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Renovating European Social Democracy

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The 'end' of social democracy has been pronounced repeatedly, with varying degrees of conviction in recent decades (Dahrendorf 1990; Giddens 1994; Gray 1996, 1998). Meanwhile, in 2007, both the French and Italian left have entered (yet another) phase of introspection, ideological redefinition and *aggiornamiento*. In both cases, the path of social democratisation is seen (by at least one major faction) as virtually synonymous with modernity and 'renewal'. This attests to the capacity for ideological innovation, and renovation, within social democracy.

How could so many erudite scholars pronouncing the death of social democracy so assertively over the last two decades ago have been so mistaken? The answer lies in *how* social democracy is conceived, and some hidden assumptions within these commentaries on the fortunes of the left in the late twentieth and early 21st Century. There is a tendency to identify social democracy firstly with a particular set of institutional 'means' (such as corporatism or nationalisation) and secondly with the policy paradigms within which those means were couched (such as 'planning' or 'Keynesianism'). The fortunes of social democracy are evaluated in terms of particular means through which, across the twentieth century in different national contexts, the political aspirations of social democracy have been channelled. This leads to detailed analysis of particular national configurations of institutions, policies and paradigms. These means-oriented approaches have generated much invaluable insight into the nature of social democracy and its historical, political and programmatic development. However, the lessons to draw from this means based analysis of social democracy are not those which first leap off the page.

There is an elision within some of this analysis, assuming that because the political claims of social democracy were advanced through a particular set of policies or institutions, therefore social democracy is ultimately *reducible to* those elements. It 'follows' that the continuing

viability of these institutions or policy approaches is a necessary condition if the enduring viability of social democracy. When the ideational and institutional conditions changed, eroding or undermining the coherence of social democratic programmatic settlements rooted in those ideas, institutions, and policies, this was diagnosed as terminal for social democracy as a political movement.

Yet this excessively static, indeed ahistorical conception misconstrues the relation between social democracy's programmatic goals and the means deployed in pursuit of social democracy and prematurely discounts its capacity for renewal (see Clift 2003). This focus on means, almost to the exclusion of ends, explains the confidence in assigning social democracy to the rubbish bin of history. Nationalisation, planning, 'modernisation' and the Keynesian welfare state project coalesced into but one 'strategic amalgam'¹ through which to pursue the politics of social democracy. That all elements of this approach no longer retain 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 how social democratic goals are pursued today, and seek to trace the outline of a new 'strategic amalgam' – or amalgams.

The much missed Paul Hirst offered an ends-oriented definition of social democracy which identifies its core elements, 'minimising the cost of capitalism for individuals, either through growth and employment enhancing policies, and/or, through welfare state provision for the contingencies of unemployment, ill-health and old age'. Secondly, it 'attempts to tackle and reduce major and unjustifiable inequalities in power and wealth,' and thirdly it seeks to 'accomplish these objectives within the limits set by parliamentary democracy on the one hand, and private property and the market economy on the other' (1999: 87). This ends oriented approach to social democracy does not tie itself to a particular set of 'corporatist' structures, but emphasises agency. It is both less static and also more conducive to the comparative analysis of social democracy. Restrictive definitions in terms of particular 'means' are prone to 'Swedocentrism', ² which roots the definition of social democracy in the

¹ See C. Pierson Socialism After Communism (Cambridge ; Polity 1995), p. 34.

² 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 emphasise '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

corporatist institutions characteristic of 'Northern' social democracy.³ Focusing on ends facilitates comparative analysis of cases where particular institutional means deemed core to social democracy – such as corporatist bargaining institutions – do not exist in the prescribed form (such as France), or have diminished in import over time (such as the UK).

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 – can, in the broadest terms, be summarized as the attempt to reconcile social justice to economic efficiency. These ends have remained the same across time. The *means*, however, have evolved significantly.

Full Employment, Keynesianism and New Labour

The importance of full employment as a core aim of social democracy, essential to social democrats making their peace with the capitalist economy should be underlined;

As long as capitalist crises could happen at any moment, whatever gains unions and social democratic parties might have achieved in the redistribution of incomes or the expansion of public services must have seemed extremely insecure. Indeed, the unions had been helpless during the Great Depression of the early 1930s, as the welfare state collapsed under the burden of mass unemployment. Social democrats could thus make their reluctant peace with capitalism only if they could also hope to avoid its recurrent crises or at least to dampen them sufficiently to assure the continuous economic growth that was necessary to maintain full employment and the expansion of public services. (Scharpf 1991: 23)

This is one of the reasons why the policy paradigm of Keynesianism has been identified so closely with social democracy (see Przeworski 1985). Its role as a legitimating discourse was crucial to social democrats' perceived 'fitness to govern', justifying state intervention in the economy in a socially just direction in terms of economic efficiency. Keynesianism laid down a blueprint of how the economic regulatory potentialities of the nation state could be tailored to secure social democratic goal of full employment.

