'moderating wage earners' exposure to market risks (due to sickness, old age, unemployment) and engineering *significant* income redistribution towards the less fortunate in society, while promoting economic growth'.⁸ This ends-based definition is useful because arguably both traditional Keynesian social democracy of the 'Golden Age' and the current employment and distributive policies of the PS and New Labour fall within its parameters.

However, whilst useful, it is not unproblematic. First, it underplays the importance of full employment as a core aim of social democracy. The definition advanced here emphasizes facilitating the widest possible access to employment within society as a core 'end' of social democracy. Secondly, within Kitschelt's definition, a great deal hinges on what is understood by 'significant', which is arguably what distinguishes social democracy from liberalism. We can illustrate this by exploring the notion of significant redistribution underpinning PS and New Labour policy programmes. 'Significant' income redistribution suggests, to use a prevalent distinction, a commitment to something more than mere 'equality of opportunity', but also some undertaking towards greater 'equality of outcome'. With relation to the PS, the case can be made for an enduring commitment to both. As for Blair's New Labour government, Glyn and Wood have noted that it 'prefers to talk of social inclusion and equality of opportunity than to espouse the goal of equality of outcome'.⁹ On the redistributive 'axis', waning commitments to egalitarianism, and Brown's redistribution targeted overwhelmingly at the working poor, arguably partially undermine New Labour's social democratic credentials.¹⁰

⁸ H. Kitschelt, 'European Social Democracy between Political Economy and Electoral Competition', in H. Kitschelt, et al. (eds), *Continuity and Change in Contemporary Capitalism*, Cambridge, Cambridge University Press, 1999, p. 317 (emphasis added).

⁹ A. Glyn and S. Wood, 'Economic Policy Under New Labour: How Social Democratic is the Blair Government?', *Political Quarterly*, 72:1 (Jan.-Mar. 2001), p. 57.

¹⁰ S. Ludlam, 'What's Published is what Counts', *British Journal of Politics and International Relations*, 2:2 (2000), pp. 273-5.

The merit of this 'ends'-oriented approach is that it evades the 'Swedocentrism'¹¹ inherent in much of the literature, which roots the definition of social democracy in the corporatist institutions characteristic of 'Northern' social democracy.¹² A modified version of Kitschelt's definition, which does not tie a definition of social democracy to a particular set of 'corporatist' structures, but emphasizes agency, and centres on the *ends* rather than a particular set of *means*, is used here. The ends – securing equality of outcome and opportunity, redistribution to the most needy in society, and facilitating the widest possible access to employment within society – remain the same. Today, however, the *means*, for example social democratic employment policies, look rather different. The relationship between social democracy, so conceived, and globalization is explored with reference to the British and French cases.

GLOBALIZATION

Whilst no commentators dispute that radical changes in economic context have occurred, a vibrant debate rages in their wake over the strategic options open to social democratic governments. Pessimists such as Gray, and optimists like Vandenbroucke, debate the implications of globalization for social democracy regarding the level of commitment to egalitarianism (and in turn redistribution) and the role of the state in the economy. Gray asserts that 'social democratic

¹¹ The term is borrowed from H. Keman, 'Theoretical Approaches to Social Democracy', *Journal of Theoretical Politics*, 5:3 (1993), pp. 291–316. Many analyses of the relationship between globalization and social democracy emphasize 'encompassing' labour movements in facilitating social democratic response to adverse international economic conditions, see, for example, G. Garrett, *Partisan Politics in a Global Economy*. However, these analyses offer little insight into social democracy in national contexts where such institutions are inherently weak and on the wane (e.g. Britain) or never existed in the prescribed form (e.g. France). It is in no small part the need to plug this gap in the literature which has inspired the choice of the Labour Party and the Parti Socialiste for consideration here.

¹² So dominant are the northern, and particularly Scandinavian social democracies within the literature that one study which claimed to be a comprehensive analysis of the entire social democratic dataset made no mention of France or any of the 'southern' social democratic movements. J. Pontusson, 'Explaining the Decline of European Social Democracy: The Role of Structural Economic Change', *World Politics*, 47 (July 1995).

deals of equality' are incompatible with an increasingly 'globalized' economy, whilst Vandembroucke is at pains to insist that 'egalitarian employment policies' remain viable.¹³

Gray's assertion, however, is not sustained by coherent argument but rather relies on dubious assumptions underpinning the 'hyper-globalist' world-view.¹⁴ The rhetoric of globalization is used to outlaw certain ideological directions, but the case against such directions does not appear as compelling as Gray asserts. Globalization does not render nation-states irrelevant, nor does it remove all strategic economic choices from their grasp. Globalization does not simply 'happen upon' nation-states, or social democratic parties within them, and it therefore does not, in any straightforward manner, 'impose' financial discipline or neoliberal policy agendas on social democratic governments. Such a view ignores the way the influence of the processes of globalization is mediated by domestic institutions, ideological traditions and the actors working within them. How globalization is understood by policy elites crucially conditions responses to it.

Whilst globalization *does* constrain social democratic policy options, it is a mistake to infer from this that there are no longer significantly different approaches to economic policy, involving different hierarchies of priorities in terms of employment, inflation and redistribution, and more fundamentally, different understandings of how the economy works. For example, whilst theorists accept the importance of 'credibility' as the cornerstone of macroeconomic policy, not all see securing credibility as incompatible with social democratic goals. Analysis of the economic strategies of New Labour and the PS will help to identify the 'means' of social democracy in a world characterized by globalization. Given their centrality to the social democratic project, employment and job creation will be the main focus. The areas of macroeconomic policy, job creation and employment policy, labour market policy, the approach to supranational (EU) policy activism, will be explored in an attempt to

¹³ See P. Hirst and G. Thompson, *Globalization in Question*, 2nd edn, Cambridge, Polity 1999; D. Held, A. McGrew, D. Goldblatt and J. Perraton, *Global Transformations*, Cambridge, Polity, 1999 and F. Vandembroucke, *Globalization, Inequality and Social Democracy*, London, IPPR, 1998, especially chs. 4-7; J. Gray, *After Social Democracy and False Dawn*, especially pp. 88-89.

¹⁴ See D. Held et al., *Global Transformations*, pp. 3-5.

evaluate New Labour's 'Third Way' and the PS's *Réalisme de Gauche* as social democratic 'projects' compatible with a world characterized by globalization.

NEW LABOUR'S THIRD WAY

According to Giddens, the Third Way 'is an attempt to transcend both old-style social democracy and neoliberalism'.¹⁵ For Blair, the Third Way stands for a 'modernized social democracy, passionate in its commitment to social justice and the goals of the centre-left, but flexible, innovative and forward-looking in the means to achieve them'.¹⁶ It moves, he argues, 'decisively beyond' Old Left and New Right. A defining feature of the Third Way has been an attempt to distance New Labour from some of the traditional institutional features of social democracy, such as 'neo-corporatist' centralized wage bargaining and approaches to policy-making and high marginal rates of taxation. In more abstract terms, the Third Way claims to offer a distinctive 'model' of capitalist development, distinguishable both from the 'European' and 'Anglo-Saxon' models of capitalism, reconciling, 'a neo-liberal emphasis on economic efficiency and dynamism with a traditional left concern for equity and social cohesion'.¹⁷

The role of the state is identified by Blair as an area where the 'Old Left' notions must be revisited. 'State power is one means to achieve our goals, but not the only one and emphatically not an end in itself'.¹⁸ Blair argues that 'government has a vital role in promoting competitive markets, encouraging long-term research and investment, and helping to equip citizens with the skills and aspirations they need in the modern economy'.¹⁹ The context of this is 'a dynamic knowledge-based economy founded on individual empowerment where governments enable, not command, and where the power of

¹⁵ A. Giddens, *The Third Way: The Renewal of Social Democracy*, Cambridge, Polity, 1998, p. 26.

¹⁶ T. Blair, *The Third Way: New Politics for the New Century*, London, Fabian Society, 1998, Pamphlet no. 588, p. 1.

¹⁷ See S. White, 'Interpreting the Third Way: Not One Road, But Many', *Renewal*, 6:2 (1998), p. 17.

¹⁸ T. Blair, *The Third Way*, p. 1.

