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Erosion, volatility, and alliances. Perspectives for social democracy after the European elections

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Support for social democracy in Europe has followed a declining trend: some parties experiencing an erosion of support and others just collapsing at some point. In this article we explore the dynamics of social democratic politics, in particular in the context of European Union integration and governance. Historically, the creation of a particular model of the EU relied on social democratic inputs, while the functioning of the EU, and especially its lack of resilience at the time of the great financial and economic crisis, undermined support for the progressives in various countries. The EU has drifted towards a model that is hard to reconcile with the key commitments of social democracy: the commitment to full employment, decent working conditions and a strong welfare state. Whether the EU can be reformed at all, and whether the social democrats can be the drivers of this change, will be decisive factors when a progressive reconstruction strategy has to be assembled.

2019: Social democracy at a historic low

In the European Parliament inaugurated in July 2019, the proportion of seats held by socialist, social democratic and related progressive parties – hereinafter just referred to as the social democrats – is the lowest ever. Electoral support for progressives continues to show a downward trend in Europe. Perhaps the 2019 result was better than expected by most, but this simply means that if the European Parliament elections had been held at the end of 2018 the outcome would have been even more disappointing.

The picture dominated by declining influence and electoral clouds is not without a silver lining however. On the positive side is the strong performance of the left in the Iberian Peninsula and a few other parts of the European south, together with the Dutch surge and the return of the centre-left to government in the north. On the negative side, the collapse of the Socialist Party (PS) in France leaves a large hole in the map, and the disarray into which the German Social Democratic Party (SPD) has fallen since the European elections has become a comparable

drama. Among the ‘new EU member states’ in the east, social democrats are in power in some countries – but not without controversy – and modest improvements in others have not been robust enough to offer solace.

Historically, social democracy has played a major role in developing and preserving progressive elements in European capitalist systems – which stand out in particular in comparison with the United States and other high-income regions. The erosion of the voting base of social democrats, however, signals a declining confidence in their capacity to continue fulfilling this mission. Today, while showing some strength in the north and the south, social democrats are at a historical low in the two major countries that have been the driving forces of European integration for seven decades. This invites reflection on the role the EU financial and economic crisis has played in the decline of social democracy and the importance of European policy within any progressive reconstruction strategy.

In France, voters deserted the PS in 2017 for the spontaneous ‘popular front’, organised around the campaign of the centrist Emmanuel Macron, to stop the surge of the far-right Marine Le Pen. Some of these former Socialist voters remain with Macron, although in the meantime the voting base of his party (La République En Marche!, LREM) has shifted significantly, towards higher-income and more conservative voters.

In Germany, those opting away from the SPD have gone in different directions but, especially among the youth, the Greens have been the main beneficiary. Although the SPD has made serious efforts to integrate a socially-just response to the challenges of climate change and digitalisation, there is a generation gap – not least because the party is perceived to be weak on the core social democratic programme. It has been ‘found in bed’ with the centre-right for too long, resulting in strategic self-restraint and electoral erosion.

In the United Kingdom, the shift away from the Labour Party has taken place at even higher speed, in the context of ‘Brexit’ becoming the main polarising issue at the European elections and then at the general elections of December 2019. What was avoided in 2017 by shifting the focus of the campaign to domestic issues became a major factor in Spring 2019: the drift of the Labour Party towards facilitation of a ‘soft’ Brexit pushed millions of voters to the Liberal Democrats or the Greens. And by December the Labour strategy also managed to alienate those traditional left-wing voters, especially in the north, who saw the potential deviation from the straight line of Brexit as an unpatriotic betrayal of a democratic decision.

Although not in 2019, in previous years similar shifts took place away from social democrats towards the radical left in Greece and Spain. During the eurozone crisis, PASOK and PSOE voters deserted the centre-left for Syriza and Podemos respectively. Having Spain experienced recovery, the PSOE has however benefited from reverse migration in recent years, while in Greece the formerly anti-austerity Syriza started to occupy centre-left territory itself.¹

1 Kallionatis, K. (2019), *Redefining austerity: A lesson from Greece*, Social Europe, 5 June. Available at: <https://www.socialeurope.eu/redefining-austerity-greece>.

The EU crisis and the progressive debacle

In principle, the great financial crisis of 2008-2009 should have provided a golden opportunity for the social democrats, by exposing all the flaws of the inherited model of finance and business. Instead, progressives found themselves losing and not winning positions. In the 2010-2011 period, most national elections were won by right-wing parties. Right-of-centre forces won the argument either at national or at EU level and had the political majorities to put their views into effect. This at least partly explains why in 2011 EU policy shifted dramatically towards pro-cyclical fiscal tightening, and a type of reform in the euro area which focused exclusively on fiscal discipline and cost competitiveness. In this period, the European People's Party (EPP) was paramount in all three EU institutions, and the Franco-German 'Merkozy' tandem was calling the shots as a result.