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.

³ 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).

There are problems of diagnosis and prognosis with how the Keynesian policy paradigm is understood within the means-based examination of the health of social democracy. The characterisation of Keynesianism (like social democracy more broadly) is often static, generalising too widely (across time and space) from a particular historical contingent articulation of Keynesianism and social democracy. Sometimes, these accounts place emphasis on the *wrong* elements within the Keynesian referential. For example, John Gray, for example, unhelpfully (mis)defines social democracy as 'the combination of *deficitfinanced* 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.⁴

More importantly, insufficient attention is paid to how policy paradigms can evolve over time, and how Keynesian insights may render different policy solutions in different contexts. This is particularly ironic in relation to Keynesianism, since than man himself was forever revising his economic prognoses in the light of changing political circumstances. His was not a single unchanging doctrine from which one set of consistent policy prescriptions emerged. As Winch notes of Keynes' moving position on the question of revenue tariffs in 1930-1, Keynes 'was the first to admit the irrelevance of the revenue tariff after the abandonment of the gold standard ... Keynes was driven out of the free trade camp by his responsiveness to the pressure of immediate policy circumstances.'⁵ In Leijonhufvud's assessment, Keynes' policy writing showed a great ability and readiness to adapt to changing political and economic circumstances, and 'Keynes' judgements of what was politically feasible at the time ... coloured his writings to an extent that more academically oriented economists have not always fully appreciated.'⁶ Within social democracy debates, by contrast, Keynesian is often presented as an unchanging set of tenets.

It has become something of a conventional wisdom that we have witnessed the demise of Keynesianism since the 1970s, and with it comes the 'end' of social democracy. Yet the

⁴ Gray, *False Dawn*, p88 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.

⁵ Donald Winch, *Economics and Policy*, (London: Hodder & Stoughton, 1969), p. 151

⁶ Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes*, (Oxford: Oxford University Press, 1968), pp. 19-20, see also pp. 401-417.

widely held view that Keynesianism has been exhausted is inaccurate. At the level of political economic ideas, Keynesian political economy has not been wholly de-legitimised by the crisis of the 1970s. The relationship to New Right political economy is at times misconceived. The victory of monetarism over Keynesianism was not total, as the rise of various strands of New Keynesian economic thinking demonstrates.

Furthermore, at the level of governmental practice, there are grounds to question the 'end' of Keynesianism thesis. On closer inspection, the evolving relation between Keynesian political economic ideas and social democracy in Britain is more complex, and more interesting. Firstly, Old labour's Keynesianism has been exaggerated. Many of Labour's arguments in the 1960s were based on asserting the limits of Keynesianism (because of the focus on 'modernization'). In addition, the Keynesian use of the budget to influence unemployment was in practice heavily qualified by the focus on the balance of payments, so unemployment moved noticeably upwards from 1968/9.⁷ The Labour government of the 1970s was in general disposition the most Keynesian of the post-war Labour governments, but almost from the beginning (and long before the 1976 IMF visit) it was eschewing Keynesian policies in the face of the inflation and budget problems. Contrary to popular mythology, it was ironically only *after* the 1976 IMF stamp of approval was given to its policies, and credibility had been restored, that it was able to pursue a mild Keynesian expansion.⁸

Moreover, the relation between New Labour and Keynesianism is closer than often recognised, as Gordon Brown underlined in *the Economic Journal* (Brown 2001). Although New Labour has explicitly renounced the 'fine tuning' often (somewhat problematically) associated with post-war Keynesian political economy, they have carved out policy space in which to engage in macroeconomic 'coarse tuning' inspired by Keynesian thinking. Macroeconomic policy activism, and in particular fiscal policy activism, remains a viable strategy and a prevalent feature of government economic policy. Recent research has argued that, in pursuit of full employment, an economic strategy of a broadly Keynesian character has been pursued in Britain since 1997 (Clift & Tomlinson 2007). At the level of economic

⁷ G. O'Hara, 'Dynamic, Exciting, Thrilling Change: the Wilson Government's Economic Policies. 1964-1970' <u>Contemporary British History</u> 20 (2006), pp. 383-402.