¹⁹ *Ibid.*, p. 10.

the market is harnessed to the public interest'.²⁰ Blair talks of using 'the state as an enabling force'.²¹ 'Governments', he claims, 'can best improve economic performance by addressing supply side weakness'.²² The theoretical underpinning for such state intervention to combat the above market failures and 'externalities' is the 'public goods' theory of the state. This recognizes that markets do sometimes fail, but nevertheless it is on markets that we must rely – or as Blair puts it, 'competition where possible, regulation where necessary'.²³ State strategy is limited to tackling certain well-defined externalities. The Third Way's predominantly supply-side outlook emphasizes 'human capital';²⁴ thus education and training are the key 'public goods' to be delivered.

Gordon Brown justifies this approach in egalitarian terms, advocating 'a new economic policy – a new economic egalitarianism – that not only empowers and enriches people with new opportunities through work but recognizes that to enhance the value of labour and skills is the only sure path to modern economic success'.²⁵ Thus the commitment to education and training is seen as a manifestation of economic egalitarianism, whilst at the same time providing a source of productive progress. However, this assumption of the marriage of economic efficiency and equality is a little problematic. Indeed, tensions emerge *within* the Third Way with relation to the commitment to egalitarianism. Giddens recognizes that broadening of 'opportunity' is not enough, and that 'it is no good pretending that equality, pluralism and economic dynamism are always compatible'.²⁶ He goes rather further than Blair, for example, in reclaiming elements of the ideological baggage of the 'Old Left' – most conspicuously in reference to equality.²⁷

Giddens's focus on 'life chances', and the emphasis on *equality of access* to such chances recalls Stuart White's 'Asset Based

²⁰ Ibid., p. 7.

²¹ Ibid., p. 4.

²² T. Blair, Speech at the annual Friends of Nieuwspoort dinner, the Ridderzaal, the Hague, 20 January 1998.

²³ T. Blair, *The Third Way*, p. 1.

²⁴ T. Blair, Speech at the annual Friends of Nieuwspoort dinner, op. cit.

²⁵ G. Brown, 'The Politics of Potential: A New Agenda For Labour', in D. Miliband (ed.), *Reinventing The Left*, Cambridge, Polity, 1994, p. 122.

²⁶ A. Giddens, *The Third Way*, p. 100.

²⁷ Ibid., pp. 38–42.

Egalitarianism'. More egalitarian market outcomes can only be secured if endowments of assets are more equal. Education and training, as already noted, are key 'assets', and the government sees its role as securing a 'shift in the background distribution of these assets in a more egalitarian direction'.²⁸ The implications of such asset-based egalitarianism are radical, necessitating extensive commitments to redistribution of wealth and resources.

The nature of Blair's commitment to opportunity is not entirely clear. At times, a meritocratic vision underpins his concern for 'equal worth' and 'opportunity for all', necessitating tackling 'prejudice and discrimination'.²⁹ However, this is tempered by appreciation of the flaws of a meritocratic approach. 'Opportunities', Blair notes, 'are inseparable from society, in which government action necessarily plays a large part', and furthermore, without significant government action, 'gross inequalities are handed down from generation to generation'.³⁰ Yet how far Blair accepts the implications of this to be the need for greater economic equality (i.e. of outcome) – with concomitant policy implications in areas such as redistribution and taxation – is questionable. This is starkly demonstrated when he berates the 'Old Left' for stifling opportunity 'in the name of abstract equality'.³¹ Giddens, too, is reluctant to speak openly or at length about redistribution, or taxing and spending. Within the context of the 'social investment state', Giddens skirts the issue of how welfare systems should affect resource distribution.³²

New Labour does insist upon 'minimum standards for pay and conditions at work'.³³ However, the accepted 'ceilings' supposedly 'imposed' by the demand of international competitiveness are low by European social democratic standards. International competitiveness is an important dimension of the Third Way, and wage and labour market flexibility are seen as essential to remain internationally competitive in an open economy context. This informs the light regulation of the labour market. The context of this 'project' is

²⁸ S. White, 'Interpreting the Third Way', and B. Clift, 'New Labour's Third Way and European Social Democracy', in S. Ludlam and M. Smith (eds), *New Labour in Government*, Basingstoke, Macmillan, 2001, pp. 55–72.

²⁹ T. Blair, *The Third Way*, p. 3.

³⁰ *Ibid.*

³¹ *Ibid.* See S. White, 'Interpreting the Third Way'.

³² A. Giddens, *The Third Way*, pp. 107–9.

³³ T. Blair, *The Third Way*, p. 11.

Britain's open economy, the fifth largest in the world and very extensively integrated into the international system. Indeed, Hirst and Thompson recently argued that the UK economy is particularly 'internationalized'. Levels of foreign direct investment stocks and flows as a percentage of GDP, for example, have long been particularly high, with the UK as the biggest net exporter of FDI.³⁴ Export levels as a percentage of GDP have been around 33 per cent since the 1960s and trade, as a percentage of private GDP, has risen since 1970 to around 70 per cent.³⁵

Within this open economy context, New Labour perceives constraints on a 'competitive' taxation regime, and this helps explain the more circumspect redistributive commitments which characterize the Third Way 'skill-centred growth path' to national competitiveness. As noted elsewhere, a conspicuous feature of the Third Way has been critical suspicion of the European social model and an increasingly ebullient advocacy of the Anglo-Saxon model.³⁶ On the employment front, in placing employment at the centre of their strategy, New Labour retains recognizably social-democratic aspirations. Brown talks of 'restoring the goal of full employment for the next century'.³⁷ This familiar end, however, is, as shall be seen later, being pursued by very different means.

RÉALISME DE GAUCHE

The PS argues that the various elements of its economic strategy compose an ensemble characterized as the French 'model', 'founded upon competitiveness within a context of social justice and equality',

³⁴ As P. Hirst and G. Thompson note, 'despite all the official rhetoric about the UK being the best home for FDI in Europe because of its basic competitive advantages, in fact there has been a consistent hollowing out of the UK domestic investment as better opportunities for competitive success seem to have presented themselves abroad'. Peculiarly high levels of foreign holdings of domestic manufacturing stock 'makes the UK peculiarly vulnerable to externally initiated shocks and to decisions by foreign business interests', 'Globalization in One Country? The Peculiarities of the British', *Economy and Society*, 29:3 (2000), pp. 341-3.

³⁵ D. Held et al., *Global Transformations*, pp. 180-2 and 224.

³⁶ B. Clift, 'New Labour's Third Way and European Social Democracy', pp. 69-71.

³⁷ Gordon Brown, Mais Lecture, 19 October 1999.

distinct from Anglo-Saxon Rhenish models of capitalism.³⁸ 'If', Jospin observes, 'the Third Way involves finding a middle way between social democracy and neo-liberalism, then this approach is not mine'. At the heart of *Réalisme de Gauche* is a more critical engagement with the neoliberal view of capitalist market economy, and an unequivocal attachment to a recognizably social-democratic role for the state. The idea of capitalism as 'a force that moves, but does not know where it is going', informs the view that 'the regulation of capitalism is essential and requires an active state'.³⁹

This anti-laissez-faire approach can only be understood against the backdrop of the decade-long Socialist economic strategy of 'competitive disinflation',⁴⁰ and the PS's crushing defeat of 1993. The failure of the Socialists to deliver on their pledge to reduce unemployment led to a re-evaluation of Socialist economic strategy. Too much, it was felt, had been sacrificed at the altar of neoliberal economic orthodoxy, with resultant gains in financial credibility, but not jobs. The influence of supply-side economists and monetarists over the 'social-liberalism' of 1988–93, is, in retrospect, deemed questionable.⁴¹ This forms the basis of the call to break with the orthodoxy of economic management, based on an insistence upon the existence of '*marges de manoeuvre*', and on the assumption that all the means of tackling unemployment have not yet been explored.⁴²

Jospin couches scepticism regarding the healing powers of unfettered market forces in 'realist' terms, seeking to discern the extent to which 'economic realism' is distorted by neoliberal economic thought.⁴³ This opens the door to a recognizably social-democratic role for the state in job creation and employment policy. Jospin's 1995 presidential campaign set the tone:

We must learn the lessons of the past, in order to instigate the reorientations of economic policy which today are necessary and possible without increasing public deficit, nor putting our currency, our external balances, or the

³⁸ Final Text of the PS National Convention on Globalization, France, Europe, 30–31 March 1996, *Vendredi*, 276, 8 April 1996.

³⁹ L. Jospin, *Modern Socialism*, London, Fabian Society, 1999, pp. 4, 8 and 7.

⁴⁰ See F. Lordon, 'The Logic and Limits of Désinflation Competitive', *Oxford Review of Economic Policy*, 14:1 (1998), pp. 96–113.

⁴¹ P. Moscovici, *L'Urgence: Plaidoyer pour une autre politique*, Paris, Plon, 1997, p. 43–4.