For years, the EPP was adamant about defending the original model of the EMU which was the product of the 1992 Maastricht Treaty, crowning a 25-year process in which – following the breakdown of the Bretton Woods system – the EU reached a level of integration that allowed for phasing out national currencies. Previously, in the 1970s, a number of papers were produced envisioning monetary union alongside a substantial fiscal instrument (e.g. joint unemployment insurance). However, that aspect was entirely absent from the Maastricht model, which was conceived in an era of considerable faith in the markets' ability to self-regulate. Later corrective measures that sought to strengthen financial stability or economic governance were not sufficiently strong to overcome the limits of this model. And in fact, reform steps were taken in the wrong direction, more often than not.

However, in 2012-2014 voters brought back the centre-left, which actually means that the last social democratic revival took place just a few years ago. For about three years from the end of 2011, starting with Denmark, social democrats in Europe experienced electoral success. As a result, in 2013-2015 progressive parties were either leading governments or participating in ruling coalitions in most EU member states, including the largest of the euro area (Germany, France, Italy) and the Benelux countries. In the 2014 EP elections, progressives won just marginally fewer seats than the European Peoples' Party (EPP). However, the opportunity to influence the European agenda was missed – partly because of a focus on personality, instead of policy, during the campaign and the subsequent negotiation process.

As centre-left forces started winning elections from late 2011 onwards, the composition of the Council (and European Council) started to change, and the EU-level policy focus began to shift at least partially towards growth, investment, employment and social rights. However, in the absence of consensus about the way forward within the progressive family as regards the currency union, the strengthening position of social democracy did not translate into a more

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forceful push for EMU reform. Instead, a lowest common denominator was found around the concept of investment, which was supposed to be the key to growth. The push for an investment agenda was not without precursors. For example, one year earlier the German trade unions were campaigning with the new 'Marshall Plan', albeit without any immediate impact on either EU or German government policy.

The political debate around the European Parliament elections of 2014 contributed to the shift towards a proper recovery policy in the EU. This debate became somewhat polarised according to party political lines. The centre-right insisted on sticking to the fiscal rules and subsidiarity, while the centre-left looked for ways and means for more stimulus and job-creation. In July 2014, investment was declared a priority by newly elected Commission President Jean-Claude Juncker. He identified one of the vice-presidents as the investment chief of the EU and presented his investment plan to the European Parliament as early as November 2014. Neither leader belonged to the progressives, who as a result could not take credit for the recovery policy they had been pushing for.

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Altogether, social democracy was prepared to address the crisis intellectually but not politically. In the 2008-2009 period, the Party of European Socialists (PES) extensively discussed the need for new tools such as a financial transaction tax (FTT) and eurobond. The first, after a while, became official EU policy, although it continues to be stuck in the process of enhanced cooperation. By contrast, the eurobond and other forms of fiscal risk-sharing and mutualisation faded away even in progressive policy fora, despite the long literature about monetary integration, often rehearsed by Nobel Prize laureates like Joseph Stiglitz and Paul Krugman.

Unhappy progressive families

Long-term trends of social democratic erosion have been explored by various authors, including Giacomo Benedetto, Simon Hix and Nicola Mastroiocco. Some common trends that explain long-term electoral decline can be explained by factors in societal change (e.g. more people participating in higher education and trade union membership falling in the private sector). Such trends mean that when elections were held, social democrats often came second instead of first, or third instead of second, within their national context. This tendency may simply point towards greater pluralism in Europe (due to the decline of both centre-left and centre-right catch-all parties in most cases) and the rise of various off-mainstream political parties (such as radicals, extremists and populists).

Beyond the common trends of long-term erosion, there are also specific causes behind the crisis of progressive parties in various European countries. For example, social democrats collapsed in some countries where the centre-left became associated with harsh fiscal adjustment programmes, or as it is often called, austerity, at the time of the financial and

economic crisis (Hungary, Greece, Ireland). In such cases, national governments found themselves cornered by international creditors, also due to the incapacity of the European Union to shield its members from the harsh consequences of financial sector failure.

At the time of the euro area crisis, voters gave a chance to social democratic parties to prove that there was a progressive solution to the crisis, but this was only partly delivered, leading to a sharp decrease of centre-left support in further countries like France, Italy and the Netherlands. In recent years, the relatively stronger performance of some social democratic parties is either linked to a clearer focus on tackling inequality (UK in 2017, Portugal in 2015 and 2019) or an openness to integrate elements of the nationalist agenda (Denmark, Slovakia, Romania).

Sudden shifts in electoral preferences put the theory of long-term social-democratic decline into perspective. True, the changing class composition of European societies has eroded the base of social democracy; and the end of full employment, together with the fiscal crisis of the welfare state, has created confusion around the progressive mandate. But this has been a trend for three or four decades. The recent volatility of voting patterns is a new phenomenon, requiring fresh analysis and probably new answers.