⁸ Kathleen Burk and Alec Cairncross, 'Goodbye Great Britain': the 1976 IMF crisis, (London: Yale University Press, 1992); Jim Tomlinson, 'Economic Policy' in Anthony Seldon and Kevin Hickson, eds, Old Labour, New Labour: the Wilson and Callaghan governments, 1974-79, (London: Routledge, 2004), pp. 55-69.

doctrine, as well as at the level of policy practice, the enduring relevance of Keynesian macroeconomic thinking to policy is evident.

Social democracy and globalisation

References to the exhaustion of the Keynesian political economic paradigm, and to the decisive renunciation of Keynesianism (and indeed the commitment to full employment) are a familiar refrain of many authoritative works in comparative and international political economy. These are usually placed in the context of the breakdown of 'embedded liberalism' internationally,⁹ and of the rise of the New Right and monetarism ideologically.¹⁰ The supposed repudiation of Keynesianism is often 'explained' by a changing international political economic context with which Keynesian economic policies are deemed decreasingly compatible.¹¹ Gray's pessimistic account infers from the assumed centrality of neo-liberal orthodoxy to 'credibility', and the changing cost/benefit analysis of national economic policies, that 'global mobility of capital and production in a world of open economies have made the central policies of European social democracy unworkable'.¹² Hall charts the 'collapse of the Keynesian consensus' (on the Left as well as the Right) in Britain, and the monetarist 'triumph', in particular within the Conservative Party and the City.¹³ He quotes Callaghan's famous 1976 conference speech as 'the obituary for Keynesianism in Britain'.¹⁴ Globalisation is the usual suspect accused of the murder of Keynesianism, and the accusing barrister calls as witnesses the 1976 IMF crisis in Britain. As we have seen, the evidence that witness provides is at best ambiguous.

New Labour's own discourse of globalisation has often pandered to this line of argument. Held characterises New Labour as 'hyper-globalist', placing emphasis 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 ... New Labour's globalization policy package suggests that globalization is a fixed force which

⁹ Eric Helleiner, *States and the Re-Emergence of Global Finance*, (Ithaca: Cornell University Press, 1994), pp. 144-5.

¹⁰ Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, (Cambridge: Cambridge University Press, 2002), pp. 126 & 139-151.

¹¹ Anthony Giddens, *The Third Way* (Cambridge: Polity, 1998), pp. 16-7; John Gray, *False Dawn* (London: Granta, 1998).

¹² Gray, *False Dawn*, pp. 88-9.

¹³ Peter Hall, Governing the Economy, (Cambridge: Pokity, 1986), pp. 92-9, 128-130

¹⁴ Hall, Governing the Economy, p. 95.

has in general to be adapted to.'¹⁵ There is, Held argues, 'a tendency to restrict the meaning of political prudence to the pursuit of a particular economic logic.'¹⁶ In a bid to bolster credibility with international financial markets, Blair and Brown have often asserted how tied to the mast of economic orthodoxy they are as a result of the 'new global economy,' construed as a non-negotiable external constraint restraining policy activism (Hay & Rosamond 2002: 151-7).

This discursive construction of economic imperatives is an important part of New Labour, but critics have sometimes been too quick to take this discourse at face value. This is a mistake because it assumes a simplistic relationship between *doctrine* and *policy*. Ironically, New Labour's policy record offers evidence that the degree of room for governmental manoeuvre is not as heavily circumscribed as the Blairite rhetoric of globalisation suggested. Its own activism gives the lie to its 'headline' discourse in globalisation. The analysis presented here highlights Labour's fiscal activism, for example, which sits uncomfortably with Blair's hyperglobal version of the implications of the global economy for social democratic governments. This suggests more complex responses to the process of globalisation *in practice* than New Labour chooses to articulate in its rhetorical deployment of globalisation.

The 'end of social democracy' reading of the implications of globalisation, and the Blairite hyperglobalist discourse are both based on a crude and outdated interpretation of that multi-faceted phenomenon. Within international political economy, there is increasing recognition that the complexity of economic globalisation generates 'patterns of both economic convergence and divergence' not captured by 'neoclassical or linear models of economic globalisation which equate it solely with global economic convergence' (McGrew 2005: 220). Anticipation that convergence will occur and is needed to 'prove' the existence of globalisation is flawed, rooted in a textbook neo-classical economic model, and the theoretically threadbare 'logic of no alternative' argument, both projected unhelpfully onto the global political economy. Rather, how the process of globalisation really 'plays out' is 'highly uneven such that it is associated with both economic convergence and divergence, as different economies/subregions/sectors are differentially integrated into this globalizing world economic order' (McGrew 2005: 221). In fact, what we see is a diversity of responses to globalisation. The particularities of how international political economic change is

¹⁵ See D. Held , 'Globalization: The Timid Tendency' Marxism Today (Nov/Dec 1998) p. 24.