⁴² *Vendredi*, 202, 1 October 1993.

⁴³ L. Jospin, *L'Invention du Possible*, Paris, Flammarion, 1991, p. 11.

competitiveness of our firms in peril. I reject the idea that the state is powerless, and believe that it should deploy all its capacities to aid job creation.⁴⁴

The 'active state' aims to provide capitalism with the necessary direction by operating as a strategic actor, as an investor, and as an enabler. In economic policy, this involves not just the supply-side structural reforms to encourage 'job-rich' growth, but also macro-economic stimulation of the demand-side of the economy. *Réalisme de Gauche* is predicated upon a changed economic diagnosis. The increase in capital's share of added value at the expense of labour, which took place in the 1980s and early 1990s, is seen as the root cause of the structural insufficiency of demand within the French economy. This explains the commitment to *limited* redistribution from capital to labour, tempered by an appreciation of the importance of the profitability and competitiveness of firms. Thus *Réalisme de Gauche* reconciles an enduring *dirigiste* dimension with a growing enthusiasm for the market. As Jospin notes, 'the concept of *volontarisme* (or an active state) does not set up the state in opposition to the market, but instead creates a new alliance between the two'.⁴⁵

International competitiveness is a cornerstone of the strategy. The context of this has been a shift away from partially protectionist *dirigisme* towards European integration, culminating in the Single European Act, and then EMU. France's increasingly open economy is demonstrated by a trade to GDP ratio, which has grown steadily since 1970.⁴⁶ Even before France's economic openness reached current levels, the constraints of social-democratic economic strategy within the post-Bretton Woods international economic order became only too evident to the PS in 1983 when balance-of-payments crises and currency speculation dealt a fatal blow to the Mitterrand experiment. The ensuing macroeconomic strategy of 'competitive disinflation' accepted the open economy context, and aimed to further expand France's export profile by non-protectionist means. In the last fifteen years the openness of France's economy has taken on new dimensions. With capital controls removed, and the financial system restructured, financial internationalization and inward and

⁴⁴ L. Jospin, *1995–2000: Propositions pour la France*, Paris, PS Presse, 1995.

⁴⁵ L. Jospin, *Modern Socialism*, p. 11.

⁴⁶ See A. Guyomarch, H. Machin and E. Ritchie, *France In The European Union*, Basingstoke, Macmillan, 1998, ch. 6, and also D. Held et al., *Global Transformations*, pp. 177 and 180.

outward FDI have advanced apace. Although overall France's openness does not match the UK economy's level of internationalization, there are exceptions. France's outward FDI exceeded UK levels between 1990 and 1996, and France has become the number one destination for inward foreign direct investment in Europe. Furthermore, foreign holding of equity has risen very rapidly from a very low base to 35 per cent (compared to 9 per cent in the UK) in 1997.⁴⁷

Despite the constraints of an increasingly open economy, the PS calls for the 'rehabilitation of economic policy'. A broadly Keynesian rationale,⁴⁸ stimulating purchasing power to increase the growth potential of the French economy, facilitating a boost in consumption and investment, informs a set of redistributive fiscal measures, as well as social exclusion measures, all framed in egalitarian terms. Jospin cites 'determined efforts to combat unemployment, through economic growth, a negotiated reduction in the working week to 35 hours and a broad-ranging plan for youth unemployment . . . laws we have passed to combat all kinds of exclusion and to establish universal health cover' as evidence of his government's 'neo-Keynesian' approach.⁴⁹

The egalitarianism of PS rhetoric, although not always matched by policy outcomes, should be set against the backdrop of French welfare provision which has sustained an ever-growing source of redistribution in terms of social welfare. In terms of equality of outcome, redistribution, couched in republican discourse, continues to target both the working and the non-working poor. Measures such as the anti-exclusion laws are aimed at achieving a recurrent guiding principle, as Jospin's adviser Muet puts it, 'recasting the social contract of the work based society and restoring equality as one of its fundamental components'.⁵⁰ However, redistributive commitments

⁴⁷ Figure quoted in F. Morin, 'A Transformation in the French Model of Shareholding and Management', *Economy and Society*, 29:1 (2000), pp. 36–53. See also F. Lordon, 'Logic and Limits', and B. Clift, 'The French Model of Capitalism: Still Exceptional?', in J. Perraton and B. Clift (eds), *Where Are National Capitalisms Now?*, Basingstoke, Palgrave, forthcoming.

⁴⁸ The notion of 'Keynesianism' as employed here refers not to precise mechanisms of fine or coarse tuning, or to deficit financing, but to the broader insights into the relationship between the state and the economy, and the role of the state in ensuring security of employment.

⁴⁹ L. Jospin, *Modern Socialism*, p. 6.

⁵⁰ P. Muet, *Achieving Full Employment*, London Policy Network, 2000, p. 9.

and egalitarian aspirations are tempered by 'realist' considerations, 'redistribution does not override other considerations . . . for the fruits of economic growth to be redistributed, there must first be growth'. Such fruits have permitted tax cuts across the board, but especially favouring low earners. That said, progressive fiscal policy is constrained, not least because, 'in the new global market we must . . . ensure that our production base is competitive'.⁵¹

GLOBALIZATION, THE THIRD WAY AND *RÉALISME DE GAUCHE*

How domestic policy elites articulate policy responses is conditioned by domestic institutional context and ideological traditions, which help shape the 'cognitive framework' of actors within them. Understanding this framework is thus an essential precondition to a deeper understanding of the relationship between globalization and social democracy.

Third Way economic policy is framed within New Labour discourse in terms of a response to globalization. Policy must be compatible with 'a new global economy', a phrase which encompasses both an analysis of recent changes in the international economic context and an understanding of their implications. On this reading, the 'new' international political economy 'means' that; 'the role of government has changed: today it is to give people the education, skills, and technical know-how they need to let their own enterprise and talent flourish in the new market-place'.⁵²

This interpretation of globalization and its implications have been a feature of the party's economic outlook under Blair. The premise of New Labour's 'economic framework' is that 'the new world market . . . demands a new economics'. In terms of macro-policy, this involves accepting that:

. . . the UK is situated in the middle of an active global market for capital – a market which is less subject to regulation today than for several decades. An expansionary fiscal and monetary policy that is at odds with other economies in Europe will not be sustainable for very long. To that extent the room for manoeuvre of any government in Britain is already heavily circumscribed.⁵³

⁵¹ L. Jospin, *Modern Socialism*, p. 11.

⁵² T. Blair, speech to the PES Congress, Malmo, 6 June 1997.

⁵³ T. Blair, Mais Lecture, 22 May 1995.

The analysis of globalization underpinning the Third Way thus involves a break with the economic paradigm which has underpinned social democracy in the post-war era.⁵⁴ Corry charts Labour's retreat from Keynesianism since 1987, with greater emphasis on the supply side, the market, the private sector and the acceptance that, 'trying to solve everything with demand policies was a mistake'.⁵⁵ This shift in economic philosophy was contemporaneous to similar shifts in Germany, Spain, Greece and elsewhere.

However, New Labour's analysis of globalization is to some extent distinctive in a European social democratic context. Held characterizes New Labour's view as 'hyper-globalist'. New Labour thus places more emphasis than most on 'the overarching nature of global capitalism, on the inescapability of global competition, on standards of global economic efficiency and on the weakening capacity of states to regulate their economies'.⁵⁶ However, as Held points out, New Labour's 'hyperglobalist' assumptions about the implications of globalization is heavily reliant on a reading of globalization that oversimplifies both the process itself and possible responses to it. Such arguments, Marquand notes, 'are designed to justify what might otherwise appear to be evils by an appeal to a higher power – no longer God, but history. They offer a route out of the painful realm of choice and moral argument, and into the comforting realm of necessity'.⁵⁷ In similar vein Held observes, 'New Labour's globalization policy package suggests that globalization is a fixed force which has in general to be adapted to. Leadership in these circumstances tends to be a matter not of setting targets, but of providing paths of adjustment.' There is, Held argues, 'a tendency to restrict the meaning of political prudence to the pursuit of a particular

⁵⁴ 'In today's deregulated, liberalized financial markets', argued Brown in his speech at the Mansion House, 11 June 1998, 'the Keynesian fine tuning of the past which worked in relatively sheltered, closed national economies and which tried to exploit a supposed long-term trade-off between inflation and unemployment, will simply not work'. As noted above, this positing of a closed national economy is to say the least dubious. (See, e.g., P. Hirst and G. Thompson, 'Globalization in the Country', *op. cit.*).