Voter volatility may leave social democrats more vulnerable than before and perhaps more vulnerable than others in the political landscape. But the proximity of second-preference parties means that those close competitors can also be coalition partners – at the national, sub-national or European level. Furthermore, within the spectrum of voter fluidity, social democrats may well be best placed to form ruling coalitions in most cases. The question then becomes what happens after progressives form governments – alone or, more usually, with others.

From this perspective the key question is whether social democrats maintain a capacity to form coalitions, primarily with green, radical left or regionalist parties (for examples, Sweden, Portugal, Finland, Spain, and various German regions). Arguably, progressive and left-wing coalitions have had a very different effect on social democratic parties than coalitions with liberals and the centre-right (Netherlands, Austria, federal level in Germany). The latter pattern seems more likely to damage the appeal of social democrats, and facilitate a drift towards populism and nationalism.

The examples of relative success offer interesting lessons from which to learn, even if success had no rock-solid foundations in some cases. These examples signal that the progressive mandate always entails an appreciation of society's needs to be protected. While conservatives tend to reduce this (to national security and public order), the social democratic interpretation has not only to encompass, but also to start with, social protection, as well as consider climate protection a central part of the agenda.

Socialists, social democrats and other progressives oppose conservatives primarily because of the commitment to a future society that is fairer and more equal than that of the past. This general disposition should not prevent us from recognising that in certain periods of the past, social democracy was more successful and European societies were more equal, at least regarding income distribution. While looking back to earlier achievements can serve for inspiration, past models do not provide all the necessary elements for a progressive programme today. And, very importantly, references to past success are not enough to convince the electorate of the capacity of progressive parties to build a better future.

Sources of economic reform policy

In the run-up to the 2019 European Parliament elections, two important texts outlined the orientation and vision of the centre-left at the European level. One was the volume produced by Joseph Stiglitz and FEPS (*Rewriting the Rules*) and the other was the Report of the Independent Commission for Sustainable Equality 2019-2024 sponsored by the Progressive Alliance of Socialists and Democrats in the European Parliament. The first highlights the need to address the long-term maldevelopment of European capitalism (similarly to Stiglitz's work regarding US capitalism), while the second creates a fusion between the programmes aiming at tackling inequality and climate change, and a fundamental reform of economic governance at EU level. It is a crucial question whether these programmes can significantly influence EU policymaking in the coming cycle.

The past decade of crises has produced an avalanche of literature about how to reform the EU. Joseph Stiglitz, professor at Columbia University (New York) and chief economist of the Roosevelt Institute, has for long been among prominent authors contributing to the European debate. In 2019, he published the already-mentioned manifesto under the title *Rewriting the Rules of the European Economy*, in which he offers a Polanyian and post-Keynesian reform of the EU business model, and follows an earlier book about rewriting the rules of the American economy. It starts with the usual critique of austerity but goes well beyond it.

Stiglitz advocates a return to full employment policies, and also a reform of the European Central Bank in order to achieve this. Employment has to be prioritised within monetary policy, and collective bargaining has to be strengthened so as to generate better wage dynamics. Fairer taxation is crucial to promoting both justice and growth, while the welfare states of EU member states need to be upgraded to tackle poverty and inequality. Stiglitz welcomes the enhanced role of the European Investment Bank (EIB) and calls for further reinforcement and greater engagement in supporting public investment.

In recent years, Stiglitz has also contributed to the volume edited by Michael Jacobs and Mariana Mazzucato on redesigning the capitalist system.² In their introduction to this book, the authors explicitly refer to Karl Polanyi, Joseph Schumpeter and John Maynard Keynes as indispensable thinkers if we want to understand the dynamics of capitalism and its evolutionary nature (from an institutional point of view).

Such progressive economists, often appearing under the umbrella of New Economic Thinking in the period following the Great Recession of 2009, are often seen as advocates of radical change. However, from a comparative institutionalist approach, what they actually say is that the US and Europe have much to learn from each other with regard to improving their respective performances. What Europe has to learn from the US is fiscal federalism and government-funded innovation, while the US should follow the lead of Europeans on issues like social security and climate protection.

2 Jacobs M. and M. Mazzucato (2016), *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth*, West Sussex: Wiley Blackwell.

In combination, these are presented as key elements of a strategy that can potentially deliver a higher level of social fairness and environmental sustainability on both sides of the Atlantic. How exactly the political process can lead there, of course, is another question.