¹⁶ See D. Held, 'Globalization: The Timid Tendency' Marxism Today (Nov/Dec 1998) pp24-27.

differentially mediated by 'domestic' institutions and politics, are all part of the 'variable geometry' (Castells 2000) of globalisation.

In this light, it is easier to understand how the mooted incompatibility of economic strategies inspired by Keynesian thinking with the new international political economic context of global financial markets has been exaggerated. Certain Keynesian policies are sustainable in principle in a 'globalizing' world. The role of public investment reserved for fiscal policy within Keynesianism is not 'ruled out' by the new global economy. Rather, globalisation requires new institutions and pre-requisites in order to secure credibility with financial markets, thence to exploit the policy space available to pursue the politics of social democracy. The key point 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. Arguably, New Labour's political economy has been developed to reconcile both the securing of credibility with international financial market actors and substantial fiscal policy space to pursue domestic economic policies of a broadly Keynesian character. Within a framework of a commitment to macro-economic 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 prioritise 'social democratic' goals. A commitment to stability does not condemn a social democratic government to budgetary *immobilisme*, and even opens the door, despite the rejection of 'fine tuning', to a significant Keynesian influence on policy in pursuit of full employment.

The international political economy literature has also evolved in its interpretation of the implications of globalisation for the welfare state. As Polanyi noted long ago, 'interests, like intents, necessarily remain platonic unless they are translated into politics by the means of some social instrumentality' (1945: 8). In the twentieth century, the establishment of the welfare state can be seen in these terms as the social instrumentality which resulted from the translation of the interests of the social democratic left into politics. At the turn of the twenty-first century, many questioned whether welfare states remained financially viable propositions in the new global political economy. An initial hypothesis was that globalisation was bearing down on all welfare states with equal force, inducing retrenchment of programmes, and reductions in generosity (see Schwartz 2001 for a discussion and critique). Closer empirical inspection showed that pressures for welfare state retrenchment had been often overstated (see Swank 2002; Hobson 2005; Hay 2006). Subsequent studies suggested that such retrenchment

as is occurring within European welfare states is distributed differently across different welfare state clusters. This indicates *differential* vulnerability of extant EU welfare state 'clusters' to liberalisation pressures within the global political economy. The Liberal model is, it seems, not alone in (fairly) successfully navigating the choppier waters of a more economically interdependent world. The (more generous, more egalitarian, and more social democratic) Scandinavian or Nordic model seems to be fairing well, too (Hay 2006: 9-13; Sapir 2006).

New Labour and social democracy.

Social democracy is, as Przeworski noted, is 'contingent historical phenomenon' (Przeworski 1985: 3). When particular amalgams of policies and institutions change over the decades, this does not imply the necessary 'end' of social democracy, rather that the pursuit of social democratic ends require the development of new 'means'. It is in this light that we should evaluate the record of New Labour and its relationship to social democracy. Of course, social democratic parties and governments may fail to live up to social democratic aspiration, and often pursue reformism which falls short of the social democratic aspirations of their supporters.

At the level of 'ends' the degree of emphasis and self-confident assertion varies. On full employment, New Labour remains decidedly social democratic, with an enduring Keynesian influence on its macroeconomic stance. The credibility demanded by financial markets, which is partly a reflection of changed international political economic realities, has resulted in antiinflationary monetary policy, and policy institutions. These place certain parameters within which macroeconomic activism can be pursued, but New Labour can point to a creditable (and arguably even Keynesian) policy record on full employment.

On egalitarianism, the picture is at best mixed. Explicit affirmation of equality as a goal is rare with New Labour discourse. Critics point to a far from convincing redistributive record 'the pursuit of greater equality by active redistribution of income is rejected <u>in principle</u> ... redistribution implies a zero-sum trade-off between the interests of rich and poor which New Labour considers misguided' (Glyn & Wood, 2001, 221). The overall picture of *widening* inequality within British society (see e.g. Hopkin & Wincott 2006) suggests that the redistributive policy record falls some way short of many social democrat's aspirations for

three terms of Labour government. Despite what New Labour would have us believe, the record on redistribution is explicable in terms of policy choices (or non-choices), not the imperatives of the global economy. Other European economies have much better, in the sense of less inegalitarian policy records in the last decade. New Labour has made set of ideological assumptions about the kinds of labour market institutions, and levels of social minima, compatible with international competitiveness. These assumptions are not universally shared amongst social democrats.