⁵⁵ D. Corry, 'Macroeconomic Policy and Stakeholder Capitalism', in G. Kelly, D. Kelly and A. Gamble (eds), *Stakeholder Capitalism*, Basingstoke, Macmillan 1997, p. 188.

⁵⁶ See D. Held, 'Globalization: The Timid Tendency', *Marxism Today* (Nov./Dec. 1998) p. 24.

⁵⁷ D. Marquand, 'Social Democracy Comes in From the Cold', *Political Quarterly*, 70 (1999), p. 13.

economic logic'.⁵⁸ This rhetorical use of globalization, without necessarily establishing the causal connections within the argument, is employed as a justification for what New Labour says and does.

The PS's challenging of the dominant economic orthodoxy, and its corollary, the changing diagnosis of the economic problem, inform a different, and more wide-rangingly voluntaristic, reading of the implications of globalization for social democratic economic strategy. The *pensée unique* – the hyperglobal account in its French articulation – is seen as a neoliberal fallacy. The PS is eager to expose the ideological underpinnings of these supposedly 'neutral' policy prescriptions; 'Globalization should not be seen as ineluctable . . . often, it serves as a fallacious pretext for harmful, disastrous policies, . . . [so] fatalism must give way to will.'⁵⁹ Jospin asserts, 'we do not give in to the fatalistic idea that the neo-liberal capitalist model is the only one available. On the contrary, we can shape the world according to our values'.⁶⁰

Réalisme de Gauche is built upon non-neoliberal economic foundations. PS neo-Keynesianism dovetails with the insistence upon the 'active state' – or *voluntarisme* and a critical engagement with globalization. By conceiving of globalization not as ineluctable but contested, the PS argues that a significant degree of *voluntariste* interventionism, remains possible, some based on a broadly Keynesian approach to the economy, despite constraining global forces. Investment requires anticipation of 'solvent' levels of demand, requiring not only higher salaries, but also 'the mobilization of society towards a redefinition of public power – national and international – in favour of job creation'. This is not, however, a return to old-style Keynesianism, but involves, at both national and supra-national level (see later) a new approach to the central *end* of employment creation.⁶¹

The analysis of globalization, or more precisely the understanding of the implications of globalization for social democratic political strategy, upon which Jospin's programme is predicated, differs significantly from New Labour's approach. The 'hyper-globalism' of Blair, which draws on Giddens in his more hyperbolic moments,

⁵⁸ See D. Held, 'Globalization: The Timid Tendency', *Marxism Today* (Nov./Dec. 1998), pp. 24–7.

⁵⁹ Final Text of the National Convention on Globalization, France, Europe, 30–31 March 1996, *Vendredi* 276, 8 April 1996.

⁶⁰ L. Jospin, *Modern Socialism*, p. 10.

⁶¹ P. Moscovici, *Plaidoyer une autre politique*, p. 55.

involves taking as 'given' the nature and advancement of globalization – leaving adaptation to such secular changes in the global economy (Blair's 'New Economics') and what Held calls a 'distinctive hesitancy' about 'distributive justice [and] the tax/welfare trade-off'⁶² as the only option. Ironically, arguably New Labour's own policy platform offers some evidence that the degree of room for manoeuvre of any government in Britain may not be as heavily circumscribed as its rhetoric of globalization suggests. The analysis below demonstrates some fiscal activism, for example, which sits uncomfortably with Blair's version of the implications of the global economy for social democratic governments in its hyperglobal form.

This suggests more complex responses to the process of globalization *in practice* than New Labour chooses to articulate in its rhetorical deployment of globalization. *Réalisme de Gauche* suggests more unambiguously that, whilst the constraints highlighted by 'hyper-global' pessimists are indeed powerful, globalization is a contested process with which social democratic governments must critically engage. This engagement will involve an increased salience of supply-side thinking, but not at the expense of all Keynesian insights into the role of the state in securing employment, and scope for activist macro-policy.

MACROECONOMIC POLICY STANCE

New Labour's principles of macroeconomic policy-making, Balls argues, 'flow logically from the changes in the world economy and the world of economic ideas over the past twenty to thirty years.'⁶³ As outlined above, one of the ramifications of this changed context has been a retreat from the Keynesian paradigm. However, this does not necessarily entail a wholesale embrace of monetarism. The relationship to New Right political economy is at times misconceived. What replaced Labour's Keynesianism was not the neoliberal, minimal-state, laissez-faire advocated by the New Classical school. For all the rhetorical insistence upon a rejection of Keynesianism, the Labour Party's macroeconomic stance is not entirely devoid of

⁶² D. Held, 'Globalization: The Timid Tendency', p. 25.

⁶³ E. Balls, 'Open Macroeconomics in an Open Economy', *Scottish Journal of Political Economy*, 45:2 (1998), p. 117.

Keynesian influence. Balls frames the principle of 'stability through constrained discretion' within what he calls 'the pro-stability but post-monetarist intellectual consensus upon which modern macro-economic policy-making is based'. This accepts the absence of a long-run trade-off between inflation and unemployment, but does not commit governments to anti-inflationary myopia characteristic of some monetarist thinking. As Balls insists, 'achieving stability requires the discretionary ability for macroeconomic policy to respond flexibly to different economic shocks – constrained of course, by the need to meet the inflation target over time'.⁶⁴

It is important to draw distinctions between different elements of economic policy packages, and recall that whilst certain aspects may be closely linked to neoliberal policy agendas, others are perfectly compatible with social democratic ones. The credibility demanded by financial markets does have ideological dimensions, rooted in the neoliberal paradigm, but it is also a reflection of changed economic realities. Yet, despite traditional left reflexes which would label macroeconomic stability as neoliberal, in fact, macroeconomic stability is as much a social democratic value. The scope of active demand macro-policy is circumscribed. With this changed political context comes a change in the nature of the social democratic project.

The external financial discipline imposed by financial globalization means that governments have to pay close attention to their credibility rating with financial markets. Thus, 'the rapid globalization of the world economy has made achieving credibility more rather than less important, particularly for an incoming left-of-centre government'.⁶⁵ The key point, however, is that securing credibility through stability-centric macro-policy stances is compatible with a wide range of different priorities in other areas of economic policy. Within a framework of a commitment to macroeconomic stability, there remains room for manoeuvre over the *degree* of 'orthodoxy', as well as a whole range of other economic policy tools which may be exploited to prioritize 'social democratic' goals. A commitment to stability does not condemn a social democratic government to budgetary *immobilisme*, and even opens the door, for all the rhetorical denial, to a residual Keynesian influence on policy.

New Labour's macroeconomic framework aims to 'ensure stability

⁶⁴ E. Balls, 'Open Macroeconomics', pp. 117 and 120.

⁶⁵ *Ibid.*, p. 122.

through establishing the right long-term policy objectives and to build credibility in the policy through well-understood procedural rules that are followed for monetary and fiscal policy'. Traditional fiscal activism is stigmatized as 'old-style tax and spend', and replaced by 'price stability through a pre-announced inflation target and sustainable public finances through applying the golden rule, that over the economic cycle current spending should at least cover consumption . . . combined with a prudent approach to public debt'.⁶⁶ At the heart of this approach is 'the principle of credibility through sound long-term policies'. This underpins Labour's commitment to increased transparency in economic policy-making and pre-commitments to 'soundness' through measures such as the independence of the Bank of England.

This is a striking example of a social-democratic government 'strapping itself to the mast' of monetary policy orthodoxy, with the party which had nationalized the bank in 1946 returning its operational independence over interest rates 50 years on, in a very different international economic context. The institutional change is indicative of the centrality of financial credibility to Labour's macroeconomic mindset, and a stark demonstration of the parameters within which it is prepared to work to secure a reputation for securing low inflation. However, all this emphasis on credibility should not blind us to an enduring role for discretion (or policy activism). Brown talks of 'a consistent long-term framework for both monetary and fiscal policy – one that has an inbuilt capacity to respond credibly to short term pressures'.⁶⁷ Social democratic macroeconomic policy-makers have to face 'the conflict between credibility and discretion'⁶⁸ – the desire to exercise discretion to pursue social democratic objectives, tempered by the need for government policies to be perceived as sound and sustainable.

In relation to monetary policy, this is perhaps most clearly the case in relation to the Labour government's symmetrical inflation

⁶⁶ See G. Brown, Statement by the Chancellor of the Exchequer on the Comprehensive Spending Review, 14 July 1998. The 'old style tax and spend' rhetoric is yet another example of New Labour's tendentious caricature of Old Labour, which in the post-war years adhered to the 'Golden rule', with the possible exception of 1967–76. See Notermans, *Money, Markets and the State*, p. 163.