Action time for progressive policy

The European Union, especially at the time of the euro area crisis, has been found obstructing rather than stimulating the implementation of progressive programmes at the national or local levels. The success of social democratic forces therefore largely depends on whether the EU can be reformed following progressive blueprints. Compared with five years ago, this programme today seems better prepared and more cohesive, and there is a stronger representation of progressive leaders in the EU executive, the European Commission, than before. Social democrats, together with their allies, must focus on three key issues: reshaping the global order in the interest of sustainability, revamping the monetary union to facilitate convergence, and reinventing Social Europe to tackle inequality. For social democrats, the constant development of Social Europe is a core objective – even if some believe the aim is to be more liberal than the Liberals or greener than the Greens. It should be clear that absorbing policies championed by liberals or greens cannot be a substitute for delivering on key issues, including Keynesian macroeconomic policy.³ The availability of jobs and the quality of our workplaces today depend on EU regulation, and this has to be updated to ensure that new trends such as digitalisation and robotisation do not undermine the high standards achieved. The success of several legislative cycles at EU level has ended the period when workers from other EU member states were presented as the main threat to national welfare. Further efforts to stamp out ‘social dumping’ should concentrate on proposals such as the co-ordination of minimum income across countries. Although the EU is not and will not be a welfare state, it has to develop a safety net for national welfare systems, for example through a reinsurance of national unemployment benefit schemes. This is the endeavour that gave rise to the term ‘Social Union’.⁴

Missing the opportunity of earlier social-democratic electoral success to reform the EU financial and economic model leaves a crucial and comprehensive task, which no other force is yet ready or capable of tackling. Like Joseph Stiglitz, one can argue for a general rewriting of the rules of the European economy, but there should not be any doubt that the reform of the single currency must be at the centre of this effort. If and when the reconstruction of

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3 Pennacchi, L. (2019), ‘Full and Good Employment’ and Reviving the European Ideal, Social Europe, 4 April. Available at: <https://www.socialeurope.eu/full-and-good-employment>.

4 Andor, L. (2018), *A Timely Call for Social Union*, EU Vision, 13 December. Available at: <http://www.euvisions.eu/a-timely-call-for-a-social-union-laszlo-andor/>.

the economic and monetary union (EMU) is relaunched,⁵ the most urgent tasks will be the completion of the banking union by adding deposit insurance to the existing pillars and the introduction of a genuine fiscal capacity in support of risk-sharing and convergence. Such measures do not require a federal leap or treaty change. Due to the risk of disintegration if another economic downturn occurs, EMU reform is vital, but neither should further building-blocks of a new business model be forgotten. In particular, the time has probably come for an effective industrial policy,⁶ with new potential for innovation as well as regional development.

Finally, the future of EU integration and, within that, the perspective of Social Europe also depend on a progressive global agenda. Europeans, more than others, can and must strive to rescue collective action in the world. The main threat to multilateralism comes from the country which invented the system, the United States of America. The US has been looking for ways to manage its own relative decline and today this has become more disruptive than constructive. It threatens the achievements of the recent past, including in climate policy, nuclear disarmament and economic development. The current juncture calls for a rediscovery of the great generation of social democrats – Brandt, Palme and Brundtland – and a progressive international agenda⁷ in pursuit of global solidarities. Saving EU integration and multilateralism

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from the new authoritarians and nationalists is not about defending the *status quo ante*, since the *laissez faire* of transnational finance and the ‘race to the bottom’ generated by unregulated trade over the past 30 years have contributed to some of the alarming political developments of today. The multilateral system should rather be seen as the baby which, once the neoliberal bathwater has been thrown out, is the only possible framework that gives a chance for policies pursuing sustainability and equality.

While the 2019 European Parliament elections find social democrats in a weaker position than in the past, there are constant efforts and experimental adaptation to regain progressive vitality. Putting forward and implementing reforms of the European Union are crucial elements of this historical repositioning.

Reforming the European Union is not only in the interest of the centre left. While looking for ways to restore a meaningful social democratic character for the 21st century, centre-left progressives can also see themselves as part of a broader alliance loosely linked by the commitment to global sustainability, European peace and social justice within countries. Social democratic leadership is arguably a key factor for this broad alliance to succeed.

5 *Rewriting the Rule of European Economy. A report by Joseph Stiglitz*, (2019), Foundation for European Progressive Studies. Available at: https://www.feps-europe.eu/attachments/publications/book_stiglitz-web-pp.pdf.

6 Bofinger, P. (2019), *Industrial policy: Is there a paradigm shift in Germany and what does this imply for Europe?*, Social Europe, 27 May. Available at: <https://www.socialeurope.eu/industrial-policy-in-germany>.

7 Pirozzi, N. and V. Ntousas (2019), *Walking the Strategic Talk: A Progressive EU Foreign Policy Agenda for the Future*, Foundation for European Progressive Studies. Available at: <https://www.feps-europe.eu/resources/publications/671-walking-the-strategic-talk-a-progressive-eu-foreign-policy-agenda-for-the-future.html>.