On the other hand, when we look at the most important policy choices in terms of macroeconomic policy, and social policy, it is not possible to accuse the Blair governments, especially since 2001, of not *attempting* a substantial redistribution of assets in Britain. New Labour's aspiration in education and health reform recalls Stuart White's 'Asset Based Egalitarianism', whereby more egalitarian market outcomes can only be secured if endowments of assets are more equal. The goal is *equality of access* to 'life chances' The government's role is securing a 'shift in the background distribution of these assets in a more egalitarian direction' (White, 1998). The scale their investment in health and education are impressive by any standards.

The commitment to education and training is seen as a manifestation of economic egalitarianism, which also boosts productivity and economic growth. However, this assumption of the marriage of economic efficiency and equality is problematic. As Giddens points out, broadening of 'opportunity' is not enough, and that 'it is no good pretending that equality, pluralism and economic dynamism are always compatible' (1998, 100). Questions can also be asked about the efficacy of their methods and mechanisms, from public private partnerships to the tendency for 'hyper-innovation' (Moran 2001) in the effort to reform the British state. This has more often resulted in perverse incentives, confused signals for policy implementation, and policy innovation fatigue, rather than substantial improvements in 'delivery'.

New Labour enthusiasm for (and under-estimation of flaws within) market mechanisms in the pursuit of a more equitable delivery of public services is also questionable. Much of their thinking about the reform of the British state is borrowed from the 'New Public Management' paradigm, which in turn is rooted in a neo-liberal conception of the state. There are legitimate social democratic questions to be asked of the state/market relations at the heart of New

Labour's welfare state reform agenda and their compatibility with social democratic goals. New Labour's project, like other European social democrats overseeing a 'modernisation' of the state (as in Italy, and Spain for example) has failed to develop a social democratic critique of new public management. Social democracy has not redefined a coherent theory of the state to suit the new conditions of a more privatised, liberalised political economic order. Yet that is not to say that New Labour has simply accepted or adopted the neo-liberal theory of the state advocated by the New Classical School. This is not the case, for a 'minimal' neo-liberal state could not conceivably have spent the money on the public services over the last 7 years that New Labour has spent.

The Future of Social Democracy

New Labour has struggled, like social democratic governments both before them, and elsewhere in Europe, to develop effective means to deliver their ends. This does not mean that the ends of social democracy have been abandoned. Social democrats are casting about for the effective means to achieve those ends, and mistakes have been made. Somewhat depressingly, if we look at the history of social democracy government in Britain, that is neither novel, nor particularly surprising. For all the numerous achievements since 1997, New Labour can justly criticised for failing to deliver on egalitarian aspirations, and for not couching the reform agenda in a coherent social democratic theory of the British state. This should not be interpreted as evidence of 'the failure' of social democracy, still less the end of social democratic project. The achievements of three successive New Labour governments attest to the *potential* viability of social democracy in the 21st Century, just as the failings demonstrate the difficulty, in this century as in the last, of reconciling social justice to capitalism whilst as the same time forging a stable governing coalition within the electorate

In a more positive light, in the UK context, New Labour has redefined the British political settlement in a way which sures up the primacy of health and education paid by the public purse out of general taxation for the foreseeable future. The great moving right show on political economy and social policy issues of the 1970s and 1980s has to some extent been mirrored by a new realignment of British politics in the 2000s. The upshot is that David Cameron promises first and foremost to secure the future of the NHS, and feels constrained not to promise tax cuts.

More broadly, across Europe, the ideological struggle between neo liberalism and social democracy is ongoing. The contours of the European political economy in the decades ahead is contested future, and social democracy as a political movement continues to play a key role. For example, Claire Annesley identifies the influence of the social democratic Swedish activation approach and the 'adult worker model' (AWM) in shaping the future of the European social model. This heralds an evolution away from the old 'male breadwinner model' (of which the post-war UK was a prime example) to an 'emerging Europe-wide AWM' seeking to integrate all economic inactive citizens – be they women, older citizens, the disabled – into the labour market (Annesley 2007: 196-8). She also discerns (halting) progress towards a Swedish-inspired 'supported' AWM with state provision of, for example, childcare and parental leave entitlements, i.e. the social democratic version of this model is, at the European level, 'winning out' over a neo-liberal version (2007: 199-202).

The European 'clash of capitalisms' which emerged in the context of the EU Takeover Directive (Callaghan & Hopner 2005) will be another ideological battlefield for social democracy and neoliberal political economy to meet toe-to-toe in the coming years. There is political space (within, for example, ongoing European corporate governance reform and harmonisation) for further social democratisation of European capitalism. In this centrury, as in the last, Social democracy will continue to develop its model of political economy – rethinking the means to deliver its enduring ends in the context of a changing role of the state and evolving conditions of global competition.

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