⁶⁷ Gordon Brown, Statement on the Pre-Budget Report, 3 November 1998.

⁶⁸ E. Balls, 'Open Macroeconomics'.

target of 2.5 per cent. Contrary to ultra-orthodox emphases upon ever lower inflation, this stipulates that the Monetary Policy Committee should *reflate* the economy if inflation falls below the pre-committed target.⁶⁹ As Balls notes, this ‘allows the Bank, in full public view with Government support and entirely consistent with that long-term aim, to respond when necessary with discretion to . . . supply shocks . . . without paying a high price in terms of lost output’.⁷⁰ Thus for all New Labour’s proclaimed orthodoxy, the macroeconomic strategy retains at its heart a decidedly non-neoliberal view of the role of the state in the economy, predicated upon a fundamentally Keynesian insight – that Friedman’s fixed policy rule will not produce an optimal outcome at full employment.⁷¹

In terms of New Labour’s fiscal policy paradigm, attempts to reconcile financial constraints to social democratic objectives have been made by two means. First, there has been a reorienting of current spending commitments which it inherited on entering office, to prioritize its goals, principally in education and health.⁷² Secondly, there has been ‘fiscal activism by stealth’. The most visible example of fiscal activism, the windfall tax on the privatized utilities announced in Brown’s first budget which was earmarked to raise £5.2 bn initially destined to fund the New Deal (see later), was by no means an isolated example. It is important to distinguish between high-profile tax-cutting measures and less visible but nevertheless fiscally significant increases in the tax burden.⁷³ One should note, however, in relation to growth in tax revenues since 1997, that the buoyancy of the economy served to expand the tax take in a manner

⁶⁹ It is not clear for how long this situation would have to endure before the ‘open letter’ calling for reflation were issued. Nevertheless, such a course of action is clearly much more than just a theoretical possibility.

⁷⁰ E. Balls, ‘Open Macroeconomics’, p. 130.

⁷¹ It is a mistake to infer from the rhetoric that New Labour’s macroeconomic outlook ‘rules out’ Keynesian policies. In certain circumstances, such as a recession, when unemployment falls well below the NAIRU, ‘macro-policy can undoubtedly be very effective and should be used boldly’. See D. Corry, ‘Macroeconomic Policy’, p. 191.

⁷² Gordon Brown has gone so far as to confidently assert that he would, if necessary, borrow to cover these spending commitments, *Financial Times*, 23 October 1998.

⁷³ For example, in March 1999, income tax fell from 23 per cent to 22 per cent, and a 10 per cent income tax band was introduced. However, in less reported areas, the government increased its fiscal revenues through the abolition of Pension Funds Tax credits for Advance Corporation Tax – intended to raise £5.4 billion – and married couples’ allowance and mortgage tax relief.

surely unanticipated at the beginning of the first term. Thus the impression of Brown's fiscal activism is perhaps exaggerated, since it has been to some degree unintentional.

In the pursuit of credibility and stability, given the new international economic context, Labour's macroeconomic policy stance resembles that of the PS. Comparison is hindered by the fact that France has joined the single currency, forcing Jospin to confront 'the tensions between . . . social democracy in the EU and an inherited system of institutional governance for EMU that is rooted in neo-liberal values of sound money and public finances'.⁷⁴ In the run-up to the 1997 election, and the Amsterdam summit which soon followed, Jospin and the PS made strenuous attempts to secure a more progressive employment- and growth-oriented foundation for the European macroeconomic policy, distilled into his four conditions on passage to the euro.⁷⁵ This was part of a wider PS strategy to recreate social democratic room to manoeuvre at the EU level (see below). However, when these attempts bore little fruit, the Jospin government found its room to manoeuvre reduced by the fiscal and monetary rules of the ECB, and the anti-counter cyclical bias of the 'Growth and Stability' pact.

Nevertheless, within the problematic of the conflict between credibility and discretion, the PS has a different conception of how far to constrain discretion in the interest of maintaining credibility. The PS is more reluctantly 'post-Keynesian' than its British counterparts, and its 'post-Keynesianism' owes more to the economic conjuncture and the constraining context of membership of the euro than to a changed philosophical analysis of the economy. In monetary policy terms, the accommodating position of the ECB, and the 'soft'

⁷⁴ K. Dyson, 'Benign or Malevolent Leviathan? Social Democratic Governments in a Neo-Liberal Euro Area', *Political Quarterly*, 70:2 (1999), p. 196.

⁷⁵ First, the euro must include as many countries as possible, with Spain and Italy cited explicitly, along with the UK 'if they wish'. Secondly, 'Europe must be social and political', therefore, 'we want the relations between participating Euro countries to be founded not on an austerity pact (this is an explicit reference to the German inspired 'Stability Pact' of Dublin), but on a solidarity and growth pact, permitting policies in favour of job creation and social cohesion'. Thirdly, next to the European Central Bank, there must be established 'a European economic government, representing the people and charged with coordinating the economic policies of the various nations'. Finally, there is a (with hindsight all too unnecessary) insistence that the euro must not be over-valued vis-à-vis the dollar and yen. *Changeons L'Avenir: Nos Propositions Pour la France*, Paris, PS, 1997, pp. 12-13.

euro has proved broadly consistent with PS desires by aligning the macroeconomic policy framework in France with its priorities of jobs and growth.

As Muet notes, 'macroeconomic policies are essential and play a key role in stimulating growth and jobs . . . structural policies are only efficient in a context of rising demand. It is pointless to tackle unemployment with structural policies alone'.⁷⁶ There remains within the PS an attachment to certain Keynesian conceptions, such as the need to redistribute to lower income brackets with a higher propensity to spend as a means of keeping demand buoyant, and emphasis upon the role of automatic stabilizers. Budgetary reflation has been abandoned, but other measures, drawing on other Keynesian insights, are retained. The PS seek to explore any 'room to manoeuvre' created by flexible interpretation of the 'Growth and Stability' pact,⁷⁷ benignly viewed as a credibility-bolstering 'hedging' rather than a disciplinary 'binding' mechanism.⁷⁸

The PS can boast some fiscal activism. Indeed, EMU constraints presented an opportunity in 1997 when the Jospin government justified a 15 per cent tax on non-reinvested profits in terms of the need to reduce the budget deficit in order to meet the convergence criteria. Re-prioritizing of the tax burden has been achieved, notably through the role of *Contribution Social Généralisée* – which was extended to cover health contributions, meaning that contributions are now drawn from financial and capital revenues, as well as salaries. Some redistribution towards both working and non-working poor has been achieved. A 4 per cent raising of the minimum wage (SMIC) in 1997 was followed in December 1998 by a 3 per cent increase, back-dated to the beginning of 1998, in the *Revenu Minimum d'Insertion* (RMI) and two similar benefits, aimed at providing a minimum income for the jobless.⁷⁹ More recently, tax cuts in March

⁷⁶ P. Muet, *Achieving Full Employment*, p. 10.

⁷⁷ Thus, the PS argues, in the event of a conjunctural downturn, spending should not be changed even if it were to slightly overshoot the 3 per cent deficit target, allowing macro-policy to counter a crisis of insufficient demand as part of the job-creating strategy. PS, *Changeons L'Avenir*; P. Moscovici, *Plaidoyer pour une autre politique*, pp. 96–98.

⁷⁸ K. Dyson, 'Benign or Malevolent Leviathan?', p. 202.

⁷⁹ See *Libération*, 16 December 1998. Other measures advancing the declared aim of increased 'fiscal justice' include reductions on tax breaks on inheritance and life assurance, and reducing concessions for firms investing in other financial ventures, as well as plans to reform VAT and habitation tax along more progressive lines. *Libération*, 23 July 1998.

and September 2000 disproportionately favoured low and non-earners. The CSG became more progressive, with low earners (on or slightly above the minimum wage) reimbursed, and the process began of exempting altogether from the CSG those on minimum wage.⁸⁰

Prioritizing employment creation has been achieved through changes to Professional Tax (see below). The Solidarity Tax on Wealth (ISF) was increased in the 1998 budget, and a new band introduced in the 1999 budget.⁸¹ The conflicting pressure of the need for budgetary 'regularization' (deficit reduction) means that even the PS's greater insistence upon 'discretion' can be situated within an overall concern to keep public finances 'sound' and to preserve credibility.

SOCIAL DEMOCRATIC EMPLOYMENT POLICIES

Employment remains a central concern of social democratic governments, but the pursuit of that goal is not (and never was) confined to Keynesian fine-tuning. For New Labour, with the relative decline in demand management, came a concomitant increase in the pursuit of employment policy by other means. Within New Labour's policy paradigm, employment policy is conceived as primarily a supply-side issue. Underpinning Brown's strategy, is 'a decisively different approach to employment policy over the past two years aimed at reducing the NAIRU [the Non-Accelerating Inflation Rate of Unemployment]'.⁸² New Labour discourse, advocating labour market flexibility, is bound up with a particular understanding of the NAIRU, and the role of institutional characteristics of the labour market. The more flexible the labour markets, it is thought, the lower the level of the NAIRU. Thus, Brown argues of the New Deal and Working Families Tax Credit, 'the more our welfare to work reforms allow the long-term unemployed to re-enter the active labour market, the more it will be possible to reduce unemployment without increasing inflationary pressures'.⁸³ The pervasive influence of the NAIRU

⁸⁰ In March, a 10% income tax cut was introduced for 5m lower earners, and 650,000 particularly low earners were exempted from taxation altogether. *Financial Times*, 23 March 2000. In September 2000, income tax was further reduced. *Libération*, 31 August 2000.

⁸¹ See OFCE, *L'Economie Française*, Paris, La Découverte 1999, pp. 19 and 63.

⁸² Gordon Brown, Mais Lecture 19 October 1999.

⁸³ *Ibid.*

framework is one example of the influence of Friedman's neoliberal political economy over New Labour's outlook. Yet there are different conceptions of the NAIRU. 'Soft' conceptions retain a potential role for the state, and macro-policy, whilst the 'hard' version, or 'natural' rate hypothesis, sees the market as the best – indeed only – employment-creating mechanism.⁸⁴

New Labour's employment policy may be understood primarily in terms of supply-side reforms to the labour market to increase flexibility and introduce fiscal incentives to employers and potential employees, on the assumption that supply-side policies alone can affect employment. 'Employment centred social policy'⁸⁵ identifies replacement ratios, minimum wages levels, employment legislation, the benefit structure and skills shortages as key supply-side factors influencing the NAIRU level. This 'compartmentalizing' of employment policy as a supply-side issue, and studious avoidance of discussing the demand side, reflects a more 'hyperglobal' interpretation of the implications of globalization which informs employment policy than is in evidence with relation to macroeconomic policy.

One solution is 'in-work benefits', subsidies and financial incentives to employers who hire extra low-skill workers. Subsidizing cheap labour by such means is seen as a highly effective job-creating mechanism, and is the inspiration behind the Working Family Tax Credit. Similarly, the New Deal is predicated on offering incentives to both claimants and employers, and is intended to work in close harmony with the tax and benefit system, thus, 'side-by-side with the New Deal there will be new guarantees that work will pay more than benefits'.⁸⁶

The onus on job creation through removing the obstacles placed upon hiring by labour market conditions, and the view that small and medium-sized businesses are the best job creators, warranting tax breaks and incentives, are common to the PS and New Labour.

⁸⁴ As Cross notes, 'the natural rate hypothesis provides a rationale for the contemporary fashion of confining macroeconomic policy to the task of achieving targets for the rate of inflation or of price stability. The counterpart is that the only effective way to reduce unemployment or raise output in a sustainable way is through micro or "structural" policies.' 'Natural and Unnatural Frameworks: Is the Natural Rate Redundant?', *New Economy*, 6:2 (1999), p. 66. See also D. Corry and G. Holtham, *Progressive Macro-economics*, London, IPPR, 1995, pp. 11–16.

⁸⁵ See S. White, 'Interpreting the Third Way', and also R. Haveman, 'Equity with Employment', *Renewal*, 5:3/4 (1997).

⁸⁶ Gordon Brown, Statement on the Pre-Budget Report, 3 November 1998.

The Jospin government has introduced a number of tax and benefit reforms reflecting this agenda. The overall aims are to assist small and medium-sized firms in hiring new employees, and to increase the level of low wage employment, in part by bringing down non-wage employer costs. One measure, of increasing significance since 1997, has been the reduction in employers' contributions for low earners.⁸⁷ In the budget for 1999, measures aimed at reducing employers' costs, particularly for hiring low earners, have been introduced as a means of tackling unemployment through fiscal stimuli to combat perceived disincentives to hire. The Professional Tax, which is currently levied on employers' wage bills, will be shifted over five years to exclude wages. In this way, small and medium-sized firms, it is argued, will be released from a powerful disincentive to hire new workers. Strauss-Kahn estimated that the lightening of firms' tax burden by 7.2 billion Francs by this means, together with the 35-hour week (see below), would create 300,000 jobs in the year following the budget.⁸⁸

However, within the PS, a more equivocal commitment to NAIRU assumptions⁸⁹ opens the door to an active role for the state macro policy in the strategy to tackle unemployment. As Muet contends, 'Jospin's economic programme . . . tackles unemployment from all angles by giving priority to economic growth at both national and European level, by gradually introducing structural reforms and in particular by giving impetus to collective bargaining'.⁹⁰ The role of policies affecting demand retains an important role within the French analytical framework, although macroeconomic scope to redress a perceived structural insufficiency of demand is partially constrained by the macroeconomic framework of the Euro. A different approach to the NAIRU, however, offers more scope in terms of different 'structural' or supply-side policies.

⁸⁷ This relief involves, at its height of its sliding scale, state remuneration of 18.2% at minimum wage level. See O. Gutman and E. Lefèbvre, 'Le rééquilibrage de la fiscalité du travail et du capital', *Regards sur l'Actualité* (February 1999), pp. 3–16.

⁸⁸ *Libération*, 19 October 1998.

⁸⁹ The 'leave it to the supply side' assumptions of a conception of the NAIRU heavily influenced by neoliberal political economy is seen by many as the reason for the 'failure' in employment creating terms of the policy of competitive disinflation in the 1980s and 1990s.

⁹⁰ P. Muet, *Achieving Full Employment*, p. 11.

The PS's policy rethink after 1993 led it to be sceptical about surrendering too much to market forces as a means of tackling unemployment. Today, the overall approach to unemployment reflects what Jospin calls a 'new alliance' between state and market. This 'cooperative balance' is less heavily predicated on the role of the market.⁹¹ A 'hard' NAIRU framework relies on structural policies to increase labour market flexibility as the only means of reducing unemployment. The PS's approach suggests otherwise, combining as it does elements of New Labour's 'employment-centred social policy' approach with an enduringly significant state role – both as employer and orchestrator – of a more eclectic approach to the overall employment-creating strategy.

The PS continues to insist upon the role of public-sector job creation in tackling unemployment. State-led employment creation schemes have become a structuring feature of the French model,⁹² yet are stigmatized within New Labour's rhetoric as 'unfocused expansion of the public sector which has led to high taxes and high deficits'.⁹³ Here a clear distinction can be made between the New Deal, operative mainly through changing incentives in the private sector, and the French Socialist's *Plan Aubry*, which pledged 350,000 private-sector and 350,000 public-sector jobs. The state's role as employer within an active employment policy remains central to the PS approach. The results of the *Plan Aubry* have been encouraging, with 274,900 jobs created in the public sector by March 2001, and a total of 308,000 private-sector jobs under the *Plan Aubry* framework.⁹⁴

Nowhere is the state's enduring role in the job creating strategy more in evidence than in the Jospin government's state-orchestrated shift to a 35-hour week, aimed to reduce unemployment and to have a redistributive effect on labour and capital. The French law emphasizes job creation, with state aid in the form of reductions in social security contributions offered to firms creating new jobs as a result of the reduction of the working week. The fixed levels of these state

⁹¹ L. Jospin, *Modern Socialism*, p.11.

⁹² See OFCE, *L'Economie Française*, pp. 58 and 68 fig. VII. 3 and Clift, 'The French Model Of Capitalism'.

⁹³ T. Blair, Speech at the annual Friends of Nieuwspoort dinner, the Ridderzaal, the Hague, 20 January 1998.

⁹⁴ Labour Ministry figures, see the website: www.nsej.travail.gouv.fr/actualite/bilan. Such results, however, must be placed in the context of a wider economic upturn, making the precise impact of the *Plan Aubry* difficult to discern.

financial aids means that they will be relatively more generous for lower earners. Increased levels of exemption are offered to firms 'making a particular effort in the field of employment', notably those firms undertaking to reduce work time by 15 per cent, and increasing their workforce by 9 per cent.⁹⁵

The PS approach is pragmatic. The law is justified in economic efficiency terms by anticipated gains in productivity. Lower levels of worker fatigue, lower absenteeism, and a more efficient organization of working time will, it is argued, all improve productivity and reduce production costs. Indeed, the premise of the law is that the burden of cost arising from the transition must be shouldered by state and employees, but *not* by firms. 'The gains in productivity and financial aid will contribute 60 per cent of the total financing of the reduction of working time. Wage earners must thus finance the remaining 40 per cent.' Thus, the law implicitly recognizes the need for wage moderation so that firms can stabilize their wage costs. This will be particularly important for higher earners, and some studies anticipate a two-year wage freeze. The law plans to effect the transition without increasing public expenditure in the long term. It is anticipated that gains from tax receipts, coupled with reductions in social security, minimum income scheme (RMI) and unemployment benefit bills will within five years compensate fully for increased expenditure through state aids.⁹⁶

In ideological terms, the 35-hour week policy is a rejection of the neoliberal interpretation of globalization, and its implications for structural reform of labour market institutions. The 35-hour week is seen by the PS as an integral part of its own 'model' of capitalism, which prioritizes employment, which it seeks to export. In terms of the relationship between globalization and social democracy, such new social-democratic employment policies indicate an activist role for the state in a strategy compatible with an open economy in a globalizing world. In terms reminiscent of the work of Scharpf and Glyn, the 35-hour week involves negotiated redistribution amongst workers as a means of furthering social democratic egalitarian employment policy. As Fitoussi puts it,

⁹⁵ Excerpts from the *Projet de Loi PS* website <http://www.parti-socialiste.fr/html/change/index.html>. See also A. Gubian, 'Les 35 heures et l'emploi: la loi Aubry de juin 1998', *Regards sur L'Actualité* (November 1998), pp. 20–21.

⁹⁶ A. Gubian, 'Les 35 heures', pp. 16, 29 and 26.

'workers have to agree to share both their jobs and their salaries with the unemployed'.⁹⁷

THE EUROPEAN SOCIAL MODEL AND LABOUR MARKET REFORM

Contrary to earlier expectation of Labour's 'turn away from the Anglo-American model of the market economy, towards a more efficient European model', a distinctive characteristic of the Third Way is the fading enthusiasm for this 'European Social Model',⁹⁸ and with the social and labour market policies and institutions which underpin it. A highly flexible labour market and a skilled workforce are, it is argued, necessary conditions of international competitiveness. Yet for all Blair's preaching that continental labour market institutions are a luxury which cannot be afforded in the new global economy, deeply-embedded institutional national specificities prevent the import of elements of foreign labour market models, or convergence upon 'Anglo-Saxon' norms.

Furthermore, the tepid response to a 'Third Way' for labour markets reflects a rejection of some of New Labour's assumptions. Recent research refuting the link between generous social welfare systems and higher unemployment across European countries⁹⁹ further strengthens Jospin's conviction that ever higher wage inequality and separation rates are *not* a necessary condition of a competitive open economy. The PS remains firmly attached to the European social model. Jospin affirms his commitment to 'a social Europe: for it is Europe's mission to support the social model on which it has built its economic prosperity'.¹⁰⁰ That said, the labour-market dimensions of that model are evolving. French labour markets have become more 'flexible' in the last decade. In the late-1980s and 1990s, laws on working time enhanced temporal flexibility through company-level negotiation, and increasing

⁹⁷ J.-P. Fitoussi, 'Table ronde: Comment appliquer les 35 heures?', *Revue Politique et Parlementaire* (1998), p. 81; see also A. Glyn, 'Social Democracy and Full Employment', *New Left Review*, 211 (1995) and F. Scharpf, *Crisis and Choice in European Social Democracy*, Ithaca, Cornell University Press, 1991.

⁹⁸ J. Eatwell, 'The Development of Labour Policy 1979-1992', in J. Michie (ed.) *The Economic Legacy 1979-1992*, London, Academic Press, 1992, p. 337.

⁹⁹ S. Nickell, 'Unemployment and Labour Market Rigidities: Europe versus North America', *Journal of Economic Perspectives*, 11:3 (1997), pp. 55-74.

¹⁰⁰ L. Jospin, *Modern Socialism*, p. 3.

differentiation of work contracts.¹⁰¹ Indeed, Jefferys identifies an increase in temporal flexibility as a feature of the implementation of the 35-hour week.¹⁰²

The degree of evolution, however, is limited. Wage distribution inequality, for example, has decreased markedly in France since the 1960s, and shows no sign of growing again.¹⁰³ The ratio of the minimum wage to the average wage has increased consistently and this has the effect of compressing the lower end of the wage distribution. Significantly, one of the acts of the incoming Jospin government was a 4 per cent increase in the minimum wage. Wage flexibility, then, has not been prevalent in France, in contrast to Anglo-Saxon manifestations of labour-market flexibility accompanied by growing wage inequality.

Furthermore, the degree of hiring and firing activity is *not* as high as flexibility-enhancing reforms allow; 'the [short-term contract] system makes it basically costless to fire young French workers if necessary. Yet their separation rate is still 50 per cent lower than that of their American counterparts'.¹⁰⁴ This indicates that the degree of flexibility advocated by New Labour's Third Way would be difficult to reconcile with regulated French labour markets, securing higher minimum standards. Limited flexibility within the framework of regulated labour-market institutions seems a more likely path of development than 'exit' from them.

State-orchestrated changes in labour-market institutions such as the reduction in the working week, with increased emphasis placed on employer/employee negotiation, are characterized by Jospin as

¹⁰¹ See Y. L'Horty, 'L'Emploi précaire en France', *Regards sur L'Actualité* (March 1999). The introduction of fixed-term, part-time and temporary contracts increased quantitative flexibility (the range of number of hours worked), although not necessarily qualitative flexibility (the nature of work).

¹⁰² S. Jefferys, 'A "Copernican Revolution" in French Industrial Relations: Are the Times a Changing?', *British Journal of Industrial Relations*, 38:2 (2000), pp. 241–60.

¹⁰³ See D. Fougère and F. Kramarz, 'La mobilité salariale en France de 1967 à 1999', in T. Atkinson et al. (eds), *Inégalités économiques*, Paris, La documentation Française (2001), pp. 339–42; J.-P. Fitoussi, 'Wage Distribution and Unemployment: The French Experience', *American Economics Association Papers and Proceedings* (May 1994), p. 60.

¹⁰⁴ See D. Cohen et al., 'French Unemployment: A Transatlantic Perspective', *Economic Policy*, 12 (1997), p. 274. The separation rate refers to the rate at which workers are laid off or fired.

'a great movement of social dialogue within companies, dealing with wide-ranging issues such as wages, working patterns and safety at the workplace [benefiting] employees and employers'.¹⁰⁵ The PS do not accept that 'globalization' requires reform to the labour market which would expand wage inequalities and increase 'external' flexibility (hiring and firing rates). Instead, their job-creating strategy involves the redistribution of available work, with increased *temporal* flexibility, but not necessarily greater *wage* flexibility or separation rates.

SUPRANATIONAL MACROECONOMIC AND EMPLOYMENT POLICY ACTIVISM

Given the constraints on national economic management which preclude full employment macro-policy approaches,¹⁰⁶ international cooperation and coordination are an increasingly important component of social democratic economic strategy in the post-Bretton Woods world. Thus it is increasingly at the European level that social democrats seek to resolve the tensions between globalization and social democracy through exploration of the possibilities of activism at the supranational (EU) level. The Delors White Paper of 1993 proposed internationally coordinated demand management policies, a trans-European investment in Public Works financed by the introduction of new European financial instruments and the establishment of a European Public Sector Borrowing Requirement which could peacefully coexist with global financial markets. This remains a reference point at one end of the spectrum of the limits of the possible, having been advocated by Jospin at Amsterdam in 1997 and at Portschach in 1998. More modest projects to institutionalize commitments to more growth- and employment-oriented policies at the European level are both feasible, and indeed, operational. These employment-oriented supranational measures include coordination and harmonization to foster more growth and job-creation-oriented macroeconomic policies through the Euro 12 'economic committee',

¹⁰⁵ L. Jospin, *Modern Socialism*, p. 11.

¹⁰⁶ See for example P. Hirst, 'Social Democracy and Globalization', *Political Quarterly*, 70 (1999), and J. Eatwell, 'The International Origins of Unemployment', in J. Michie and J. Grieve Smith (eds), *Managing The Global Economy*, Oxford, Oxford University Press, 1995, pp. 71–286.

and attempts to prevent 'beggar-thy-neighbour' downward tax regime competition.

Although New Labour was committed to European contra-cyclical public spending as recently as 1996,¹⁰⁷ today its enthusiasm has waned. Part of the explanation for New Labour's reticence and scepticism vis-à-vis fiscal activism at the EU level can be traced to the shift away from Keynesianism. Such supranational strategies also presume a very different role of the state in the economy than the Third Way suggests, and resurrects a commitment to egalitarian redistribution of wealth (and greater equality of outcome) from which New Labour has distanced itself in recent years.

The PS, like some other European social democrats, is unwilling to concede that demand activism is impossible. The EU is seen as a potential political and economic 'space' where Keynesian policies could be carried out even within the changed international economic context. Jospin advocates 'a Europe of employment, in which the priorities are growth, the development of new technologies and targeted assistance at those most affected by unemployment'.¹⁰⁸ The Euro-Keynesianism of the Delors White Paper is still today part of the French PS economic strategy, and it has fought hard for reforms to institutionalize more thorough-going employment goals within the process of European construction. Out of a bipartite PS-SPD declaration at Malmo on the appropriate European job creation policies, grew the Strauss-Kahn/Lafontaine axis on social democratic coordination of economic policy to boost growth and jobs.

At Pörschach this axis articulated calls for a European-level policy for employment and growth, combining interest rate cuts to foster growth and large-scale public investment in infrastructural programmes to boost demand and reduce unemployment. With the departure of both, the impetus behind this programme has waned, but arguably has not entirely disappeared. The 1999 Cologne summit codified National Action Plans for employment which grew out of the Luxembourg Jobs summit, secured by Jospin at Amsterdam.¹⁰⁹ These developments have been accompanied by an agenda combating unfair tax competition, and coordinating economic policies in order

¹⁰⁷ Gordon Brown, Friedrich Ebert foundation speech, 7 May 1996.

¹⁰⁸ L. Jospin, *Modern Socialism*, p. 3.

¹⁰⁹ F. Vandenbroucke, 'European Social Democracy: Convergence, Divisions and Shared Questions', *Political Quarterly*, 70 (1999), pp. 38-39.

to boost jobs and growth. Such aspirations still appear to be anathema to New Labour. As Gamble and Kelly have argued, 'there is little prospect of Labour pursuing any such social democratic agenda. Even those within the government thought to be sympathetic to the traditional Keynesian social democratic agenda have gone out of their way to distance themselves from these positions'.¹¹⁰

CONCLUSION

Comparative analysis of the policies of the PS and New Labour has demonstrated that Gray's assertion that the 'global' constraints impose the wholesale embrace of monetarism on social democratic governments¹¹¹ underestimates the scope for social-democratic policy activism. The relationship between globalization and social democracy is a good deal more complex than Gray admits, as both Garrett and Pierson recognize. The preceding analysis has illustrated the changing nature of social democracy, involving different kinds of policy packages at the national level – reducing the emphasis on macroeconomic redistributive policies, whilst increasing emphasis on an eclectic range of employment and labour-market policies.

In the area of macroeconomic policy, *contra* 'hyperglobal' assertions about the fate of social democratic governments in a global economy, leeway is provided by a credibility-securing overall macroeconomic framework (and the position at a growth stage in the economic cycle). This has enabled both New Labour and the PS to operate a partially activist fiscal policy. Indeed, New Labour's own policy programme is arguably more activist than the 'hyperglobal' rhetoric used to frame it would lead us to expect. Furthermore, despite the renunciation of Keynesianism, the symmetrical inflation target at the heart of New Labour's macro-policy stance paradoxically retains a degree of discretionary scope for reflation activism rooted in a broadly Keynesian understanding of the role of the state. This attests to how important the Keynesian referential is to the political economy of social democracy in carving out a coherent rationale for the state's role in the economy. Meanwhile, the 'soft' euro has proved consistent with PS desires for a macroeconomic framework

¹¹⁰ A. Gamble and G. Kelly, 'The British Labour Party and Monetary Union', *West European Politics*, 23:1 (2000), p. 21.

¹¹¹ J. Gray, *False Dawn*.

prioritizing jobs and growth. The 'neo-Keynesian' PS has achieved redistribution to both working and non-working poor, but finds itself partially constrained, despite flexible interpretation, by the Growth and Stability Pact to limit activist intentions.

Significant differences between the employment, welfare and supranational dimensions of the economic strategies of the PS and New Labour have been highlighted here, rooted in different understandings of the implications of globalization for social democracy in these areas, ranging from the 'hyperglobal' analysis of Blair to the more critical engagement with globalization of the PS. This distinction affects the level of commitment to egalitarianism (and in turn redistribution) and the role of the state in the economy. In both these areas, emergent differences at the level of the ends of social democracy have been identified between New Labour and the PS.

In terms of employment policies, some elements of Labour's 'employment centred social policy' find echoes in the French approach. However, underlying New Labour's employment policy is a compartmentalization of policy, seeing the supply side as the only possible avenue for activism. This reflects, at a deeper level, a reduction of the role of the state in securing employment. Accordingly, it informs different policy approaches to job creation. New Labour eschews public sector job creation, or state-orchestrated reductions in the working week as job-creating strategies. The distance from the PS's eclectic and statist approach is noticeable.

The shift towards greater labour market flexibility points to some commonality of outlook, yet whilst the PS accepts the need for increased temporal flexibility, it does not accept that 'globalization' necessarily involves an increase in wage flexibility or separation rates through labour-market reform. Instead, its labour-market reform involves prioritizing negotiation and redistributing available work. The disparity here is starkest over the future of the embedded welfare and labour-market institutions underpinning the European Social Model. The PS clearly affirms egalitarian commitments, and seeks to entrench and institutionalize them at the EU level. New Labour, on the other hand, argues that the European Social Model is too inflexible, too ambitious in redistributive terms, and in need of radical reform. Even starker supranational divergences are apparent in employment and macroeconomic policy. The PS questions social democracy's methodological nationalism, increasing efforts at the supranational level to expand social democratic room to manoeuvre

through coordinated European-level demand activism. French conceptions of a European jobs-pact contrast with New Labour's self-imposed financial orthodoxy and scepticism towards 'Euro-Keynesianism'. This is symptomatic of a wider scepticism about the possibilities of reinventing social democracy at the European level which sharply distinguishes New Labour from the PS.

The French 'model' of Social democracy is jeopardized by the permanent electoral frailty of French Socialism. Despite programmatic successes between 1997 and 2002, Jospin's efforts to build his 'new alliance' between the socially excluded and the working and middle classes into a coherent and stable electoral coalition¹¹² ultimately proved unsuccessful. Jospin himself concedes that 'we can experience wide-scale electoral successes followed by major setbacks because we do not draw our support from specific social foundations'.¹¹³ His cataclysmic first-round elimination of 21 April 2002 made this point rather too well. The Socialists actually *increased* their first-round legislative electoral score in June 2002 from 1997 (27 per cent compared with 25 per cent). However, the fragmentation of the left, record abstentionism, the relative homogeneity of the 'presidential' Right, the reduced 'nuisance factor' of the extreme Right, and poor performances by key Communist and Green allies, meant that the Socialists lost 106 seats in a decisive victory for the Right. The ensuing uncertainty surrounding the future shape of, and strategies within, the left pole of the French party system make the building of a governing coalition in the next five years a formidable task, albeit facilitated by the 'iron law of anti-incumbency' operating on French electoral politics in recent decades.

In Britain, the Third Way needs more rigorous definition before its compatibility with modern European social democracy can be conclusively established. Meanwhile, in France, the Plural Left's defeat in June 2002 has left the PS in a state of flux, heralding renewed programmatic redefinition, which may revisit aspects of Jospin's 'neo-Keynesian' programmatic legacy. That said, significant differences are clearly discernible between New Labour's Third Way and *Réalisme de Gauche*, both in terms of national institutional settings and

¹¹² L. Jospin, closing speech to the PS *Université d'Été*, 29 August 1999. See B. Clift, 'Social Democracy in the 21st Century: Still a Class Act? The Place of Class in Jospinism and Blairism', *Journal of European Area Studies*, 8:2 (2001), pp. 191-216.

¹¹³ L. Jospin, *Modern Socialism*, p. 5.

intellectual aspirations. For all that, both offer potentially viable and – albeit to different degrees – recognizably social-democratic economic strategies compatible with a world characterized by globalization.